Australian Government

Australian Reinsurance Pool Corporation

ARPC

ANNUAL REPORT 2016 2017

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2016 2017

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Australian Government
Australian Reinsurance Pool Corporation

19 September 2017

The Hon Kelly O'Dwyer MP
Minister for Revenue and Financial Services
Parliament House
CANBERRA ACT 2600

Dear Minister for Revenue and Financial Services

I have pleasure in presenting to you the annual report of the Australian Reinsurance Pool Corporation for the year ended 30 June 2017. The report has been prepared under section 46 of the Public Governance, Performance and Accountability Act 2013 (PGPA Act) and in accordance with the Public Governance, Performance and Accountability Rule 2014 (PGPA Rule).

I was appointed Chair of ARPC effective 1 July 2017.

Yours sincerely

(signature supplied)

Ian Carson AM, BEc, PGDip Professional Accounting, FAICD
Chair

19 September 2017

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Overview

REPORT FROM THE CHAIR

I am very excited to have been appointed Chair of Australian Reinsurance Pool Corporation (ARPC), effective 1 July 2017. As reinsurer to Australia's commercial property insurers for Declared Terrorist Incidents (DTI), ARPC plays an important role in protecting Australia from economic losses caused by terrorism catastrophe.

I would like to express my sincere thanks to the ARPC Board, CEO Dr Chris Wallace, the senior executive team and our staff for their warm welcome. I look forward to working with them to advance the Scheme.

I would also like to thank my predecessor Joan Fitzpatrick who served as ARPC Chair from 1 January 2013 to 30 June 2017. Through her leadership, Joan helped to create a strong, forward looking organisation. I also look forward to welcoming Karen Payne to the Board in October 2017.

Recent events

2016-17 was marked by continued terrorism threats , with major terrorist attacks occurring in the United Kingdom, United States, France, Germany and the Middle East. Australia was not immune with a siege in the Melbourne suburb of Brighton, ending in the tragic death of one man and injuries to three police officers. This event was not declared as a DTI.

At the time of writing, Australia's national terrorism threat level remained 'probable'. This means credible intelligence, as assessed by security agencies, indicates individuals or groups have developed the intent and capability to conduct a terrorist attack in Australia.

The Scheme

Terrorism insurance pools like ARPC exist in most major economies and are recognised as the most effective way to provide cost effective terrorism reinsurance to the commercial insurance sector. ARPC is considered a best practice global pool due to our deep experience with blast and plume loss modelling, together with our strategic use of retrocession reinsurance, where ARPC purchases reinsurance cover from Australian and global markets.

On behalf of the ARPC Board, I am pleased to present the 2016-17 annual report, which has been signed for and on behalf of the members of the Board in accordance with a Board resolution.

Yours sincerely

(signature supplied)

Ian Carson AM, BEc, PGDip Professional Accounting, FAICD
Chair

19 September 2017

REPORT FROM CHIEF EXECUTIVE

2016-17 was a year of consolidation for ARPC as changes to the Scheme recommended by the 2015 Triennial Review were approved and implemented. Most of the changes, effective as at 1 July 2017, extend the Scheme's coverage and allow it to remain fit for purpose. Several required legislative changes or directions from our Responsible Minister.

In summary, the changes:

- broaden the definition of eligible property to include buildings with a floor space of at least 20 per cent used for commercial purposes or which have a building sum insured of at least $50 million, whether used for commercial or other purposes (effective on contracts of insurance issued or renewed from 1 July 2017); and
- amend the *Terrorism Insurance Act 2003* (TI Act) to extend the definition of a terrorism exclusion or exception in an eligible insurance contract to include acts described as "chemical", "biological", "polluting", "contaminating", "pathogenic", "poisoning", or words of similar effect.

These changes will benefit insurers and policyholders by filling the mixed use/high value building gap and removing uncertainty in the event of a DTI involving biological or chemical material.

Overall, the changes boost Scheme coverage, underpin its financial strength (through increasing premium revenue and adjustments to insurer and industry retentions) and will see ARPC better equipped to fulfil its role and purpose.

A more detailed outline of the changes appears below:

Insurer retentions	Retentions (deductible or excess retained) for individual insurers to be increased from 4% to 5% of insurer gross fire and ISR premium
Maximum insurer retentions	Maximum **retentions** for **individual insurers** to be increased from $10 million to $12.5 million
Increased maximum industry retention	Maximum **industry retention** to be increased from $100 million to $200 million over two years*
Mixed use commercial	Scope expanded to include buildings in which at least **20 per cent of floor space is used for commercial purposes***
High value residential	Scope expanded to include buildings with a **sum-insured value of at least $50 million**, whether used for commercial or other purposes*
Biological & chemical clarification	Events covered under the scheme clarified to specifically reference losses due to terrorism **attacks that use chemical or biological means***

*Effective 1 July 2017

Looking ahead

In 2018, Treasury is scheduled to complete its next triennial review of the Scheme. One issue we would like considered is coverage of large, physically destructive cyber terrorism events, which are currently excluded from the Scheme. This issue has been discussed in an ARPC thought leadership paper.

Provide terrorism reinsurance cover
$158.5 million
premium revenue

Our customers

Meanwhile, in 2016-17, we provided reinsurance cover to 244 customers, who themselves insure more than $3.6 trillion in sums insured and collect around $3.6 billion in gross written premiums from commercial businesses. In 2016-17, ARPC is forecast to collect $158.5 million in written premiums from our insurer customers, which represents 4.4 per cent of insurer gross written premiums for eligible policies.

While the TI Act mandates that insurers provide cover for terrorism, it is voluntary for insurers to buy reinsurance from ARPC. Insurers can choose to carry the risk for terrorism losses themselves, reinsure the risk through the private reinsurance sector, or reinsure eligible insurance contracts with ARPC. Insurers entering into a reinsurance agreement with ARPC fully transfer their associated liability to ARPC and their eligible contracts of insurance are protected through ARPC's net assets, our retrocession reinsurance and the Commonwealth guarantee.

Our reinsurance capacity

ARPC delivers significant reinsurance capacity to our insurer clients with $13.4 billion reinsurance cover available in the event of a DTI. Total capacity comprises: insurer or industry retentions; ARPC net assets (held in our claims reserve from accumulated surpluses); retrocession reinsurance (private cover we purchase from reinsurers) and the Commonwealth guarantee. In 2017, we purchased $3.0 billion of coverage through our retrocession reinsurance program placed with 65 reinsurers from within Australia and globally at a net cost of $55.6 million for the financial year.

Protect the Government and encourage private sector participation **$3.0 billion** retrocession

ARPC purchases a major share of the global terrorism reinsurance capacity available for Australian commercial property risks through reinsurers rated A minus by Standard & Poor's (or equivalent) or higher. Private sector capacity is still inadequate to cover a probable maximum loss. However, because ARPC has access to the $10 billion Commonwealth guarantee, ARPC's capacity actually covers 98 per cent of all probable losses resulting from a conventional blast scenario in CBD locations. ARPC is the only vehicle through which insurers can access the Commonwealth guarantee.

Payments to Government

Compensate the Government **$147.5 million** Fees and Dividends

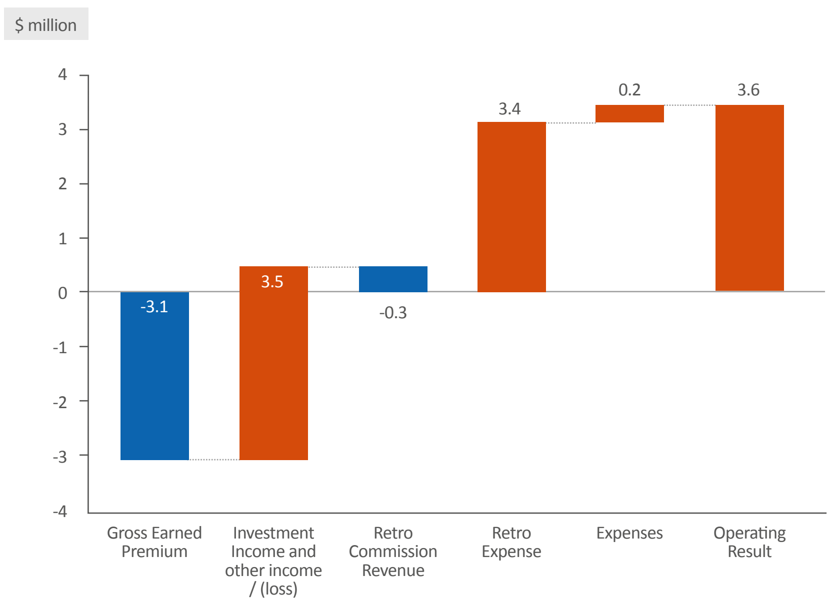
In 2016-17, ARPC paid the Government $147.5 million. This comprised a $35 million capital holding fee plus a $55 million fee for the provision of the $10 billion Commonwealth guarantee and a $57.5 million dividend which provides retrospective compensation to the Government for the years when compensation was not paid for the guarantee. To date, ARPC has paid the government $697.5 million in fees and dividends, with the retrospective compensation via the dividend set to conclude after financial year 2017-18.

Financial result overview

Our overall financial performance in 2016-17 was better than forecast. Our operating result for the year ended 30 June 2017 was $9.0 million, $3.6 million (67 per cent) better than forecast but $14.5 million (62 per cent) lower than last year.

The operating result is better than forecast due to higher-than-forecast investment income and lower-than-forecast retrocession premium expenses. This was offset by lower-than-forecast earned premiums due to continued softening of commercial property insurance premiums in the market. This is shown in the chart below.

INCOME STATEMENT VARIANCE TO FORECAST, $ MILLION
FOR THE PERIOD ENDED 30 JUNE 2017



The decrease in the operating result from $23.5 million in 2015-16 to $9.0 million in 2016-17 is due to the additional capital holding fee payable to the Government of $35 million that was recommended in the 2015 Triennial Review to compensate the Government for capital at risk. This was partially offset by higher earned premium resulting from the 1 April 2016 rate increases.

We earned premium revenue of $147.2 million in 2016-17, which was $3.1 million (2.1 per cent) less than forecast, due to continued softening in commercial property premiums. Earned premium revenue increased $21.0 million (16.7 per cent) compared to last year due to the rate increases that came into effect on 1 April 2016.

Investment income was $15.6 million and is $3.3 million (27.1 per cent) better than forecast. The planned investment income was set at the RBA cash rate plus 50 basis points, but fixed term deposits returned yields better than the benchmark over the year. Compared to last year, investment income fell $1.6 million (9.6 per cent) due to lower interest rates and a decline in net assets through payments to the Australian Government.

Our general operating expenses (including acquisition costs and other operating expenses) totalled $8.4 million. This was $0.1 million (1.6 per cent) better than forecast and $0.2 million (2.7 per cent) higher than last year.

Sustain the pool
$455.2 million
Net Assets

Retrocession premium expenses were $61.5 million gross and $3.4 million (5.2 per cent) better than forecast, and $1.5 million (2.3 per cent) lower than last year. Retrocession commission revenue was $6.0 million or $0.3 million (5.2 per cent) worse than forecast and $0.2 million (2.7 per cent) lower than last year.

A reduced balance of investment assets, together with very low interest rates, continues to impact investment income. Investment assets (including cash) totalled $490.8 million, which is $35.5 million (6.7 per cent) less than last year. This was due to an increase in fee and dividend payments to the Australian Government totalling $147.5 million.

Our operating result includes the $90.0 million in fees paid to the Australian Government, plus the $57.5 million in dividends paid from our net assets for the retrospective compensation.

Our net assets fell over the year to $455.2 million and are $48.5 million lower than the previous year.

Our value for money

The average price of cover for insurers in 2016-17 is 4.4 per cent of eligible policy premiums. The annual aggregate retentions held by insurers are also low compared to their natural catastrophe retentions, averaging $1 million and ranging up to a maximum of $12.5 million from 1 July 2017.

Insurers covered by ARPC also benefit from liability capping under the TI Act. This limits insurer liabilities through a legislated reduction percentage for a loss exceeding ARPC's capacity. The reduction percentage operates by reducing very large losses so that no more than the $10 billion Commonwealth guarantee is drawn. This means each insurer client's capital is fully protected, although commercial businesses may receive a reduced payment if the cost of a DTI exceeds the guarantee.

2017-2021 Corporate Plan

In August 2017, the 2017-2021 Corporate Plan was published[1]. The Corporate Plan outlines ARPC's planned activities that will see it deliver on its strategic objectives. Further details of the plan are set out in this report.

1 As required under the ***Public Governance, Performance and Accountability Act 2013*** (PGPA Act)

International engagement

ARPC continues to engage with overseas terrorism pools to share experiences, ideas and best practice. This will be of benefit to ARPC as well as our insurer and government stakeholders.

Last year, ARPC joined the International Forum of Terrorism Risk (Re) Insurance Pools (IFTRIP), as a founding member. The new Forum was established to promote greater collaboration between the world's terrorism reinsurance pools.

A charter formalising the launch of IFTRIP was signed at the ***ARPC-OECD Global Terrorism Risk Insurance Conference*** in October 2016, with delegates from eight terrorism pools committing support to the Forum. Pools joining the Forum as members included Pool Re, United Kingdom and GAREAT, France.

In June this year, I had the honour of attending IFTRIP's inaugural conference in Paris. The event involved senior delegates from 14 Member Pools and was hosted by GAREAT, the Fédération Française de l'Assurance ("FFA") and CCR.

Topics discussed at the event included:

- the role of international co-operation in the coverage and mitigation of terrorism;
- the changing nature of terrorism and the emerging challenges;
- the changing nature of the threat, hyper-terrorism (non-conventional terrorism) and possible mitigation of exposure;
- the gaps in terrorism insurance coverage and current market responses;
- the role of Public Private Partnerships in terrorism risk management and (re)insurance;
- how Public Private Partnerships can encourage risk mitigation by collaborating with public authorities; and
- innovations in modelling and alternative methods of transferring terrorism risk.

ARPC-OECD Global Terrorism Risk Insurance Conference

In October 2016, ARPC, in collaboration with the OECD, hosted a conference at Parliament House in Canberra. The event was highly regarded and 155 registrations were received from local and international participants. There were also 25 registrations received for the closed international terrorism pools meeting. Through a mix of keynote presentations and panel sessions the topics included:

- the nature and level of terrorism threats;
- the chemical, biological, nuclear and radiological threat;
- the human cost of terrorism;
- the evolving cyber-terrorism threat;
- trends in terrorism insurance; and
- modelling scenarios and losses.

Conclusion

ARPC stands ready to respond to a DTI event if required.

ARPC appreciates the continuing support of our insurer customers, retrocession reinsurers and property sector stakeholders. We look forward to working with all our stakeholder groups in the year ahead.

(signature supplied)

Dr Christopher Wallace, BEc (Hons), PhD (Econ), AMP (INSEAD), ANZIIF (Fellow), CIP, GAICD
Chief Executive

19 September 2017

REPORT OF OPERATIONS DECLARATION

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 2017. This report is made in accordance with a resolution of the Members.

The Members are responsible under section 46 of the PGPA Act for the preparation and content of this report in accordance with the PGPA Rule.

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

(signature supplied)

Ian Carson AM, BEc, PGDip Professional Accounting, FAICD
Chair

19 September 2017

(signature supplied)

Tom Karp BA (Hons), FIAA
Member and Chair of the Audit & Compliance Committee

19 September 2017

Our Strategy 01

Our Strategy 01

INTRODUCTION

ARPC is a public financial corporation established on 1 July 2003 under the TI Act to administer the terrorism insurance scheme. It was established following the terrorist attacks in the USA on 11 September 2001. After this incident, there was a global withdrawal of terrorism insurance, leaving commercial property in Australia uninsured against terrorist attacks.

ARPC was established by the Australian Government with the support of stakeholders in the property, banking, insurance and reinsurance sectors.

Section 9 of the TI Act established ARPC as a statutory authority, while under section 10 of the TI Act, ARPC has the following functions:

- to 'provide insurance cover for eligible terrorism losses (whether by entering into contracts or by other means)' and
- any other functions that are prescribed by the regulations.

Under the PGPA Act ARPC is classified as a corporate Commonwealth entity. This classification means ARPC is subject to the PGPA Act financial and non-financial reporting requirements.

Purpose and role

ARPC remains true to the Scheme's original policy objectives and is focused on creating greater value for stakeholders. Our purpose and role are:

Purpose: to protect Australia from economic losses caused by terrorism catastrophe.

Role: we use our expertise to provide cost effective reinsurance to support the economic resilience of the nation.

ARPC's purpose and role gives direction to the strategy which is being executed over the Corporate Plan forecast period.

Strategic context

Addressing market failure

ARPC addresses market failure in the Australian commercial property terrorism insurance market through risk sharing and mitigation.

After 14 years of operation, there remains no whole-of-market, sustainable, alternative provider of terrorism reinsurance, meaning partial market failure still exists[2]. The reinsurance market has insufficient capacity to offer uniform terrorism insurance coverage to the market at affordable prices, a situation which is unlikely to change in the near term.

2 As stated in the Pottinger report prepared as part of the 2015 Triennial Review.

ARPC's 2017 retrocession program equates to 30 per cent of the $10 billion cover provided by the Commonwealth guarantee and provides further evidence of market failure in the terrorism insurance market for Australian commercial, industrial, mixed use and high value residential property.

The 2015 Triennial Review[3] considered the availability of reinsurance for terrorism risk in detail. It concluded that the availability and pricing of private sector terrorism insurance has improved over time due to the low incidence of major terrorism claims, better risk modelling and greater competition among reinsurers.

Nonetheless, there is still a partial market failure. The Pottinger report, commissioned for the 2015 Triennial Review, estimates that terrorism risk reinsurance available to Australian insurers at a reasonable price, totals around $US 5 billion, well below the approximately $13 billion of reinsurance cover provided by the Scheme.

Recent terrorist incidents overseas are a reminder that the threat of a DTI in Australia has not diminished.

On 26 November 2015, the Federal Government launched a new National Terrorism Threat Advisory System (NTTAS) to inform the public about the likelihood of an act of terrorism occurring in Australia. NTTAS has five levels to indicate the national threat level. The levels are shown in ***Figure 1.1***:

Figure 1.1: National Terrorism Threat Advisory System (NTTAS)

The current NTTAS threat level is Probable, reflecting the intelligence assessment by the National Threat Assessment Centre. Probable means credible intelligence, as assessed by security agencies, indicates individuals or groups have developed the intent and capability to conduct a terrorist attack in Australia. We have been advised that the current level has not been introduced in response to a specific threat.

For more information on the National Terrorism Public Alert System and the current level of alert, please visit:
https://www.nationalsecurity.gov.au/threatlevel

The Australian Security Intelligence Organisation (ASIO) provides information on the nation's threat environment. At the time of writing, ASIO advised that overseas drivers remain central to the threat in Australia, especially international terrorist groups with an extremist message which resonates locally and encourages lone actors or groups to conduct terrorist attacks. Other threats include espionage and foreign interference. Cyber espionage and cyber security threats are also increasing.

For more information on Australia's threat environment please visit:
https://www.nationalsecurity.gov.au/threatlevel

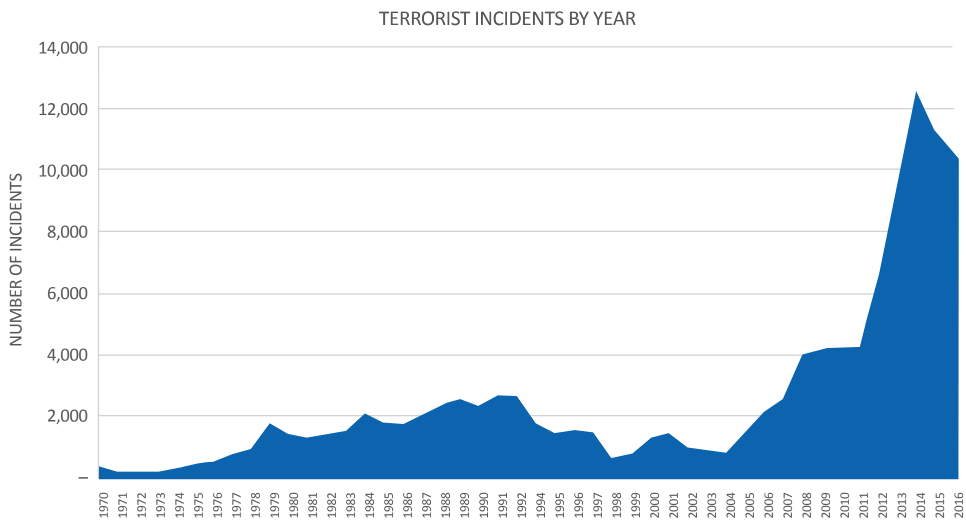
3 The TI Act is reviewed every three years by the Department of the Treasury to assess the level of market failure and the need for ARPC to continue.

International threat environment

The international threat environment for terrorist events has dramatically changed in recent years. Recent terrorist attacks in London, Manchester and Paris show an increase in the frequency and severity of terrorism. There has also been a growing trend where the perpetrators of terrorist acts are individuals who have not previously been on the authorities' radar but who are unstable and susceptible to rapid radicalisation.

The University of Maryland, USA, hosts a National Consortium for the Study of Terrorism and Responses to Terrorism (START), which publishes a Global Terrorism Database (GTD). The graph below depicts the number of terrorist incidents by year[4].

Figure 1.2: Number of international terrorism incidents by year 1970-2016



The GTD is an open-source database containing information on terrorist events around the world from 1970 to 2016. The GTD includes systematic data on over 170,000 international terrorist incidents that have occurred during this time period. Since 1991, the number of terrorist incidents globally has more than tripled. On the next page is a list of defined terrorist events between 1970-2016.

4 Sources: START, GTD and the Institute for Economics & Peace (IEP).

Figure 1.3: List of terrorist events 1970-2016

The changing terrorism landscape

Children targeted in France
March 20, 2012
France
7 dead,
5 injured.

Boston Marathon bombing
April 15, 2013
USA
4 dead,
183 injured.

Museum slaughter
May 24, 2014
Belgium
4 dead.

Australian teen attack
September 23, 2014,
Australia
1 dead.

Soldiers run down
October 20, 2014
Canada
1 dead, 1 injured.

Charlie Hebdo
January 7-9, 2015
France
17 dead,
22 injured.

Denmark shooting
February 14-15,
2015 Denmark
2 dead, 5 injured.

Beheading and fires at factory
June 26, 2015
France
1 dead, 11 injured.

Brussels bombings
March 22, 2016
Belgium
35 dead,
300 injured.

Turkish airport bombing
June 2016
Ataturk
45-plus dead,
230 injured.

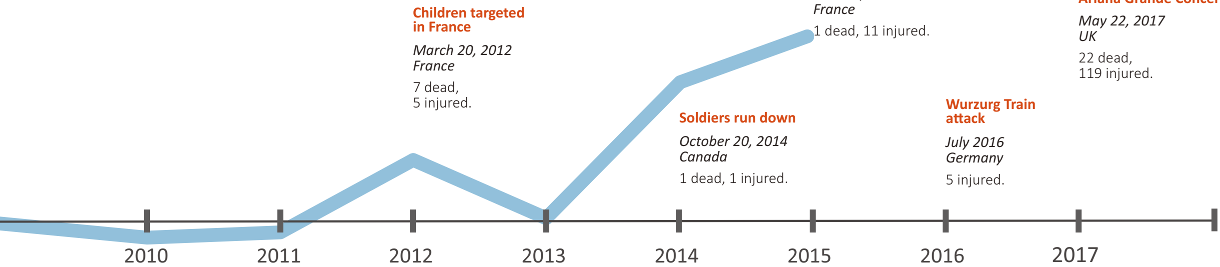
Florida Nightclub Shooting
June 12, 2016
Ataturk
49 dead,
53 injured.

Wurzurg Train attack
July 2016
Germany
5 injured.

Turkish Nightclub shooting
January 2017
Turkey
39 dead,
70 injured

Westminster Attack
March 22, 2017
UK
5 dead,
50 injured.

Manchester Bombing at Ariana Grande Concert
May 22, 2017
UK
22 dead,
119 injured.



Moscow airport bombing
January 21, 2011
Russia
37 dead,
173 injured.

Bus bomb
July 18, 2012
Bulgaria
7 dead,
32 injured.

Butchery on streets of London
May 22, 2013
United Kingdom
1 dead.

Shopping mall siege
September 21, 2013
Kenya
67 dead,
175 injured.

Gunfight in parliament
October 22, 2014
Candara
1 dead, 3 injured

Sydney siege
December 15-16,
2014 Australia
3 dead, 4 injured.

Knife attack on police
December 20, 2014
France
1 dead, 3 injured.

Terror on train
August 21, 2015
France
5 injured.

Parramatta shooting
October 2, 2015
Australia
2 dead.

Russian airliner brought down
October 31, 2015
Egypt
224 dead.

Paris attacks
November 13, 2015
France
129 dead.

Bastille Day Truck Bomb
4, 2016
France
86 dead,
434 injured.

Church attack
July 2016,
France
1 dead,
3 injured.

Berlin Christmas Market attack
December 19, 2016
Germany
12 dead.

Mosul Massacre
May 5, 2017
Iraq
163 dead.

Brighton Hostage Crisis
June 5, 2017
Australia
1 dead,
4 injured.

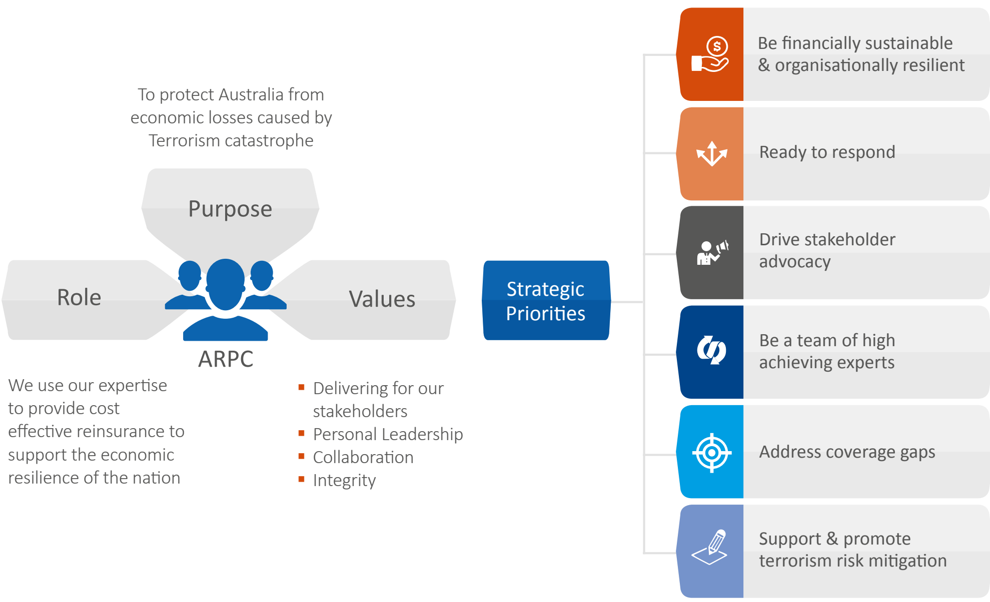
Strategic priorities

ARPC's 2016-20 Corporate Plan set out six strategic priorities with initiatives under those priorities supporting ARPC's purpose and role. These strategic priorities were refined during a Board and Senior Executive workshop in March 2017 and are as follows:

Figure 1.4: Strategic Priorities – 2016-20 vs 2017-2021

Strategic Priorities 2016-2020	Strategic Priorities 2017-2021
Be financially strong and ready to respond	Be financially sustainable and organisationally resilient
Modernise the mandate	Ready to respond
Drive stakeholder advocacy	Drive stakeholder advocacy
Contribute to coverage of catastrophic events	Be a team of high achieving experts
Promote mitigation for economic resilience	Address coverage gaps
Be a high achieving great place to work	Support and promote terrorism risk mitigation

Figure 1.5: 2017-21 Strategic Priorities

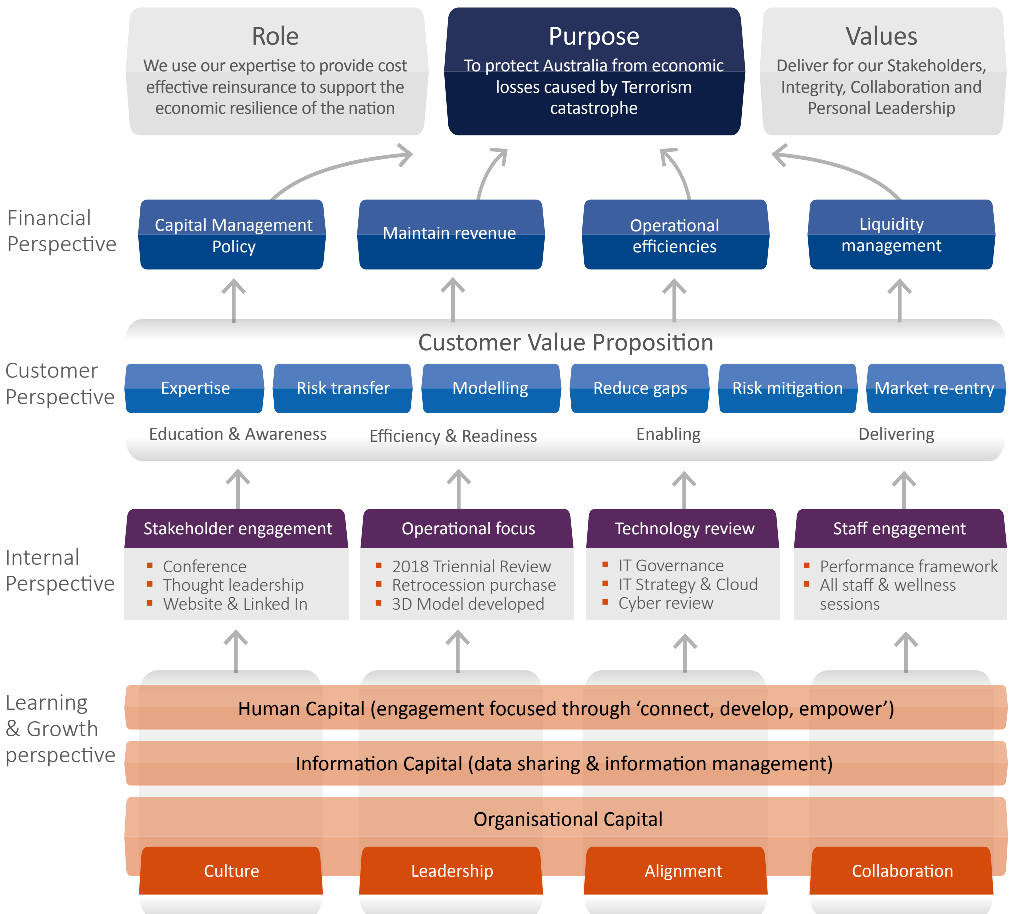


Strategic Plan 2017-2021

The ARPC Strategic Plan considers the objectives set out in the TI Act Explanatory Memorandum together with each of the strategic objectives. *Figure 1:6* provides a high level overview of how ARPC will achieve progress against each strategic objective from a balanced scorecard perspective.

ARPC will focus on activites that ***build*** stakeholder engagement, ***deliver*** cost effective reinsurance to customers, and ***optimise*** IT infrastructure to reduce risks and ***maximise*** staff engagement. In addition, the Capital Management Policy will leverage revenue, liquidity management and cost efficiencies to ***maintain*** ARPC's financial strength. All activities will operate concurrently to advance ARPC's strategic priorities, including actions detailed in the Corporate Plan.

Figure 1.6: ARPC Strategic Plan 2017-21



Values

ARPC strives for a diverse, collaborative and high achieving culture underpinned by integrity, leadership, and continuous development. These values support the strategy, are fundamental to everything ARPC does and are critical to the success of the organisation.

Figure 1.7: ARPC Values 2016-17

Progress against the 2016-20 Strategic Priorities

Figure 1.8 outlines the progress made against ARPC's strategic priorities outlined in the 2016-20 Corporate Plan.

Figure 1.8: Activities undertaken to progress ARPC's strategic priorities

Strategic priority	What ARPC did in 2016–17
Drive stakeholder advocacy	▪ Enhanced stakeholder engagement plans to maintain relevance across stakeholder groups. ▪ Delivered informative and relevant presentations at industry events including conferences. Met with Government representatives, insurers and commercial property owners to inform them about Scheme coverage. ▪ Improved digital links to global terrorism risk insurance pools via IFTRIP. ▪ Commenced research projects with the Institute of Economic and Peace (IEP). These will continue in 2017-18. ▪ Performed a stakeholder satisfaction pulse check for government stakeholders with positive results. ▪ Delivered the ARPC-OECD Global Terrorism Risk Insurance Conference in October 2016. This conference was well received by key stakeholders and, during preparation, ARPC engaged extensively with overseas terrorism reinsurance schemes.
Be a high achieving, great place to work	▪ Implemented a new performance management system enabling employees and managers to create, track and measure achievements against performance and development goals. ▪ Provided significant training opportunities to all staff to develop personal and professional skills. ▪ Implemented a new compliance system to create efficient and effective ways for staff to understand their obligations. ▪ Commenced a new policy enabling employees to work remotely, allowing greater flexibility to support individual and family needs. ▪ Engaged all staff in mid-year and year end performance conversations and appraisals. ▪ Carried out team building activities aimed at connecting employees with ARPC's purpose and strategic initiatives, in which all staff took part.

Strategic priority	What ARPC did in 2016–17
Promote mitigation for economic resilience	▪ Initiated the specification of a Terrorism Risk Mitigation guideline and approached key asset owners for input. ▪ Participated in national and international forums on terrorism and catastrophe insurance and financing via IFTRIP (see details under Stakeholder Engagement). ▪ Responded to a range of requests for advice and input on pooling arrangements.
Contribute to coverage of catastrophic events	▪ Commenced the development of a claims management guideline with cedant claims department assessment, post incident claims review and sampling methodologies. ▪ Contributed to thought leadership and debates about cyber terrorism through various conference presentations and further promotion of the 'Cyber Terrorism White Paper'[5]. This will be continued at the October 2017 Seminar with an updated paper. ▪ Collaborated with Geoscience Australia to continue development of the 3D blast exposure modelling and biochemical plume modelling.
Be financially strong and ready to respond	▪ Judicious management of net assets so ARPC maximises its financial performance and is able to deliver an operating result that results in an improved capital position. ▪ Purchased retrocession reinsurance to increase ARPC's capacity to pay claims and reduce the Australian Government's exposure in the event of a DTI. ▪ Reviewed the accuracy of insurer clients' premium submissions in line with the cedant review program ('cedant review program'). ▪ Produced monthly reporting based on balanced scorecard key performance indicators. ▪ Implemented a new financial system to encourage efficient and effective management of ARPC accounts.
Modernise the mandate	▪ Implemented Terrorism Scheme changes as recommended by the 2015 Triennial Review. All agreed changes have been made with many effective as at 1 July 2017. ▪ Performed an environmental review to identify and highlight potential gaps in the Scheme to be considered as part of the next Triennial Review. An example is the ARPC white paper published in March 2016 titled: ***Physically Destructive Cyber Terrorism as a Gap in Current Insurance Coverage.*** ▪ Worked with government stakeholders to implement the annual postcode update to remain aligned with the continual growth in Australian cities.

[5] ARPC's March 2016 Cyber White Paper

Working with ARPC stakeholders

ARPC is committed to open and timely communication with stakeholders and strives to understand their needs and exceed their expectations. During 2016–17, ARPC continued to develop and sustain stakeholder relationships. Regular meetings were held with insurers, major commercial property owners, relevant State and Australian government agencies and industry associations. ARPC also provided customer advice on reinsurance agreements and insurer premium submissions.

Face-to face meetings were held during the reporting period with the following stakeholders:

- cedants (insurers);
- retrocessionaires;
- industry bodies;
- local, state and Australian Governments; and
- state insurance corporations.

In addition to the above, ARPC continued to refine an online Customer Relationship Management (CRM) system to improve stakeholder management and communication tracking capabilities.

Knowledge sharing

ARPC believes that sharing knowledge with stakeholders enhances existing relationships and develops partnerships across the spectrum of reinsurance activities. During 2016-17, ARPC representatives attended several industry forums as delegates and presenters to promote the sharing of information and ideas.

Retrocession renewal discussions also provide an opportunity for ARPC to present the latest information on Australian terrorism risk and the results from the portfolio risk analysis, including blast and plume modelling outcomes.

Communications and publications

ARPC publishes a quarterly electronic newsletter called ***Under the Cover*** aimed at insurers and other subscribers to provide information relating to reinsurance cover with ARPC. This includes postcode updates for reporting exposures and other information regarding reinsurance agreement obligations.

In 2016-17, the periodic ***Market Update*** publication provided information on the Hon. Kelly O'Dwyer MP, Minister for Revenue and Financial Services' address to the ARPC-OECD Global Terrorism Reinsurance Conference in Canberra and the publication of the 2016-20 Corporate Plan. During the same period ARPC published 10 press releases.

ARPC also uses Electronic Direct Mail (eDMs) from the CRM system to inform cedants about changes to the Scheme. During 2016-17, ARPC sent a series of eDMs to cedants seeking feedback on proposed changes to the Scheme as a result of the 2015 Triennial Review.

Industry involvement

ARPC engages with the Australian and international insurance industry through various forums. Participation in industry events raises stakeholder awareness of the Scheme and provides an opportunity for stakeholders to stay informed about global developments in terrorism risk and insurance. During 2016-17, ARPC attended industry conferences and events including:

- ARPC market briefing (Sydney) for the 2017 retrocession program;
- ARPC-OECD Global Terrorism Risk Insurance Conference;
- International Forum of Terrorism Risk (Re) Insurance Pools Conference in Paris, hosted by GAREAT, the French terrorism pool;

- Presentation by US Vice President Joe Biden hosted by the Office of the Vice President/Lowy Institute for International Policy/United States Studies Centre, University of Sydney;
- Reinsurance Discussion Group events;
- NIBA Convention;
- ANZIIF 13th Annual Insurance Industry Awards;
- Guy Carpenter – CEO Forum: Vision 2020;
- Lowy Institute – Address by the Hon. Scott Morrison MP, Treasurer of Australia, Lowy Institute – Address by the Hon Michael Keenan MP, Minister for Justice and Minister Assisting the Prime Minister for Counter Terrorism;
- Reinsurance Rendezvous;
- Bank of England/RBA roundtable on climate and other new/emerging risks; and
- Lloyds Australia Cocktail Reception, Willis Re Breakfast Seminar, Gen Re Rotary Charity Regatta, ANZIIF Reinsurance Breakfast, Unlocking the Global Terrorism Index: Insights and Panel Discussion, and Geoscience Australia Briefing.

Cedant review program

ARPC undertakes cedant reviews on a regular basis. These reviews verify that cedants are meeting all their obligations under ARPC's reinsurance agreement. The following table details the number of cedant visits conducted over the past seven years.

Figure 1.9: Number of ARPC cedant reviews

Type of review	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Full reviews	20	14	12	28	10	42*	27**
Follow up reviews	9	13	12	6	12	14	9
Total	29	27	24	34	22	56	36

* Includes reviews on 29 Singapore-based captive insurers which are only reviewed every other period.

** Includes reviews on Lloyd's syndicates

Cedant review trends

Compliance was found to be high for the majority of cedants. As a result of continual reviews, ARPC observed and addressed the following common weaknesses:

- out of date postcode tables;
- back-calculation of gross written premium;
- terrorism exclusion clauses that are ambiguous or which could have unintended consequences;
- miscoding for premium purposes; and
- staff turnover leading to a lack of understanding around ARPC processes.

ARPC is committed to working with cedants to reduce the incidence of these issues.

The Scheme 02

The Scheme 02

BACKGROUND

In July 2003, the ARPC terrorism reinsurance pool (the Scheme) was established. When a DTI is declared, the TI Act renders invalid any terrorism exclusion clause in an eligible insurance contract.

Although insurers remain liable for commercial terrorism risks, reinsuring with ARPC is not compulsory. Insurers can choose to carry the risk of terrorism losses following a DTI, or reinsure the risk through the commercial insurance market, or choose to reinsure with ARPC by entering into a reinsurance contract and paying terrorism reinsurance premiums.

ARPC's policy objectives are outlined in the TI Act Explanatory Memorandum[6]. These objectives are that the Scheme must be consistent with the need to:

- maintain, to the greatest extent possible, private sector involvement;
- appropriately price and compensate the Australian Government for any risk transferred to it;
- allow for the re-emergence of commercial markets for terrorism risk cover; and
- respond to global solutions.

How the Scheme protects the Australian economy

The Scheme renders terrorism insurance exclusion clauses in eligible contracts of insurance ineffective in the event of a DTI. Insurance companies can choose to reinsure the risk of claims for eligible terrorism losses by entering into a contract of reinsurance with ARPC and paying appropriate reinsurance premiums (see Premiums).

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

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

6 Revised Explanatory Memorandum of the Terrorism Insurance Bill 2002

The Scheme does not cover loss or liability arising from the hazardous properties of nuclear fuel, material or waste. The Scheme also does not cover residential property or the contents of residential property, except those covered under the mixed use commercial and residential properties, and the high value residential properties insured for $50 million or more. However, farms can obtain cover if they hold insurance against business interruption.

Claims against the Scheme will be met once an individual insurance company's risk retention (the deductible or excess) is exhausted. The Scheme requires insurers to retain the first portion of any loss.

The total capacity of the Scheme currently stands at $13.4 billion including all sources of funding (see Scheme funding capacity).

Reduction percentage

If the Minister considers that the total paid or payable by the Commonwealth under 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 reduction percentage is only available to insurers who reinsure with ARPC, with the effect being to reduce the amounts payable for terrorism losses under eligible insurance contracts. The reduction percentage may subsequently be lowered by the Australian Government.

The consequences of the reduction percentage, if applied, are that insurers are fully covered by ARPC and have no liability for any costs above their retention. However, eligible policyholders will receive a reduced claim payment commensurate with the reduction percentage.

If an insurer is not reinsured with ARPC, then they are liable for the full costs of a DTI claim. They will not be protected by the reduction percentage and must pay claims to the limit of the policy sum insured, subject to the policy terms and conditions.

Premiums

ARPC's premium and investment income is used to fund its operations, pay retrocession premiums, build the reserve available to meet future claims and pay any fees and dividends to the Australian Government. The premium charged by ARPC for reinsurance is determined by Ministerial Direction. The tier rates charged by ARPC are shown below.

Figure 2.1: Tier Rates

Premium Tier	Current Rate
A	16% of gross base premium
B	5.3% of gross base premium
C	2.6% of gross base premium

The premium tiers have been set by postcode, having regard to the population density in a postcode area. *Figure 2.2* illustrates the breakdown of the three premium tiers and the broad geographical location to which they relate.

Figure 2.2: Tier and broad geographical location

Premium Tier	Geographical Location
A	CBD areas of Australian cities with a population of over one million (Sydney, Melbourne, Brisbane, Perth and Adelaide)
B	Urban areas of all Australian state and terrority 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	Australian postcodes not allocated to either tier A or B and representing a physical address, as well as any property not on the mainland of Australia or Tasmania, but within the coastal sea of Australia

Reinsurance premiums payable to ARPC are calculated as a percentage of the premium charged by cedants that is attributed to eligible insurance contracts. The Scheme allows tier rates to be increased following a claim on the Scheme, enabling ARPC to meet its outstanding claims liabilities and rebuild the claims reserve.

Customer benefits

ARPC covers almost all private commercial property and critical infrastructure located in Australia, with an aggregate sum insured of more than $3.5 trillion as at 30 June 2017. We continue to offer value for money to insurers. The average price paid by cedants for terrorism reinsurance cover in 2016-17 was 4.3 per cent of insurers' gross written premiums for eligible policies.

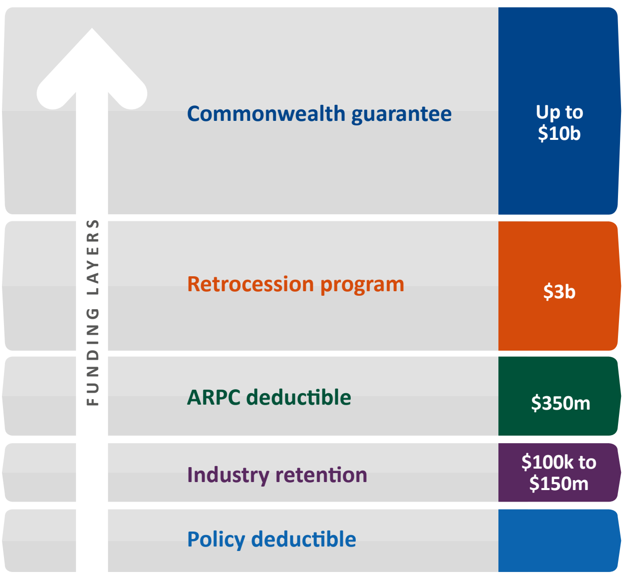
The levels of retention held by insurers are low, ranging from $100,000 to a maximum of $10 million for individual insurers, while the maximum industry retention is capped at $100 million. The maximum individual retention will increase to $12.5 million from 1 July 2017 and the maximum industry retention will be capped at $150 million from 1 July 2017, and further to $200 million from 1 July 2018.

Cedants also benefit from the capping of their liability under the TI Act, through a legislated reduction percentage for any loss exceeding the Scheme capacity. Through this reduction percentage, the capital of our cedants is protected.

Scheme funding capacity

As at 30 June 2017 ARPC provides insurers with a claims funding capability of $13.4 billion in reinsurance capacity, comprising ARPC's net assets, retrocession reinsurance and the Commonwealth guarantee. Since 2009, ARPC has placed an annual retrocession program, purchasing around $3 billion in capacity through more than 60 reinsurers rated A- or better by Standard & Poor's or AM Best, many of which are located overseas. *Figure 2.3* shows the share of ARPC funding for terrorism claims from all sources.

Figure 2.3 2017 ARPC Scheme funding*



* As of 1 July 2017, the maximum industry retention increased from $100 million to $150 million. As at 1 July 2018, it will increase to $200 million.

The funding order for terrorism claims against the Scheme currently in the following layers:

1. Policyholder deductible (e.g. the excess or retention stated in the underlying policy).
2. Insurer retention (retention stated in the cedant's reinsurance agreement) up to a maximum industry retention (total retention from all cedants involved in one event).
3. $350 million ARPC retrocession deductible.
4. Retrocession reinsurance capacity of $3 billion excess of $350 million.
5. Commonwealth guarantee up to $10 billion.

Benefits of retrocession

ARPC's retrocession program continues to provide the following benefits:

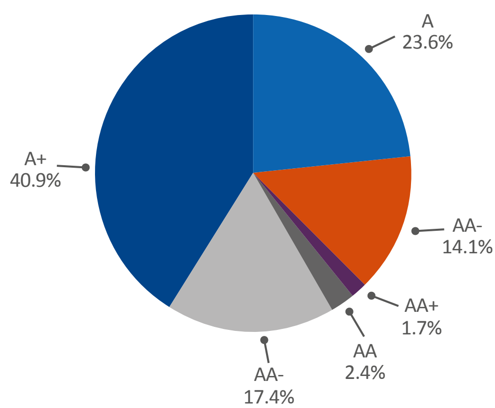
- increased overall Scheme capacity;
- positions the Australian Government further away from the risk of terrorism losses under the Scheme;
- reduces the likelihood that a reduction percentage will be required; and
- encourages the return of the commercial terrorism insurance and reinsurance market for Australian risks.

2017 retrocession placement

The retrocession reinsurance program renews on 1 January each year. The 2017 placement included a 33.3 per cent tranche that was placed on a three-year basis to reduce pricing volatility for ARPC and our retrocessionaires. The multi-year deal allows for adjustment if ARPC's portfolio changes by more than 10 per cent year on year.

There are currently 65 participants in the retrocession program drawn from the Australian, Lloyds, European, Bermudan, USA and Asian markets. ***Figure 2:4*** illustrates the split of retrocessionaires by Standard & Poor's credit rating.

Figure 2.4: Retrocession program counterparty credit rating CY 2017.



The 2017 $3.0 billion (2016: $2.9 billion) retrocession program was placed in three layers in excess of $350 million (2016: $350 million). Losses in excess of the retrocession program are covered by the Commonwealth guarantee.

Retrocession program cost

Retrocession is placed on a calendar year basis from 1 January and the expense incurred for the 12 months to 30 June 2017 totalled $61.5 million gross (compared with $63.0 million in 2015-16). The total retrocession commission income recognised by ARPC for 2016-17 was $6 million (2015-16: $6.1 million). The cost of the retrocession program that began on 1 January 2017 is cheaper than the 2016 program even though we bought $150 million more cover than the 2016 period. This cost reduction was achieved through reduced rates charged by retrocessionaires from 1 January 2017.

ARPC does not expect the current low retrocession rates to be sustainable in the medium term.

Three dimensional blast model

The sum insured aggregate database we receive from cedants forms the foundation of the three dimensional (3D) blast model that has been developed by GeoScience Australia (GA). ARPC's 3D Blast model is intended to accurately analyse pressure waves and resulting damage from blasts in most Tier A locations.

The blast model has now been commissioned to include the most built-up areas of Sydney, Melbourne, Brisbane, Adelaide and Perth with multi-location analysis being conducted in those cities to review expected losses from different sized charges.

Plume model

ARPC, in conjunction with GA, maintains its capability to analyse exposure and potential damage from the release of a biological or chemical agent in Sydney and Melbourne CBDs. This capability draws on the expertise of several government agencies including GA, Bureau of Meteorology, Defence Science and Technology Group and the Australian Federal Police, as well as external consultants.

ARPC regularly analyses various plume scenarios and extended this in 2016/17 to include mobile delivery systems of selected agents in Sydney and Melbourne.

GA forms an integral part of ARPC's blast and plume analytical capability. ARPC has entered into a new three-year maintenance and development program to keep the models current and fulfil ARPC's needs.

Payments to the Government

ARPC assists risk sharing between the private sector and the Australian Government. ARPC pays the Australian Government fees and dividends to provide fair compensation for the $10 billion Commonwealth guarantee backing the terrorism insurance scheme, as well as an owner's dividend.

As at June 2017, ARPC has paid the Government fees and dividends (in total) of almost $700 million. A summary breakdown of these can be found in ***Figure 2.5***.

Figure 2.5: Summary of payments to Government

Financial Year	Dividends and fees committed since May 2012 Budget $ millions	Cumulative dividends and fees paid / to be paid $ millions
FY 2012-13	$175.0	$175.0
FY 2013-14	$150.0	$325.0
FY 2014-15	$55.0 Guarantee Fee $57.5 Dividend	$437.5
FY 2015-16	$55.0 Guarantee Fee $57.5 Dividend	$55.0.0
FY 2016-17	$55.0 Guarantee Fee $57.5 Dividend $35.0 Capital Holding Fee	**$697.5**
FY 2017-18	$55.0 Guarantee Fee $57.5 Dividend $35.0 Capital Holding Fee	**$845.0**

ARPC has developed a Capital Management Policy with the aim of helping all parties understand the 'target capital' the Corporation believes should be retained by the Scheme in order to adequately protect the Australian economy in the event of a major terrorist incident.

Global terrorism reinsurance pools

Many foreign governments and insurance markets have introduced terrorism insurance pools. Some were created in response to the events of 11 September 2001, while others were established in response to specific terrorist threats within each country.

Terrorism insurance pools are the global standard approach to providing cost effective reinsurance for terrorism catastrophe. *Figure 2.6* lists the international terrorism insurance pools in place today.

Figure 2.6: Terrorism reinsurance pools

Country	Compulsory Pool (Y/N)	Terrorism reinsurance pool
Australia	N	Australian Reinsurance Pool Corporation (ARPC)
Austria	N	Osterreichisher Versicherungspool Zur Deckung (The Austrian Terror Pool)
Bahrain	N	The Arab War Risks Insurance Syndicate (AWRIS)
Belgium	N	Terrorism Reinsurance & Insurance Pool (TRIP)
Denmark	N	Danish Terrorism Insurance Scheme
Finland	N	Finnish Terrorism Pool
France	N	Gestion de L'assurance et de Reassurance des Risques D'attentats et Terrorism (Gareat)
Germany	N	Extremus Versicherungs-AG
Hong Kong-China	N	The Motor Insurance Bureau (MIB)
India	N	The General Insurance Corporation of India
Indonesia	N	Indonesian Terrorism Insurance Pool
Israel	Y	Terrorism (Intifada Risks)-The Victims of Hostile Actions
Namibia	N	Namibia Special Risks Insurance Association (NASRIA)
Netherlands	N	Nederlandse Herverzekeringsmaatschappij Voor Terrorismeschaden (NHT)
Northern Ireland	N	Criminal Damage Compensation Scheme Northern Ireland
Russia	N	Russian Anti-Terrorism Insurance Pool (RATIP)
South Africa	N	South African Special Risks Insurance Association (SASRIA)
Spain	Y	Consorcio de Compensacion de Seguros (CCS)
Sri Lanka	N	SRCC/ Terrorism Fund-Government
Switzerland	N	Terrorism Reinsurance Facility
Taiwan	N	Taiwan Terrorism Insurance Pool
United Kingdom	N	Pool Reinsurance Company Limited (Pool Re)
United States	N	Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA)

Source: International Forum of Terrorism Risk Reinsurance Pools (IFTRIP)

Changes to the Scheme

Coverage

Two significant changes to ARPC Scheme coverage, as recommended by the 2015 Triennial Review, were approved in 2016-17 and effective as at 1 July 2017. The changes mean that the Scheme remains fit for purpose. The key changes:

- broadened the definition of eligible property to include buildings with a floor space of at least 20 per cent used for commercial purposes or which have a building sum insured of at least $50 million, whether used for commercial or other purposes (effective on contracts of insurance issued or renewed from 1 July); and
- amended the TI Act 2003 to extend the definition of a terrorism exclusion or exception in an eligible insurance contract to include acts described as "chemical", "biological", "polluting", "contaminating", "pathogenic", "poisoning", or words of similar effect.

The changes benefit insurers and policyholders by closing the mixed use/ high value building gap and removing uncertainty in the event of a DTI involving biological or chemical material.

Retentions

Changes to insurer and industry retentions were also recommended by the 2015 Triennial Review.

On 23 March 2017, the Hon. Kelly O'Dwyer, Minster for Revenue and Financial Services, issued a Ministerial Direction on changes to retentions. An amendment to the Reinsurance Agreement for Terrorism Risks (the Agreement) was required to give effect to these changes. The amendment to individual and industry retentions is effective from 1 July 2017.

Individual insurer retentions are now 5% (previously 4%) of the reinsured's annual Gross Fire and ISR premium less the amount of Fire Service Levy.

Maximum **retention** levels for **individual insurers** have increased to $12.5 million from $10 million.

Maximum **industry retention** has increased from $100 million to $150 million and will increase to $200 million on 1 July 2018.

See **Appendix A** for the full list of 2015 Triennial Review recommendations.

All recommendations from the 2015 Triennial Review have now been applied to the Scheme.

ARPC/OECD Global Terrorism Risk Insurance Conference

ARPC, in collaboration with the OECD, was pleased to welcome more than 150 delegates from around the world to the 2016 ARPC/OECD Global Terrorism Reinsurance Conference. ARPC received very favourable feedback from local and global stakeholders on how the event added to their knowledge of terrorism and ARPC's role and purpose. The Conference was held at Parliament House in Canberra on 6-7 October 2017.

The public conference was preceded by a closed meeting of global terrorism pools and senior OECD representatives. Previous international terrorism pool meetings had been held in the OECD headquarters in Paris in 2010 and 2012, at the US Department of the Treasury in 2014 and at Pool Re in London in 2015. The 2016 meeting was the first such meeting in Australia and allowed pool representatives to discuss matters of mutual concern.

The Conference gathered key representatives from government, counter terrorism and law enforcement agencies, academia, heads of international terrorism pools and industry experts including insurers, reinsurers, brokers and risk modelling firms.

Topics included:

- the nature and level of the terrorism threat;
- Chemical, Biological, Radiological and Nuclear (CBRN) threats;
- Cyber terrorism;
- the human cost of terrorism;
- trends in terrorism risk insurance; and
- modelling scenarios and losses.

Leading speakers included:

- The Hon. Kelly O'Dwyer MP, Minister for Revenue and Financial Services (and ARPC's Responsible Minister);
- Karen Bishop, Principal Legal Officer Counter Terrorism and Intelligence Unit, Attorney General's Department;
- Julian Enoizi, Chief Executive, Pool Re, United Kingdom;
- Chris MacKinnon, General Representative, Lloyd's Australia;
- Dr Ken Dale, Structural Engineer, Geoscience Australia;
- Dr Gordon Woo, Catastrophist, RMS;
- Murray Ackman, Institute for Economics and Peace (and lead researcher for the Global Terrorism Index) and Alastair Gee, IEP Chief Operating Officer;
- Anthony Bubalo, Deputy Director and Research Director, Lowy Institute for International Policy;
- Hamish de Bretton-Gordon OBE, Managing Director, CBRN, Avon Protection; and
- Emma Karhan, Managing Director, Guy Carpenter UK.

Charter formalises launch of global pool forum

A charter formalising the launch of the International Forum of Terrorism Risk (Re) Insurance Pools (IFTRIP) was also signed at the closed Pool meeting, with delegates from eight terrorism pools committing support. Commitment from a further six pools unable to attend the pool meeting had already been received. Pools joining the Forum as members included ARPC, Pool Re United Kingdom, GAREAT, France and Consorcio de Compensacion de Seguros, Spain. The Forum will allow terrorism reinsurance pools to meet regularly and share their experiences, ideas and best practice.

IEP research shows dramatic increase in OECD terrorism incidents

At the Conference, ARPC unveiled new research commissioned from the Institute of Economics and Peace (IEP). According to the research findings, in the past three years there has been a dramatic increase in the intensity and spread of terrorist incidents in OECD member countries, including Australia.

While Australia's level of terrorist activity is low by global standards, it is one of the ten highest among OECD member countries. As with other OECD member countries, the rising threat of terrorism has been driven by groups or individuals claiming some sort of connection with Islamic State (ISIL).

Terrorism in OECD member countries rose from 77 deaths in 2014 when ISIL emerged, to 577 in 2015 (a 650 per cent increase) and the most in a single year since 2001. This dramatic increase continued with 482 deaths from terrorism in the first seven months of 2016. The impact of terrorism has also begun to spread out across more OECD member countries, and has become a constant threat, with ten of the largest 20 terrorist attacks of the last 15 years occurring in 2015.

"Although there hasn't been a repeat of the scale of the September 11 attacks in the United States, the sheer volume of attacks in the past three years suggest terrorism is a now a much greater threat to political stability in OECD member countries," stated Murray Ackman, IEP Research Fellow. "OECD member countries, which includes Europe and many developed countries, face a three-pronged threat: lone actors with a variety of motivations and backgrounds, home grown groups which are increasingly being inspired by Islamic State (ISIL) and attacks planned, directed and co-ordinated by ISIL itself." he said.

ARPC commissioned the IEP research to understand more about the evolving global and local terrorism threat and to confirm the Scheme's coverage continues to remain relevant and serve cedants and the wider Australian economy.

ARPC's purpose is to protect Australian businesses and the wider economy in the case of a DTI, so understanding the frequency, severity and types of attacks, together with the motivations of terrorists is very important.

"Large or 'black swan' events which cause widespread casualties and property destruction such as the 1995 Oklahoma City bombings and the 2011 Oslo attacks (which included car bombs) are hard to predict and rare. However, they are still quite possible and the effects can be catastrophic. Lately there has been a heavy focus on soft target attacks by lone actors," said Dr Christopher Wallace, ARPC CEO.

Dr Christopher Wallace
ARPC CEO,
addressing the Conference

Julian Enoizi
CEO of Pool Re, UK, addressing
the Conference

From left:
Joan Fitzpatrick
Former ARPC Chair

The Hon. Kelly O'Dwyer MP
Minister for Revenue and Financial Services

From left:
ARPC Members **Janet Torney**
and **John Peberdy**

Insurance results and analysis

ARPC's financial highlights for financial years ended 30 June 2013 through to 2017 are outlined below.

Figure 2.7: Financial highlights

FINANCIAL HIGHLIGHTS

	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000
Net premium revenue	45,900	47,980	56,885	63,170	85,662
Commonwealth guarantee fee	0	0	(55,000)	(55,000)	(55,000)
Net claims incurred	0	0	0	0	0
Acquisition costs	(1,167)	(1,089)	(1,035)	(1,549)	(2,072)
Operating costs	(6,188)	(7,386)	(6,973)	(6,622)	(6,294)
Retrocession commission income	7,471	7,606	6,956	6,118	5,953
Investment income	31,719	24,871	21,337	17,230	15,574
Other	(5,285)	(580)	(4)	130	176
Capital holding fee	0	0	0	0	(35,000)
Operating result	72,450	71,402	22,166	23,477	8,999
Dividends paid	0	0	(57,500)	(57,500)	(57,500)
Movement in equity	72,450	71,402	(35,334)	(34,023)	(48,501)
Gross written premium	132,093	129,642	126,568	129,846	158,486
Outward reinsurance premium	(81,381)	(81,728)	(71,249)	(63,002)	(61,546)
Gross expense ration	5.8%	6.5%	6.2%	6.5%	5.7%
Cash and investments	671,183	596,814	560,143	526,280	490,809
Net assets	432,642	573,034	537,700	503,677	455,176
Reserve for claims	408,252	535,054	510,475	479,581	430,603

The significant changes to ARPC's financial performance and achievements for 2017 measured against 2016 are:

- Gross written premium (GWP) of $158.5 million for 2017 (2016: $129.8 million) representing a 22.1 per cent increase. This significant GWP increase is due to the increased tier rates that applied from 1 April 2016 as policies were issued and renewed. Quarterly accounts were closely monitored during 2016/17 to confirm that the new tier rates were being correctly applied by all cedants. Offsetting the increase in tier rates was further softening in underlying commercial property insurance rates;
- Investment income fell to $15.6 million (2016: $17.2 million) due to a period of sustained low interest rates Reserve Bank of Australia (RBA) cut the cash rate by 25 basis points in May 2016 and again in August 2016), a very low risk investment profile and the requirement to fund $147.5 million in dividend and fee payments to Government;

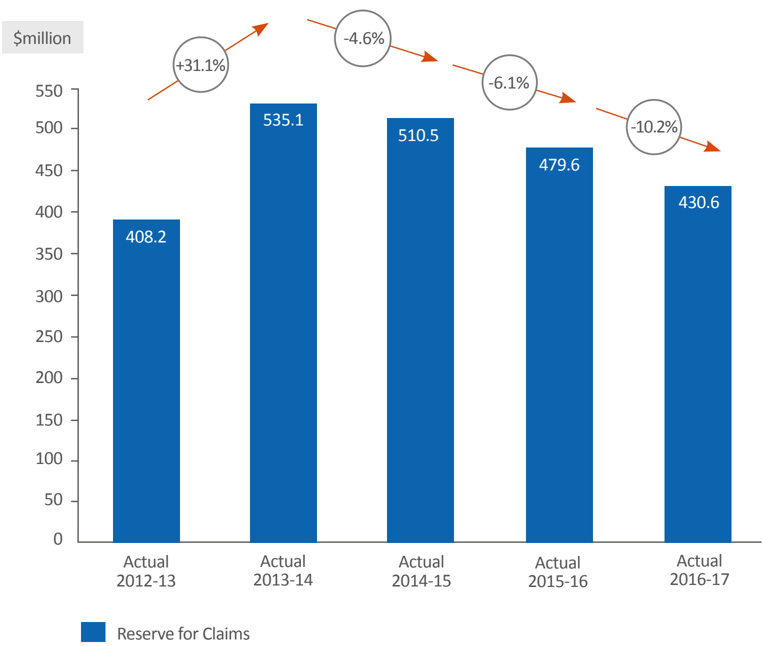
- ARPC renewed its retrocession program on 1 January 2017. The gross costs for the 2016-17 financial year decreased to $61.5 million (2016: $63.0 million) for $3 billion cover (2016: $2.9 billion) due to lower rates in the international reinsurance market;
- the Commonwealth guarantee fee remained stable at $55 million;
- operating expenses including acquisition costs for 2017 are $8.4m (2016: $8.2 million). The gross expense ratio has decreased to 5.7 per cent compared to 6.5 per cent in 2016; and
- the reserve for claims now stands at $430.6 million (2016: $479.6 million). The reduction is due to dividends and fees paid to the Australian Government exceeding operating results for the year.
- ARPC's reserve for claims is forecast to fall again in 2017/18 due to the $147.5 million in payments being made to the Australian Government (Commonwealth guarantee fee $55.0 million, Capital Holding Fee $35.0 million and a dividend of $57.5 million for the retrospective compensation to the Government).

Reserves

Total equity at 30 June 2017 was $455.2 million (2016: $503.7 million) after dividend payments of $57.5 million and an operating surplus of $9.0 million. The reserve for claims was $430.6 million (2016: $479.6 million) and the reserves trend is illustrated in ***Figure 2.8*** below. The reserve for claims is supported by additional funding for claims from the $3.0 billion retrocession reinsurance program and the $10 billion Commonwealth guarantee.

During 2016-17, ARPC increased the claims handling reserve of $24.0 million to $24.5 million, as per ARPC policy. The claims handling reserve allows sufficient funds to be set aside to allow ARPC to finalise any claims and reinsurance recoveries.

Figure 2.8: Reserve for claims



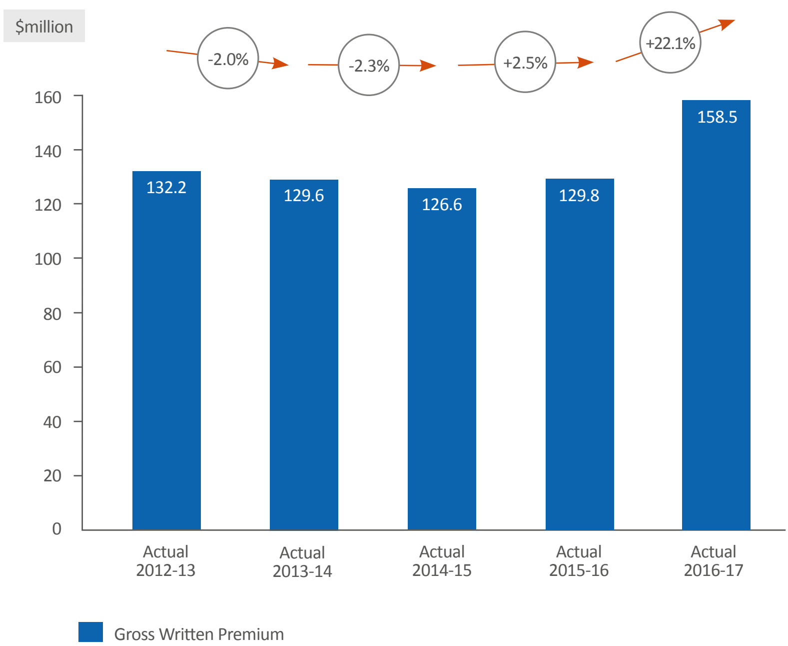
Gross written premium (GWP)

The movement in GWP is a function of three factors;

- market activity with regard to asset developments and their associated business risks where assets are continuously coming on-line or being decommissioned;
- movement of primary insurance premium rates in the insurance cycle (due to competitive market forces, insurance premium rates tend to move up or down over a period of time); and
- rates charged by ARPC (a percentage of the premium primary insurers charge policyholders based on the tier which applies to where property is located).

ARPC's GWP growth trend is represented below. Our GWP grew 22.1% in 2016-17 due to the increased tier rates charged by ARPC tempered by a continued lowering of premium charged by primary insurers.

Figure 2.9: ARPC gross written premium



Investment assets

ARPC's investment funds are held in cash and term deposits and ARPC's investment objectives are:

- preservation of capital;
- assets being available at short notice (specifically the current retrocession retention of $350 million is available within 3 months); and
- investments providing the best rate of return available, within the very limited risk appetite.

ARPC's investment strategy complies with the PGPA Act. The Members of the Board have set the benchmark investment return for ARPC as the RBA official cash rate plus 0.5 per cent.

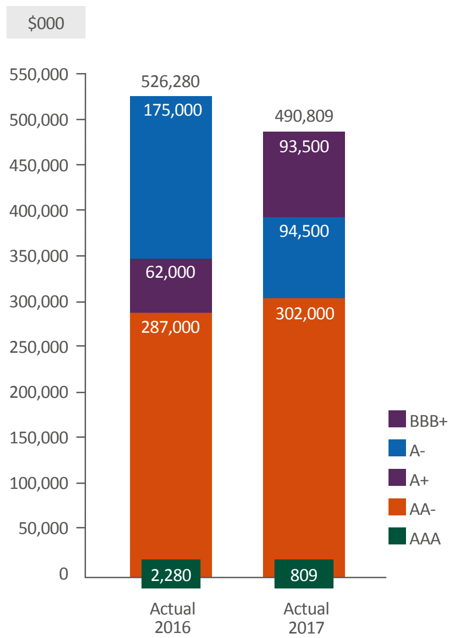
ARPC's investment assets are held in cash and term deposits. ARPC managed investments internally in 2016-17 and investments are held in ARPC's name.

ARPC's cash investments are held by Australian financial institutions with Standard and Poor's (S&P) credit ratings between BBB+ and AA-. On 22 May 2017, S&P downgraded 23 Australian financial institutions by one notch. ARPC invested with three of these institutions which were downgraded from A- to BBB+. The Board agreed to hold these short dated fixed term deposits until maturity and reinvest with institutions with a credit rating of A- or better.

At 30 June 2017, ARPC held $490.0 million in term deposits and $0.8 million in cash (2016: $524.0 million and $2.3 million respectively).

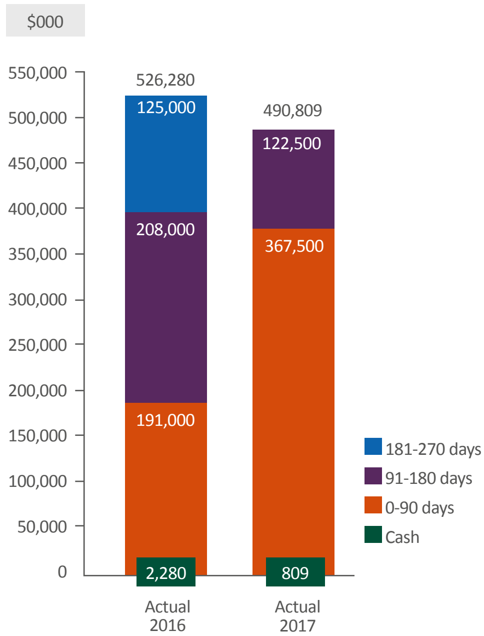
Figure 2.10 illustrates ARPC's investment by credit rating category.

Figure 2.10 Investments by credit rating as at 30 June each year



The maturity of funds invested is illustrated in *Figure 2.11*.

Figure 2.11: Investments by maturity as at 30 June each year



ARPC commissioned Finity Consulting to analyse the likely claim payment pattern in the event of a probable maximum loss scenario. Based on this analysis, it is probable that ARPC will need to fund the retrocession retention of $350 million within 90 days. ARPC has adjusted the investment maturity profile to meet this liquidity requirement.

Investment income

Investment income fell to $15.6 million (2016: $17.2 million) due to the sustained low interest rates and the requirement to fund $147.5 million in dividend and fee payments to the Australian Government, which decreased the balance of invested assets.

Even though investment income fell for 2016-17, it is still considered a good result given the continued low interest rate environment experienced for the financial year.

The official cash rate was 1.5 per cent at 30 June 2017 compared to 1.75 per cent at 30 June 2016. The RBA decreased the cash rate by 25 basis points in May 2016 and again in August 2016.

Influences on future performance

ARPC's two sources of income are reinsurance premiums and investment income on its pool of retained earnings, which is set aside to meet claims.

Reinsurance premiums charged by ARPC are expressed as a percentage of the cedant's premiums. ARPC's premium income is therefore subject to insurance market cycles, even though our rates remain stable.

We expect a slight recovery in insurance market premium rates in the short to medium term. This, combined with the increased tier rates and additional risk, through the introduction of mixed use and high value buildings, should result in a minor increase in GWP in the short to medium term.

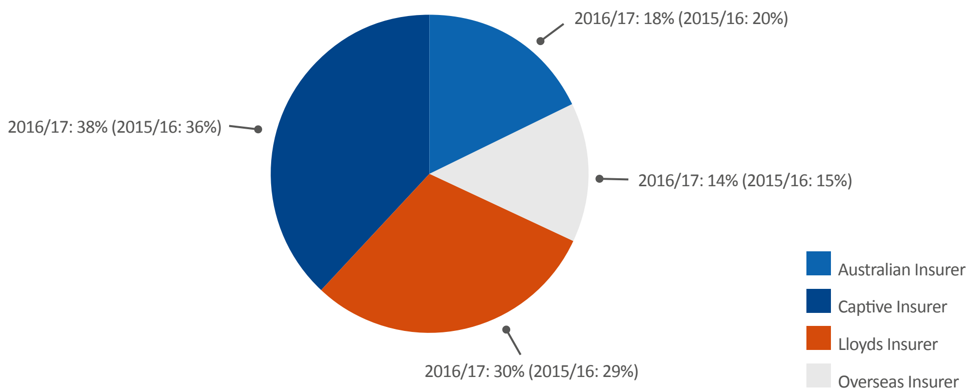
ARPC's retained earnings pool has fallen in recent years due to the requirement to pay significant dividends and fees to the Australian Government. This reduction will continue for 2017/18 where dividends and fees will again be $147.5 million. Investment income is also expected to continue to decrease in 2017/18, as we remain in a period of sustained low interest rates and our pool of retained earnings reduces as we meet Government payment obligations.

Active cedant reinsurance agreements

ARPC's active reinsurance agreements (or treaties) with cedants increased in 2016–17 to 244 (2015–16: 239). Australian cedants represent 18 per cent of the total active treaties and continue to contribute 92 per cent of ARPC gross written premium.

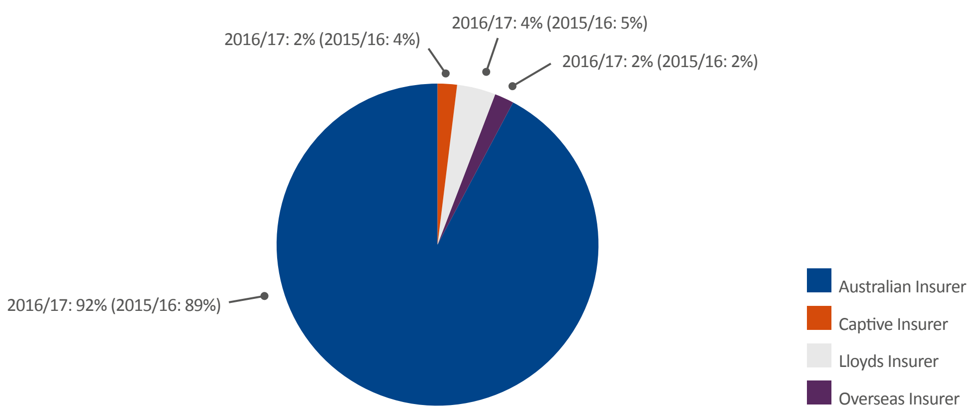
The percentage split between each of the categories is illustrated in ***Figure 2.12*** below:

Figure 2.12: Active client reinsurance agreements



The GWP trend reported by cedants is measured by cedant type, premium by tier, premium by state and premium by business class. ***Figure 2.13*** illustrates the GWP by cedant type.

Figure 2.13: ARPC gross written premium by insurer client type



Figures 2.14, 2.15 and *2.16* illustrate that the GWP by tier, state and business class between 2012 and 2017 has remained stable with the majority of exposures in Tier B followed by Tier C.

Figure 2.14: ARPC Gross written premium by tier

ARPC GROSS WRITTEN PREMIUM BY TIER

	2012–13	2013–14	2014-15	2015-16	2016-17
	%	%	%	%	%
Tier A	18%	18%	18%	19%	20%
Tier B	55%	56%	56%	56%	56%
Tier C	27%	26%	26%	25%	24%
Total GWP $'000	**129,948**	**126,737**	**128,632**	**130,622**	**121,969***

* Note that the premium revenue for the 2016-17 underwriting year of $122 million is the amount as at 30 June 2017 ie. not all premium for 2016-17 has been received.

Figure 2.15: ARPC gross written premium by state

	2012-13	2013-14	2014-15	2015-16	2016-17
	%	%	%	%	%
NSW	30.2%	30.3%	31.8%	31.9%	30.3%
VIC	21.3%	22.4%	22.5%	23.1%	24.6%
QLD	21.6%	21.4%	20.3%	20.6%	20.3%
WA	14.9%	14.3%	14.4%	13.3%	13.5%
SA	7.7%	7.5%	7.1%	7.1%	7.4%
TAS	1.5%	1.3%	1.3%	1.5%	1.3%
NT	1.6%	1.6%	1.5%	1.3%	1.4%
ACT	1.2%	1.2%	1.1%	1.2%	1.2%
Total GWP $'000	**129,948**	**126,737**	**128,632**	**130,622**	**121,969***
Cumulative Total $ '000	**1,037,488**	**1,164,225**	**1,292,857**	**1,423,479**	**1,545,448**

* Note that the premium revenue for the 2016-17 underwriting year of $122 million is the amount as at 30 June 2017 ie. not all premium for 2016-17 has been received.

Figure 2.16: ARPC gross written premium by business class (Actual)

	2012-13	2013-14	2014-15	2015-16	2016-17
	%	%	%	%	%
Fire/ISR/BI	82%	83%	83%	84%	85%
Contract Works	8%	7%	8%	7%	6%
Burglary	4%	4%	4%	4%	4%
Miscellaneous Accident	2%	2%	2%	2%	2%
Mobile Plant	3%	3%	2%	2%	2%
Glass	1%	1%	1%	1%	1%
Farm	0%	0%	0%	0%	0%
Total GWP $'000	**129,948**	**126,737**	**128,632**	**130,622**	**121,969***
Cumulative Total $'000	**1,037,488**	**1,164,225**	**1,292,857**	**1,423,479**	**1,545,448**

* Note that the premium revenue for the 2016-17 underwriting year of $122 million is the amount as at 30 June 2017 ie. not all premium for 2016-17 has been received.

Statistics

Figure 2.17 shows that the annual growth in ARPC premium revenue since 2010 is similar to the growth in cedant GWP and aggregate sum insured. This steady growth is indicative of ARPC's portfolio which mainly consists of insurance policies covering commercial (non-corporate) risks and small and medium enterprises (SMEs).

Insurance premium report

Figure 2.17 shows a snapshot of ARPC's insurance premium on an underwriting year basis as reported by cedants and is shown as at 30 June 2017.

Figure 2.17: Insurance premium report, as at 30 June 2017 by underwriting year

Underwriting Year	ARPC Premium Revenue ($ million)	Insurer Client Sum Insured ($ million)	Insurer Client GWP ($ million)	ARPC Premium as %of GWP
2009-10	107.4	2,658,205	2,971.2	3.6%
2010-11	112.0	2,963,560	3,159.2	3.5%
2011-12	124.7	3,080,062	3,517.8	3.5%
2012-13	129.9	3,009,662	3,712.6	3.5%
2013-14	126.7	3,114,901	3,611.7	3.5%
2014-15	128.6	3,425,056	3,663.5	3.5%
2015-16	130.6	3,593,017	3,504.1	3.7%
2016-17	122.0*	**	2,595.8	4.7%

* Note that the premium revenue for the 2016-17 underwriting year of $122 million is the premium revenue *reported* as at 30 June 2017 ie. not all premium for 2016-17 has been *received*.

** The 2016-17 premium reports are submitted from July 2017 until September 2017. Therefore, this information is not available as at 30 June 2017.

Figure 2.18 shows the breakdown of premium income and sum insured by tier, indicating that the majority of ARPC's exposure is located within Tier B, closely followed by Tier C. This is consistent with ARPC's portfolio being mainly 'business package' risks located in the suburban areas followed by ISR policies in rural areas.

Figure 2.18: Insurance premium report for 2015-2016 by tier*

Tier	ARPC Premium Revenue ($ million)	Insurer Client Sum Insured ($ million)	Insurer ClientGWP ($ million)	ARPC Premium as % of GWP
A	24.2	415,655	192.6	12.6%
B	73.7	1,763,930	1,744.0	4.2%
C	32.7	1,413,432	1,567.6	2.1%
Total	**130.6**	**3,593.017**	**3,504.1**	**3.7%**

* As of publication date 2016/17 aggregate sum insured values were not available.

Figure 2.19 indicates that the vast majority of ARPC's exposure is located in New South Wales, Victoria and Queensland. The majority of the premium income is derived from NSW followed by Victoria due to the higher volume of risks located in Tier B.

Figure 2.19: Insurance premium report for 2015-16 by state, as at 30 June 2016*

	ARPC Premium Revenue ($ million)	Insurer Client Sum Insured ($ million)	Insurer Client GWP ($ million)	ARPC Premium as % of GWP
NSW	41.7	1,108,268	1,040.7	4.0%
VIC	30.2	772,950	728.7	4.1%
QLD	26.8	745,573	789.5	3.4%
WA	17.4	561,208	540.4	3.2%
SA	9.3	213,139	228.9	4.0%
NT	1.7	60,422	62.7	2.8%
TAS	1.9	82,015	74.9	2.6%
ACT	1.6	49,441	38.4	4.0%
Total	**130.6**	**3,593,017**	**3,504.1**	**3.7%**

* As of publication date 2016/17 aggregate sum insured values were not available.

Exposure risk management

A key government expectation is that ARPC is in a position to advise the Responsible Minister of the estimated (Scheme) insured losses in the event of a DTI. This estimate will be used to inform the calculation of an appropriate reduction percentage.

To address this issue, ARPC implemented a strategy to enable it to develop the capability to analyse;

- aggregate sum insured information;
- estimate its probable losses in the event of a DTI; and
- provide evidence based advice to the Responsible Minister on an appropriate reduction percentage.

Aggregate sum insured reports

ARPC's reinsurance agreement requires each cedant to provide an annual aggregate sum insured report by September each year. The report summarises the cedants' aggregate sum insured amounts at postcode level for all postcodes and at street address level for the five main central business district Tier A locations as at 30 June. The information is uploaded by our clients directly into ARPC's RISe system, which enables ARPC to analyse the distribution of exposure risk across Australia. The analysis includes the ability to report aggregate sum insured exposures.

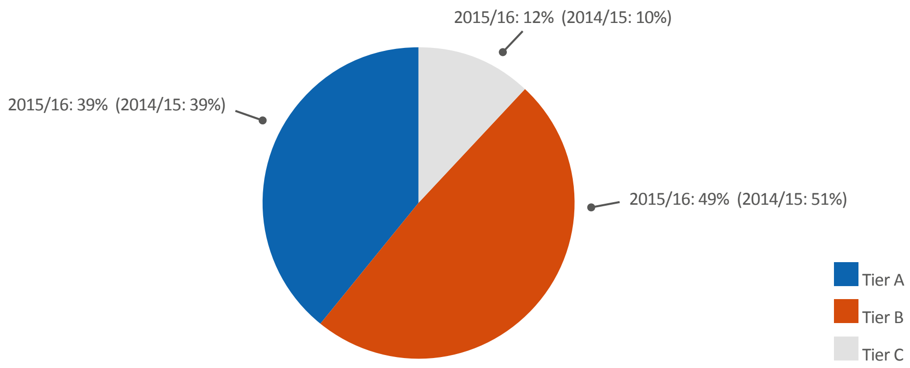
Figure 2.20 and *Figures 2.21* and *2.22* provide an overview of ARPC's total exposure based on information provided by insurer clients as at 30 June 2016.

Figure 2.20: Aggregate sum insured amounts by tier*

	2012-13 $ trillion	2013-14 $ trillion	2014-15 $ trillion	2015-16 $ trillion
Tier A	0.3	0.3	0.3	0.4
Tier B	1.5	1.5	1.7	1.8
Tier C	1.2	1.3	1.3	1.4
Total aggregate sum insured $ trillion	**3.0**	**3.1**	**3.4**	**3.6**

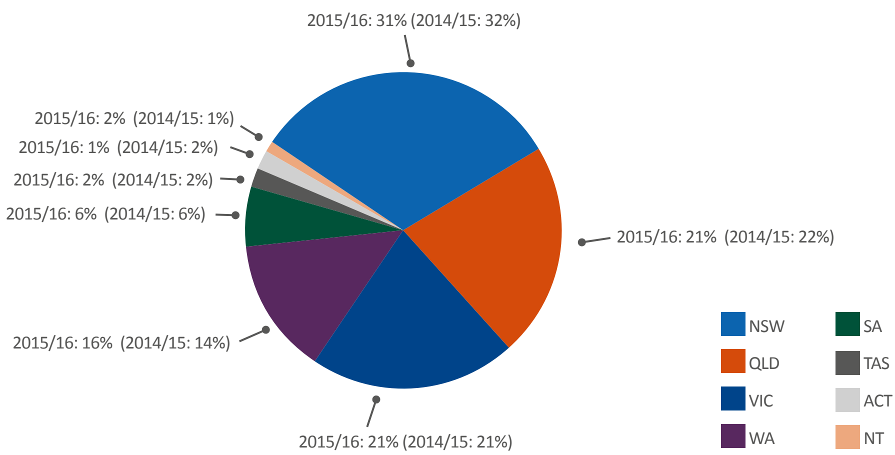
* As of publication date 2016/17 aggregate sum insured values were not available.

Figure 2.21: Percentage of aggregate sum insured held by tier as at 30 June 2016*



* As of publication date 2016/17 aggregate sum insured values were not available.

Figure 2.22: Aggregate sum insured by state as at 30 June 2016*



* As of publication date 2016/17 aggregate sum insured values were not available.

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.

Annual Performance Statement

03

Annual Performance Statement 03

INTRODUCTORY STATEMENT

This annual performance statement is provided for ARPC as required under section 39(1)(a) of the PGPA Act and (other applicable legislation) for the 2016-17 financial year.

This annual performance statement accurately presents ARPC's performance in accordance with section 39(2) of the PGPA Act and is based on properly maintained records.

As outlined in Part 1, this Annual Report has been approved by ARPC Members in accordance with a Member resolution.

Entity purpose

ARPC remains true to the Scheme's original policy objectives and is focused on creating greater value for stakeholders.

Results

In compliance with the PGPA Act, we must remain financially sustainable, managing our public resources in an efficient, effective and ethical manner as we fulfil our purpose.

Performance criteria

There are four key Corporate Plan activities that ARPC has undertaken over the reporting year to achieve our purpose. These can be found on page 14 of the 2016-20 ARPC Corporate Plan. In summary, these are:

1. providing reinsurance for eligible terrorism losses;
2. encouraging private sector participation through retrocession reinsurance;
3. compensating the Government; and
4. maintaining financial sustainability.

Figure 3:1 Corporate Plan performance criteria

Performance Criterion	Description	Criterion Source	Result against performance criterion
One: Providing reinsurance for eligible terrorism losses.	This is our functional obligation as prescribed by section 10 of the TI Act. Over the period covered by the corporate plan, success for this activity will be measured by ARPC's total premium income.	Measure 1 – GWP income, ARPC Corporate Plan 2016-17, page 15	Exceeded – GWP $158.5m against a target of $110m
Two: Encouraging private sector participation through retrocession	Purchasing reinsurance from global terrorism reinsurers (retrocession), thereby transferring a proportion of the risk to the private sector and reducing risks to the Australian Government. In order to be cost effective we also set a budget each year for the purchase cost of retrocession and seek to maximise our capacity within the budget deemed acceptable by the board	Measure 2 – Scheme capacity, before the Commonwealth guarantee, per calendar year, ARPC Corporate Plan 2016-17, page 17	Exceeded – Retrocession capacity $3.0b against a target of $2.5b
		Measure 3 – Retrocession program cost, per calendar year, ARPC Corporate Plan 2016-17, page 18	Exceeded – $3.0b capacity purchased (greater than plan) for a net cost of $54.5m against a target of $72.0m and a budget of $60.2m
Three: Compensating the Government	ARPC is to pay the Australian Government a fee for use of the Commonwealth guarantee plus a dividend to catch up for the early years of the Scheme where no fee was paid. A capital holding fee is also to be paid to recognise the capital ARPC is holding to fund future claim payments.	Measure 4 – Payments to Government, ARPC Corporate Plan 2016-17, page 19	Met $147.5m payment by the due date comprising a $57.5m dividend, a $55.0m guarantee fee and a $35.0m capital holding fee.
Four: Maintaining financial sustainability	ARPC must remain financially sustainable by having a governance framework and internal financial controls to manage our net assets.	Measure 5 – Financial sustainability, ARPC Corporate Plan 2016-17, page 20	Exceeded Net assets at June 2017 – $455.2m against a current minimum of $350m (the support of one retrocession deductible funded by ARPC net assets). This is still below our current Target Capital of $860m.

Performance criterion — Providing reinsurance for eligible terrorism losses

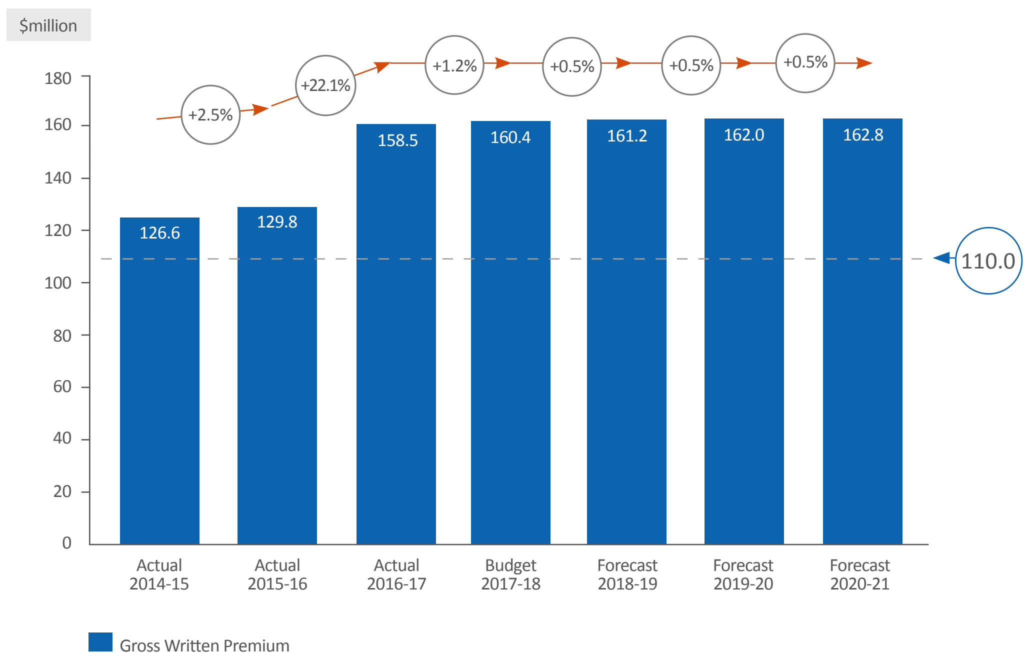
Description

This is our functional obligation as prescribed by section 10 of the TI Act. Over the period covered by the Corporate Plan, success for this activity will be measured by ARPC's total premium income. The target premium income for the forecast period was $110.0 million per annum without allowance for the increased tier rates from 1 April 2016.

MEASURE 1: To support financial sustainability, achieve higher than target premium income in each plan period	SOURCE Measure 1, Gross written premium income, ARPC Corporate Plan 2016-17, page 15

Result

Figure 3:2 Gross Written Premium



Our objective for Measure 1 for 2016-17 was to achieve actual premium income greater than the Corporate Plan target of $110.0 million. The financial budget for premium income in 2016-17 was $164.0 million.

The target measure supports ARPC's purpose as it sets the threshold for performance in our functional obligation under section 10 of the TI Act to 'provide insurance cover for eligible terrorism losses (whether by entering into contracts or by other means)'. ARPC receives premium income through the reinsurance contracts we establish with our cedants. The level of premium income demonstrates our performance against this measure.

We also have a financial budget for premium income, set at a higher level, which reflects our forecast performance for the reporting period.

Our premium income (shown as premium revenue in our financial statements) in 2016-17 was $158.5 million which was $48.5 million higher than (better than) our Corporate Plan target and $5.5 million lower than (worse than) our financial budget.

ARPC's gross written premium income is based on the market prices for eligible commercial property insurance premiums after applying the applicable tier rate. Commercial property insurance premiums continued to soften during 2016-17, impacting the actual premiums received by ARPC. The overall increase in gross written premium income for 2016-17 compared to the previous year is due to the tier rate increases that came into effect for policies incepting from 1 April 2016.

Performance criterion — Encouraging private sector participation through retrocession reinsurance

Description

Market failure triggered the Australian Government's intervention in the terrorism insurance market following the 11 September 2001 events in the USA. Successive triennial reviews have confirmed that the reinsurance market has insufficient capacity to offer uniform terrorism insurance coverage at affordable prices. The 2015 Triennial Review report stated that partial market failure still existed and would remain so for the foreseeable future. Consequently, encouraging private sector participation remains a key policy objective for ARPC's terrorism insurance scheme.

The 2006 Triennial Review recommended that:

"Once the pool reaches $300 million, the ARPC should be able to use its discretion to determine whether to use premiums to build the pool further, purchase reinsurance for the Scheme or undertake a combination of the two". (Reference: page 59 of the Terrorism Insurance Act Review: 2006 – June 2006)

Now that the Scheme's capital has exceeded $300 million, we use a portion of our premium income to purchase retrocession (reinsurance cover from private sector reinsurers). Through ARPC's access to retrocession and the Commonwealth guarantee, in 2016, ARPC has $13.4 billion total funding available for losses arising from a DTI.

Since 2009, ARPC has purchased retrocession from global terrorism reinsurers, thereby transferring a proportion of the risk to the private sector and reducing risks to the Australian Government.

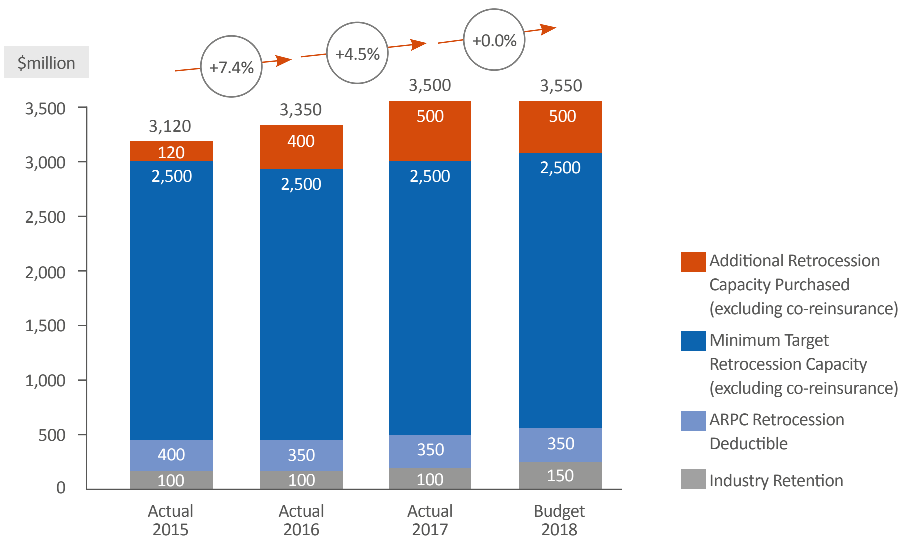
Each year, ARPC negotiates and places a retrocession program with major global reinsurers, seeking a placement that provides value for money while encouraging maximum global insurer participation. Participation in the ARPC retrocession program is restricted to reinsurers who hold a Standard & Poors' long-term rating of A- (or equivalent) or greater.

To measure success in this activity, ARPC measures total retrocession capacity purchased each calendar year and the total purchase cost, while continuing to monitor the number of participating retrocessionaires.

MEASURE 2: To protect the Australian Government from losses, purchase more than $2.5 billion in retrocession capacity each program period.	SOURCE Measure 2, Scheme capacity, before the Commonwealth guarantee, per calendar year, ARPC Corporate Plan 2016-17, page 17

Result

Figure 3:3 Scheme Capacity before the Commonwealth Guarantee – calendar year



Our objective for Measure 2 for the 2017 calendar year is to achieve a retrocession program capacity greater than the corporate plan target of $2,500 million ($2.5 billion). We now have in place a $3,000 million ($3.0 billion) retrocession program for the 2017 calendar year.

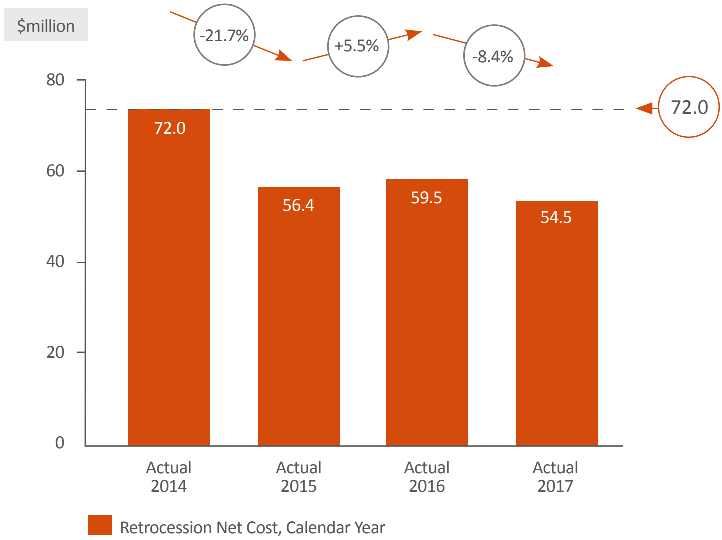
The target measure supports our purpose to 'provide insurance cover for eligible terrorism losses (whether by entering into contracts or by other means)' by increasing our funds available for claims. ARPC uses the retrocession program capacity as a significant contributor to the first layers of funding for eligible terrorism losses before the Commonwealth guarantee is drawn upon. This increases our capacity to fund losses without drawing on the Commonwealth guarantee and fulfils our purpose of meeting claims through reinsurance contracts we establish with our insurer customers. The retrocession program capacity demonstrates our performance against this measure. The target sets a threshold or minimum risk appetite for minimum program size.

We have a financial budget for the premium that ARPC can afford to spend on retrocession program capacity. Our retrocession capacity for the 2017 calendar year was $3.0 billion which was $500 million higher than (better than) our corporate plan target, and within our Board approved financial budget.

MEASURE 3: Our objective is to maximise capacity purchased within the budget we have available in each program period.	SOURCE Measure 3, Retrocession program cost per calendar year, ARPC Corporate Plan 2016-17, page 18

Result

Figure 3:4 Retrocession program cost – shown as a calendar year



Our objective for Measure 3 for the 2017 calendar year is to achieve value for money each year. Specifically, we aim to purchase the maximum capacity within the budget allocated by ARPC's Board each year for retrocession, but ideally spending no more than the Corporate Plan target of $72.0 million.

Our retrocession program net cost for the 2017 calendar year was $54.5 million which was $17.5 million lower than (better than) our Corporate Plan target, and $5.7 million lower than (better than) our financial budget.

Performance criterion — Compensating the Government

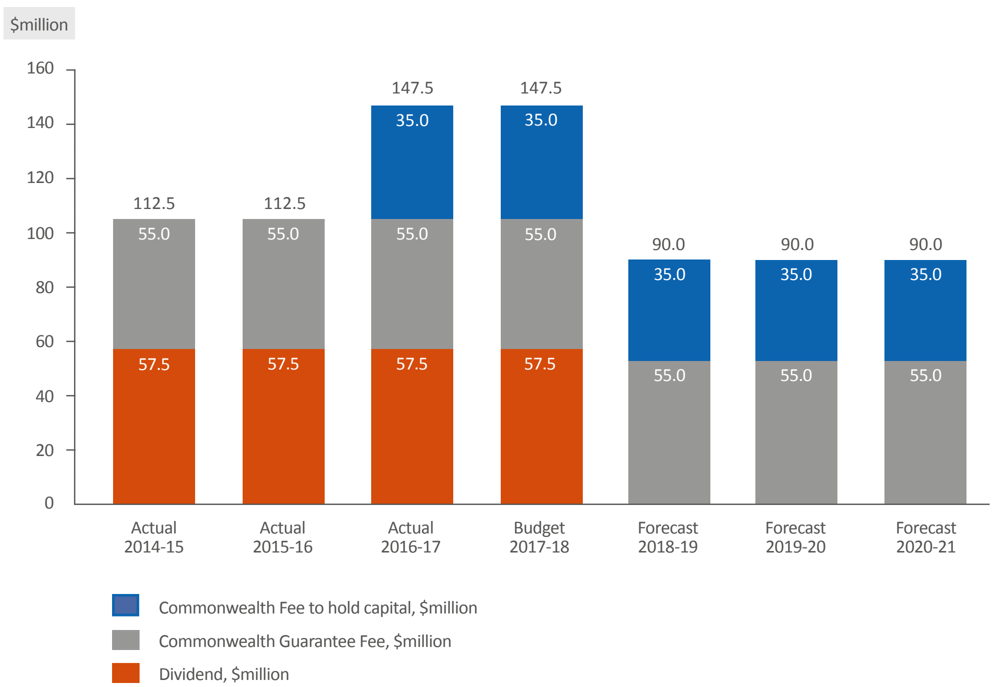
Description

ARPC is to pay the Australian Government a fee for the use of the Commonwealth guarantee together with a dividend to catch up for the early Scheme years where no fee was paid. In addition, a capital holding fee is paid to recognise the capital ARPC is holding to fund future claim payments.

MEASURE 4: To meet our obligations, the target is to deliver the government payments in each plan period. The payments are set by Ministerial Direction.	SOURCE Measure 4, Payments to government, ARPC Corporate Plan 2016-17, page 19

Result

Figure 3.5: ARPC delivered payments to government totalling $147.5 million in 2016-17.



Performance criterion — Maintaining financial sustainability

Description

As is the case with any insurer, in order to maintain operational effectiveness, ARPC must remain financially sustainable by having a governance framework and internal financial controls to manage our net assets.

Key factors impacting ARPC's financial sustainability, as measured through our net assets, are:

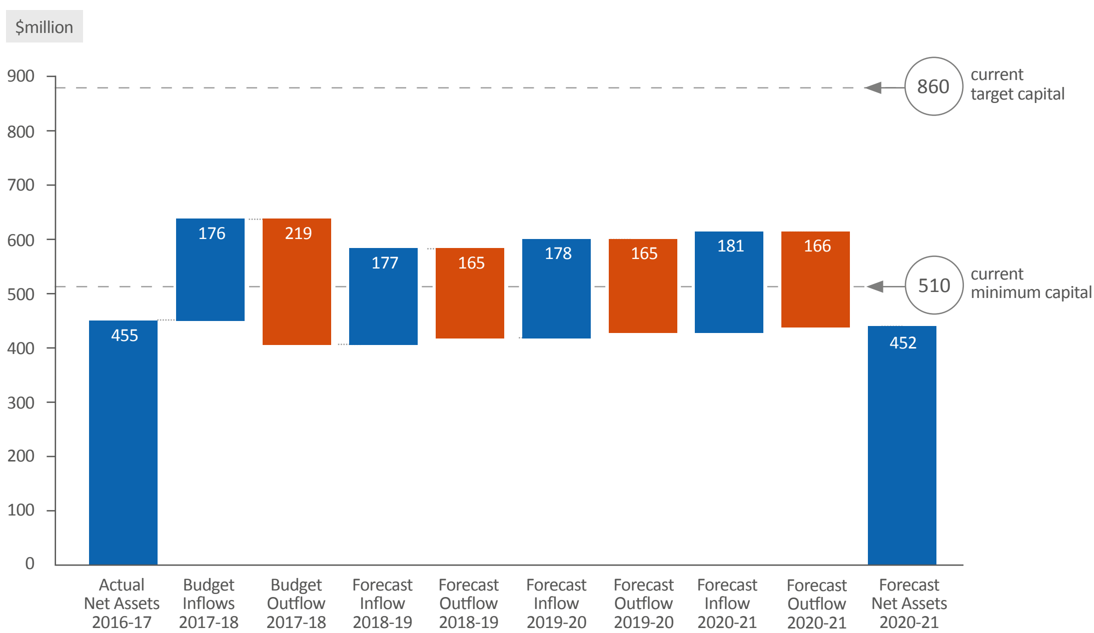
1. any claims costs associated with a DTI;
2. our premium rates and premium income;
3. the size, structure and timing of fees and dividends payable to the Australian Government;
4. the size and cost of our the retrocession program; and
5. ARPC investment returns.

To assess financial sustainability, ARPC measures net assets, which is the final balance after all of the above factors. ARPC notes that future years will see a net cash outflow primarily due to the ongoing fee, capital charge and dividend payments to Government.

MEASURE 5: Maintain sufficient net assets to support the retrocession deductible ($350 million in 2016).	SOURCE Measure 5, Financial sustainability, ARPC Corporate Plan 2016-17, page 20

Result

Figure 3:6 Movement in net assets from June 2017 to June 2021.



Projections assume the following:

- No increase in prices from current rates
- No change to current retrocession deductible of $350 million
- $57.5 million catch-up dividend ceases in FY2018
- Inflows represent premium income, investment income and retro commission income
- Outflows represent payments to the Commonwealth, retrocession premiums and operating expenses

The objective for Measure 5 for 2016-17 was to achieve actual net assets greater than the corporate plan target of $350 million (which was the retrocession deductible in the 2016 calendar year). ARPC also had a financial budget for net assets in 2016-17 of $466 million. ARPC has a deductible under the retrocession program and the target net assets for the 2016-17 plan were set to the minimum required to fund the deductible from ARPC net assets. That is, the first $350 million of claims from a DTI must be met by ARPC capital, before the retrocession program coverage can be called upon.

Our net assets as at 30 June 2017 were $455 million which was $105 million higher than (better than) the corporate plan target.

In 2016-17, the Board approved the Capital Management Policy. This policy was developed by ARPC management and consulting actuaries and is broadly consistent with APRA's capital model and the ICAAP (Internal Capital Adequacy and Assessment Process).

ARPC's Capital Management Policy targets include:

- **Minimum Capital** which represents one retention plus one year's GWP to reinstate the retrocession and pay operating costs. In 2016-17 the minimum capital recommended by the Board is $510 million.
- **Target Capital** which represents two retentions plus one year's GWP to reinstate the retrocession and pay operating costs. In 2016-17 the target capital recommended by the Board is $860 million.

ARPC expects net assets to remain below the minimum prudent level of capital until 2024-25 under current Australian Government payment directions and the low interest rate environment.

Analysis of performance against purpose

During 2016-17, ARPC continued to fulfil its purpose by entering into contracts of reinsurance with insurers and managing its premium income and investments, costs and purchase of retrocession while meeting Ministerial Directions to provide payments to the Australian Government. ARPC has met all of its obligations and achieved better-than-budget performance across all-bar-one performance criterion. During the period, the following factors impacted positively and negatively upon ARPC's performance. These are displayed in *Figure 3:7* below:

Figure 3:7: Factors influencing ARPC's performance

Influencing factor	Detail	ARPC level of influence	Impact
Impact of external property insurance market	There have been sustained reductions in premium rates in commercial insurance markets. As ARPC premiums are a percentage of insurer premiums for commercial property insurance, ARPC is subject to price fluctuations in the commercial insurance market. A long-term decline in premium rates continues to make a minor impact on ARPC's premium revenue.	Limited	Minor (negative)
2015 Triennial Review	The 2015 Triennial Review recommended several enhancements to the Scheme. During 2015-16, a premium increase was implemented as per Recommendation 8 of the Triennial Review Report effective 1 April 2016. This offset premium reductions felt by market fluctuations and saw an overall increase in premium income for ARPC.	Limited	Significant (positive)
Global reinsurance market capacity and price	Increases in capacity and reductions in price for retrocession reinsurance. As ARPC purchases retrocession from global markets, it has benefited from a general price reduction in those markets. ARPC has managed its purchase of retrocession by converting price reductions to incremental increases in capacity and coverage under the retrocession.	Limited	Moderate (positive)
Government compensation	Payments to Government in 2016-17 of $147.5 million are equal to 93 per cent of premium revenue. This has had the effect of reducing ARPC's net assets to a level below which the ARPC Board has currently deemed to be the target level of prudent capital.	Limited	Significant (negative)

Governance

04

GOVERNANCE FRAMEWORK

Established under the TI Act, ARPC is a corporate Commonwealth entity within the Treasury Portfolio which is governed by the PGPA Act.

ARPC's annual report is prepared and provided to the Responsible Minister by mid October each year in compliance with section 46 of the PGPA Act. ARPC's annual financial statements comply with accounting standards prescribed by the PGPA rules, and these are audited by the Auditor General as soon as practicable after preparation. The financial statements can be found in Part 6.

Section 35 of the PGPA Act requires ARPC to prepare a Corporate Plan on a rolling four-year basis, and provide it to the responsible Minister and the Minster for Finance by 31 August each year. Under section 39 of the PGPA Act, we must also prepare an Annual Performance Statement that reports on ARPC's progress against its purpose, as stated within the preceding Corporate Plan. ARPC's Annual Performance Statement is outlined in Part 3.

During the period under review, ARPC's Responsible Minister was the Hon. Kelly O'Dwyer MP. During 2017, Senator the Hon. Mathias Cormann acted as ARPC's Responsible Minister while our Minister was on maternity leave.

Board appointment and remuneration

Part three of the TI Act prescribes the establishment of ARPC, including its powers and functions. Section 12 of the TI Act states that the Corporation (subsequently referred to as the Board) must comprise a part-time Chair and at least four, but no more than six, non-executive part-time directors. Each director must be appointed by the Minister for a fixed term of no more than four years.

Under Section 13 of the TI Act, the Minister must be satisfied that any candidate for appointment to the Board is of good character, with relevant qualifications and experience. For the reporting period, remuneration for Board members, including travel and meeting allowances, was provided according to the Remuneration Tribunal Determinations 2015/20 and 2016/18.

Board members

For the majority of the reporting period, the Board comprised the Chair and six directors. Ms Joan Fitzpatrick continued as Chair during 2016-17. Ms Fitzpatrick's term expired on 30 June 2017 and she chose not to seek reappointment. On 1 July, Mr Ian Carson AM was appointed as ARPC Chair.

During 2016-17, all ARPC Board Members were non-Executive Members.

The names and details of ARPC Board members who held office during 2016-17 and our current Chair are outlined below.

Mr Ian Carson AM, Chair

BEc, PGDip Professional Accounting, FAICD

Term: 1 July 2017 – 30 June 2020

Ian Carson has been Chair of ARPC since 1 July 2017.

He is a Partner and the Chairman of PPB Advisory, a professional advisory firm, of which he is also a founding partner. Ian has advised organisations on improvement and has developed a management and governance scorecard which is used by many companies.

He is also co-founder of SecondBite, a for purpose organisation which rescues nutritious food that would otherwise go to landfill. SecondBite transformed Australia by creating scale in fresh food rescue. In 2017, SecondBite will rescue enough food to create 22 million meals. He is a Trustee of The Melbourne Cricket Ground. He is a registered liquidator and a fellow of the Australian Institute of Company Directors.

Ms Joan Fitzpatrick, Chair

BA (Hons) LLB, ANZIIF (Fellow), CIP, GAICD

Term: 12 September 2012 – 30 June 2017

Joan Fitzpatrick was appointed as Chair from 1 January 2013.

Joan's term expired on 30 June 2017 and she did not seek re-appointment. She is an experienced company director and leader of business success. Her executive and director experience covers the corporate, government and not for profit sectors and she has a strong track record of working collaboratively across different stakeholders. Joan has an extensive record of achieving successful business outcomes in complex change environments.

Ms Elaine Collins, Member

BSc (Hons), MEc, FIAA, GAICD
Term: 1 July 2015 – 30 June 2018

Elaine Collins was appointed on 1 July 2015 for a period of three years. She has also been a member of the Audit and Compliance Committee since 1 July 2015.

Elaine is a an experienced actuary with a career spanning 25 years in the Insurance Industry in Australia, New Zealand, Hong Kong, Singapore and Papua New Guinea. She has served in senior roles with KPMG and as a Partner with Deloitte, carrying out Appointed Actuary roles for more than ten years, with key expertise in policy formulation, capital allocation and strategic risk management.

Elaine is a Non-Executive Director of Zurich Insurance Australia Ltd (ZAIL) and incoming Chair of its Risk, Compliance and Audit Committee. She is also a Non-Executive Director of the Motor Accident Insurance Board (MAIB) and Chair of its Audit Committee. Elaine is a Fellow of the Actuaries Institute and a Graduate of the Australian Institute of Company Directors. She is a member of the Actuaries Institute's Professional Standards Committee and a sessional lecturer at the University of New South Wales.

Mr Mike Callaghan AM PSM, Member

BEc (Hons), LLB
Term: 5 October 2016 – 4 October 2019

Mike Callaghan is a Non-resident Fellow at the Lowy Institute for International Policy. In 2017, he was the Chair of the Australian Government Review of the Petroleum Resource Rent Tax. He also led the review into the Economic Impact of the Government's Regulation Agenda.

In 2015, Mike headed the Northern Australia Insurance Premiums Taskforce. Between 2012 and 2014, Mike was Program Director of the G20 Studies Centre at the Lowy Institute.

Mike was Executive Director, International, in the Department of the Treasury from 2008 until 2012. He also served as the Prime Minister's Special Envoy, International Economy. He has had 39 years experience in the Australian Treasury and the International Monetary Fund.

Mr Tom Karp, Member

BA (Hons), FIAA

Term: 29 August 2008 – 4 October 2017

Tom Karp has been a member of ARPC since 29 August 2008 (apart from the period 1 March until 30 June 2012), with his current term expiring on 4 October 2017. He has been a member of the Audit and Compliance Committee since February 2014 and Chair of the Audit and Compliance Committee since 1 July 2015.

Tom is a member of the Actuaries Institute's Professional Standards Council and is a member of the Actuarial Standards Committee of the International Actuarial Association. Since December 2014, he has been an independent external member of the Sustainability Committee of the Board of the National Disability Insurance Agency.

In June 2008, Tom retired as the Executive General Manager, Supervisory Support, at the Australian Prudential Regulation Authority (APRA). Prior to joining APRA, he was with the Insurance and Superannuation Commission for nine years and was heavily involved in establishing APRA and its initial infrastructure.

Ms Robin Low, Member

BCom, FCA

Term: 5 October 2016–4 October 2019

Robin Low is a non-executive director. She is the Deputy Chair of the Auditing and Assurance Standards Board and is on the board of four listed companies: Appen Limited, AUB Group LImired, CSG Limited and IPH Limited. She also sits on the boards of several not-for-profit organisations, including the Sydney Medical School Foundation, Primary Ethics and the Public Education Foundation.

Robin is a chartered accountant, with over 25 years' experience with PricewaterhouseCoopers (PwC), including more than 17 years as an assurance partner specialising in financial services, particularly insurance.

Mr John Peberdy, Member

GAICD, ANZIIF (Sen Assoc), CIP.
Term: 1 July 2015 – 30 June 2018

John Peberdy has a proven track record as a strategic senior executive, having delivered improved business outcomes, in Australia and New Zealand, within Ansvar Insurance, a market leader in the care, community, faith and education insurance sector. John has extensive experience delivering on business growth and profitability, initiating and driving change, and optimising daily operations through effective leadership of a strong executive team. His expertise includes strategy and planning, business management, leadership and people management, risk management and general insurance.

Among his current directorship roles, John is the Chairman, EA Insurance Services Pty Ltd, Victoria; Deputy Chairman, Christian Super; and Chairman, Victorian Managed Insurance Authority.

Ms Janet Torney, Member

BEc (Hons) FAICD FASFA TFASFA
Term: 1 July 2015 – 30 June 2018

Janet Torney was appointed as a Member of ARPC on 1 July 2015 for a period of three years. She has been a Member of the Audit and Compliance Committee since 1 July 2015.

Janet is a professional director with broad experience, including in the financial services sector – superannuation, investments, infrastructure, banking and insurance, in the engineering sector – manufacturing and consulting, and in the member-focussed sector – notably sport and female related. With strong expertise in strategy and governance, successfully driving and managing change is a hallmark of Janet's career.

Janet's portfolio of non-executive director appointments includes being Chairman of Whitehelm Capital, Deputy Chairman of Club Plus Super and independent director of Techfront Australia, a global sports media technology company. In the not-for-profit sector, Janet is a non-executive director of the Australian Cricketers' Association, non-executive director and Treasurer for Girl Guides Australia and is a member of Basketball Australia's Nominations Committee.

Janet runs a financial services consulting business and is a mentor to young women and upcoming leaders. Other key leadership roles that Janet has held include CEO at Qantas Superannuation and Practice Leader at Aon Investment Consulting.

Board meetings

The Board convened five meetings during the 2016-17 financial year, comprising four meetings for general business and one two-day strategic planning workshop. *Figure 4.1* lists the number of meetings attended by each member during the reporting period.

Figure 4.1: Number of meetings attended by each Member of the Board

Name	Number of meetings entitled to attend	Number of meetings attended
Ms Joan Fitzpatrick	5	5
Mr Tom Karp	5	5
Ms Elaine Collins	5	5
Ms Janet Torney	5	5
Mr John Peberdy	5	5
Mr Mike Callaghan	4	4
Ms Robin Low	4	4

Audit and compliance committee

The Board established the Audit and Compliance Committee at the outset to support the administration and sound governance of ARPC. Section 17 of the PGPA Rule 2014, which relates to section 45(2) of the PGPA Act, establishes the requirement for all accountable authorities (the Board is ARPC's accountable authority) to have an audit committee, setting out the functions of that committee and its membership requirements.

As prescribed by the PGPA Rule, the Committee comprises at least three appropriately qualified and skilled members where the function of the Audit and Compliance Committee includes reviewing the appropriateness of the Board's:

- financial reporting;
- performance reporting;
- system of risk oversight and management; and
- system of internal controls.

In addition, the Committee monitors ARPC's compliance with all statutory obligations and oversees the work of internal auditors. The Committee also provides a general forum for communication between Members, the ARPC executive, the internal auditor and the Australian National Audit Office (ANAO). Throughout the 2016-17 financial year, PwC continued to provide internal audit services to ARPC.

During the reporting period, the Audit and Compliance Committee reviewed all reports received from our internal and external auditors. The Committee monitored the implementation of internal audit recommendations and reviewed and accepted the ANAO terms of engagement.

It also reviewed the financial statements to assist the Board with its declaration under subsection 41(2) and 42(2) of the PGPA Act 2013.

The Committee members who held office during the reporting period were:

- Mr Tom Karp (Chair);
- Ms Janet Torney;
- Ms Elaine Collins; and
- Ms Robin Low

There were four Committee meetings held during the 2016-17 financial year, with the number of meetings attended by each Committee member listed in *Figure 4.2*.

Figure 4.2: Number of meetings attended by each member of the Audit and Compliance Committee

Name	Number of meetings entitled to attend	Number of meetings attended
Mr Tom Karp	4	4
Ms Janet Torney	4	4
Ms Elaine Collins	4	4
Ms Robin Low	2	2

Corporate governance practices

The Board and ARPC's leadership team remain committed to maintaining the highest corporate governance standard. ARPC's corporate governance framework is underpinned by the Board Charter, the Audit and Compliance Committee Charter (which was refreshed during the reporting period) and the Enterprise Risk Management Framework (ERMF). These publications are supported by other ARPC policies and procedures in areas such as financial management, fraud control, governance, security management, project management and business continuity planning.

ARPC continues to monitor governance trends across a range of sources throughout government and the private sector.

Right to legal advice

As outlined in the Board Charter, Members have the right to seek independent advice, with prior approval of the Chair. This advice includes legal, accounting and financial advice at ARPC's expense. A copy of the advice must be provided to the Chair and circulated to the Board. The Audit and Compliance Committee Charter also authorises the Committee to take whatever independent advice it considers necessary.

Confidentiality agreements

Upon commencement, all ARPC staff and Board Members are required to sign a confidentiality agreement, which outlines their obligations relating to the non disclosure of confidential information.

Indemnity and insurance of directors and officers

ARPC has entered into a deed of indemnity with each Board Member. For the 2016-17 financial year, ARPC maintained and paid premiums for insurance covering Members and senior executives against legal costs and other expenses that may be incurred in the performance of their duties. In compliance with section 23 of the PGPA Rule, ARPC does not insure any ARPC officials against liabilities relating to breach of duty under the PGPA Act. The amount paid for Directors' and Officers' Indemnity Insurance in 2016-17 was $33,560 ($32,354 in 2015-16).

Judicial and administrative decisions and review

During the 2016-17 financial year, there were no judicial decisions or decisions of administrative tribunals that could significantly affect the operations of ARPC. There was one third party report on ARPC's operations during the reporting period – the annual ANAO report on ARPC's financial statements (see Part 6).

Ministerial directions

Under section 38 of the TI Act, the Minister responsible for ARPC may give written directions in relation to the performance of ARPC's functions and the exercise of its powers.

On 23 March 2017, the Hon. Kelly O'Dwyer, Minister for Revenue and Financial Services, gave a written direction to ARPC (Terrorism Insurance Act 2003 – Risk Retention Direction). This direction:

- increased the rate used to determine cedant retentions from four to five per cent of GWP;
- increased maximum retention levels from $10 million to $12.5 million; and
- introduced a phased increase to the maximum industry retention from $100 million to $200 million by July 2018.

On 10 May 2017, Senator the Hon. Mathias Cormann, Acting Minister for Revenue and Financial Services, gave a written direction to ARPC under the Terrorism Insurance Act 2003 – Payments Direction 2017. In accordance with the direction, ARPC paid a combined fee of $90 million and a dividend of $57.5 million on 26 June 2017.

Senator Cormann also issued a Premiums direction under the Terrorism Insurance Act on 22 June 2017. This direction reallocated some existing locations across the country to Tier A and B premium categories with effect from 1 January 2018.

General policy orders

Under section 22 of the PGPA Act, the Finance Minister may make an order (a Government Policy Order) specifying that a policy of the Australian Government is to apply in relation to one or more corporate Commonwealth entities. During the reporting period, there were no General Policy Orders (GPOs) applicable to ARPC.

Risk management

Section 16 of the PGPA Act requires that the Board *'has a duty to establish and maintain systems relating to risk and control.'* Each year, the Board holds a strategic workshop, at which ARPC's risk appetite and tolerance statements are reviewed for ongoing relevance. The Board also has oversight of the ERMF, which is regularly reviewed. The Risk Management Strategy, which is a key component of the ERMF, outlines strategies and controls that senior management will establish and maintain to keep risks within tolerance levels.

ARPC uses a risk matrix to measure the likelihood and consequence of risks. These risks are tracked on a weekly basis, and updated as appropriate for continued relevance or to record emerging risks identified by management and/or the Board.

ARPC's control environment for governance, business continuity and security management continues to be refined to address emerging risks.

Internal audit

ARPC's internal audit function is delivered under a charter approved by the Audit and Compliance Committee. During 2016-17, PwC continued to provide internal audit services to ARPC. A Strategic Internal Audit Plan (SIAP), closely aligned to the risk register and risk appetite statement, was approved by the Audit and Compliance Committee in June 2016. This formed the basis of the 2016-17 Internal Audit Annual Work Plan.

Since its engagement, PwC has worked closely with the CEO and senior management to identify and analyse business risks. Improvements identified through audits are agreed with management and then tracked to completion on the Audit Issue Register. Progress on action items are reported to the ARPC Audit and Compliance Committee.

Internal audit has routine discussions with external audit in order to avoid any duplication of work and external audit has full access to internal audit work.

2016-17 Internal audit program

The Annual Workplan for the 2016-17 financial year has been successfully completed, with all recommendations for improvement accepted by senior management and recorded and tracked on the Audit Issues register. The annual program also has flexibility to accommodate management requests for ad hoc audit reviews. The following reviews were completed during 2016-17:

- Premiums Revenue (Refunds);
- DTI Response Procedure test;
- Corporate Governance and Risk Culture;
- Cyclical spot checks (Procure to Pay);
- IT Governance; and
- Investments

Legislative compliance

Routine information sessions are provided for staff so they remain aware of all legislative obligations in relation to their daily operations within ARPC.

All senior managers must complete quarterly compliance attestations which cover key legislative acts (including underlying regulations) such as the *TI Act, PGPA Act, Privacy Act 1998 and Public Interest Disclosure Act 2013 (PID Act)*. Compliance with internal policies and Government processes are also covered under these attestations.

As part of ARPC's staff induction process, all staff provide a written acknowledgement that they have read and understood their obligations within each key policy.

Public interest disclosure

The PID Act came into effect on 15 January 2014, promoting integrity and accountability in the Australian public sector by encouraging the disclosure of information about suspected wrongdoing. It also protected people who make disclosures and required agencies to take action.

In accordance with requirements under the PID Act, ARPC has created a PID Policy which has been made available on our webpage. During the reporting period, ARPC received no public interest disclosure notifications.

Information Publication Scheme statement

In compliance with a requirement under the Freedom of Information (FOI) Act, ARPC must publish a range of information on its website.

Under the Information Publication Scheme (IPS), we publish our organisational structures, functions, appointments, annual reports, consultation arrangements, submissions to Parliament, routinely requested information and details of our freedom of information officer.

For further details of this information please visit ARPC's IPS webpage at: http://www.arpc.gov.au/ips

Business continuity

In 2016-17, ARPC further refined its Business Continuity Management Policy to incorporate supplier obligations, an operations recovery plan and risk considerations for exercise planning. From 1 July 2016, ARPC staff had access to an alternative site which could be used in the event that the organisation was unable to operate out of our Sydney CBD office.

Fraud prevention and control

Every two years, ARPC engages an external contractor to review the ARPC Fraud Control Policy. In June 2016, we engaged an external consultant to undertake a Fraud Risk Assessment and revise the ARPC Fraud Control Policy. At its 31 August 2016 meeting, ARPC's Audit and Compliance Committee endorsed the fully revised 2016-18 Fraud Control Policy, which was subsequently approved by the Board on 21 September 2016.

The Fraud Control Policy allocates responsibilities for fraud risk management and control between the Audit and Compliance Committee, the CEO, ARPC management and staff. The Policy also outlines policy, legislation and governance requirements, and is framed around four key fraud control strategies:

- prevention;
- detection;
- response; and
- monitoring, evaluation and reporting.

The 2016-18 Fraud Control Policy streamlined the previous categorisation of ARPC's fraud risks. It also complies with requirements under section 10 of the ***PGPA Rule 2014***, which provides the minimum standard for the management of risk and incidents of fraud by accountable authorities (the Board). ARPC staff are provided with regular information sessions, in compliance with the Fraud Control Policy and the PGPA Rule.

Consultation arrangements

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

In addition, our employees meet regularly with insurers, industry bodies, and other interested parties outside the Australian Government for discussions on various matters. A summary of the stakeholder engagement activity undertaken by ARPC during the reporting period can be found in Part 1.

Consultancies

ARPC uses consultants to provide specialist skills to assist with key projects and tasks. During 2016-17, consultants were engaged (following the appropriate procurement processes outlined in ARPC's Procurement Policy), to assist in the following areas:

- strategic planning and stakeholder engagement facilitation;
- specialist technical projects and maintenance;
- capital management advice;
- retrocession advice;
- independent review/advice on legal, and accounting issues; and
- work health and safety, and recruitment.

Ecologically sustainable development

ARPC continues to pursue initiatives designed to minimise waste, conserve energy and minimise water usage such as using electronic meeting papers, double sided printers and scanners and energy efficient lighting throughout the office. ARPC's premise has a NABERS 4.5 star energy and 3.5 water rating.

The following table lists the strategies used by the building owners and ARPC to assist in reducing our environmental footprint.

Figure 4.3: Steps taken to minimise energy, waste and water consumption

Theme	Sydney office
Energy efficiency	The Sydney office has achieved a one per cent Greenhouse emissions reduction on the previous year
	Use of sensor lighting throughout the office such that lights are not left on.
	Improvements to air conditioning to improve energy efficiency.
	Shutting down computers outside of working hours.
	Purchasing and use of carbon neutral paper, which supports sustainable forest management in Australia and around the world.
Waste	Using double sided printing and scanning to reduce the volume of paper used.
	Recycling of paper, cardboard, print cartridges, plastics, glass E-waste and fluorescence tubes.
Water	The building has been accredited with a 3.5 star water rating including waterless urinals.

Our People 05

SENIOR EXECUTIVE TEAM

ARPC's senior executive team is headed by the Chief Executive, who was appointed by the Corporation under the provisions of the TI Act.

Dr Christopher Wallace

BEc (Hons), PhD(Econ), AMP (INSEAD), ANZIIF (Fellow), CIP, GAICD

Chief Executive

Chris is an insurance executive with experience in general insurance, workers compensation, health insurance and reinsurance. He has worked extensively in insurance underwriting and claims management roles within insurers, and as a consultant to the insurance industry.

Chris is also a non executive director of MIPS Insurance Pty Ltd, a medical indemnity insurer. Through his role with ARPC, Chris is also a member of the OECD High Level Advisory Board for the Financial Management of Large Scale Catastrophe Risks. Previous professional roles include being General Manager Workers Compensation at GIO, Executive Director at Ernst & Young and most recently as General Manager Benefits Management at HCF.

Chris has a doctorate in economics, specialising in general insurance pricing and general insurance strategy. He is a fellow of the Australian and New Zealand Institute of Insurance and Finance, a Certified Insurance Professional and a Graduate of the Australian Institute of Company Directors.

Joshua Everson

MAppFin, B.Ec (Hons), GAICD

General Manager, Governance, Risk and Compliance

Joshua joined ARPC in May 2016. His career has spanned diverse roles within the Australian Public Service and financial institutions. Joshua's recent previous roles include being Senior Economist with ASIC, a Policy Advisor with ASX, and more recently Director Financial Markets Regulatory Change at Westpac.

As ARPC's Board Secretary, Joshua provides support to the Board and Audit and Compliance Committee, while also being the key touch point for liaison with the Treasury, the Minister's office and other government stakeholders. Joshua designs and maintains high quality processes for all corporate governance practices such as strategic planning, risk management, assurance monitoring and, policy and legislative compliance.

Joshua is responsible for business continuity planning including ARPC's response to any potential DTI. Joshua is also responsible for Annual Report and Corporate Plan production and publication.

Joshua holds a Bachelor of Economics (Honours) from the University of Newcastle NSW, and a Master of Applied Finance from Macquarie University. Joshua is a Graduate of the Australian Institute of Company Directors.

Michaela Flanagan

B.Bus.

General Manager, Business Performance and Strategy

Michaela commenced with ARPC in December 2016. She brings deep experience in insurance coupled with extensive experience in developing and implementing corporate strategy, business plans and projects.

Michaela has 20 years' experience in the general insurance sector. She commenced her career with Zurich as an insurance underwriter, including property, liability and package underwriting. She then moved into the information technology area. She joined QBE in 2004 in IT, but worked from 2007 onwards in strategy roles including Manager, Strategy and Planning and Head of Strategy, Corporate and Speciality.

Michaela is responsible for the development and ongoing communication and management of ARPC's strategy. She also has executive oversight of the technology and communications functions.

Michaela holds a Bachelor of Business degree majoring in management and information technology from the University of Technology, Sydney.

John Park

B.Ec, MBA (Exec), CA, ANZIIF (Fellow), CIP

Chief Financial Officer

John is a Chartered Accountant and has more than 20 years' experience as a finance executive in the insurance and reinsurance industry. John joined ARPC in June 2016. John's career includes previous roles as Finance Manager for Gen Re, Financial Controller for HCF, CFO for MGIC, and more recently as Financial Controller for Great Lakes Australia which is part of Munich Re.

John oversees the finance, investments and human resources teams.

His primary role is responsibility for ARPC's compliance with all accounting and reporting requirements, while maintaining the stewardship of the net assets of the corporation.

John holds a Bachelor of Economics from Macquarie University and an Executive MBA from AGSM at the University of New South Wales. He is also a Chartered Accountant and a Fellow and Certified Insurance Professional with ANZIIF.

Michael Pennell PSM

BE, AMP (Wharton), ANZIIF Fellow, CIP, MIE Aust

Chief Underwriting Officer

Michael has almost 30 years industry experience, having held reinsurance management roles with Swiss Re and General Re prior to his role at ARPC. He started his early career as a civil engineer.

Michael assists insurers and brokers to understand the Scheme and is responsible for negotiating and implementing ARPC's annual retrocession program. Michael also leads various projects that enable ARPC to develop and enhance its loss estimation modelling capabilities.

Michael serves as the Chairman of the Reinsurance Faculty Advisory Board of the Australian and New Zealand Institute of Insurance and Finance (ANZIIF) and teaches reinsurance at the Institute's annual Reinsurance Study Course Seminar.

Michael holds a Bachelor of Engineering from the University of Technology, Sydney, has completed the Advanced Management Program at University of Pennsylvania (Wharton School) and is a Fellow and Certified Insurance Professional with ANZIIF.

Michael was awarded the Public Service Medal as part of the Australia Day 2017 Honours List for outstanding public service in the development of the terrorism insurance scheme.

Michael Stallworthy

MBA, ANZIIF (Fellow), CIP

General Manager, Insurance Audit and Claims

Michael has been with ARPC since 2005 and is an experienced reinsurance executive. His early career included being an underwriter at Lloyd's of London, and holding reinsurance management roles with GIO Re and Allianz. Michael is also currently the Chair of the Audit & Risk Committee for the Inspector General of Taxation.

Michael is responsible for conducting ARPC's insurance audit program and for developing and maintaining our claims management capability, claims processes and procedures. As part of his role, he visits cedants over a rolling two-to-three year period to conduct audits on their compliance with the terms of the ARPC reinsurance agreement.

Michael holds an MBA from Deakin University and is a Fellow and Certified Insurance Professional with ANZIIF.

ARPC employee awarded public service medal

Michael Pennell, ARPC Chief Underwriting Officer, was awarded the Public Service Medal as part of the Australia Day 2017 Honours List. The biographical notes of the award state:

"Since 2003 Mr Pennell has dedicated himself to ensuring the Scheme operated by Australian Reinsurance Pool Corporation (ARPC) is a thought leader in the area of terrorism insurance scheme arrangements. During this time, he has focused on creating a vibrant terrorism insurance market in Australia, and reducing the threat to the economy created by the withdrawal of terrorism insurance after the attacks in New York on 11 September 2001.

Mr Pennell focused on creating a vibrant terrorism insurance market in Australia

From left: ARPC Chief Underwriting Officer Michael Pennell receives the Public Service Medal from NSW Governor, His Excellency, General David Hurley, at Government House on 2 May 2017

In his previous role as Client Service Manager, he built an extensive portfolio of business for ARPC, ensuring it conveys an extremely professional image when introducing the corporation to global insurers and reinsurers.

In his current role as Chief Underwriting Officer (since July 2014), Mr Pennell has influenced a key policy of ARPC by identifying retrocession as an invaluable tool to strengthen the Scheme, protect Australia's economy, and engage the commercial insurance industry. Based on his recommendations, the 2006 Review of the *Terrorism Insurance Act 2003* recommended that ARPC use its discretion to continue to build premiums or purchase reinsurance for the Scheme. This has resulted in a $3,000 million ($3.0 billion) retrocession program that is reviewed and renegotiated annually.

Mr Pennell has also influenced industry policy through his work as an Advisory Board member for ANZIIF (the industry education body) and as a past Advisory Board Member of Macquarie University's Natural Hazards Research Centre (Risk Frontiers). This contribution demonstrates his commitment to industry education, and to the expansion of the market's technological capabilities."

Staffing information

ARPC enjoys a blend of experienced staff across all levels, with a mixture of technical and specialised skills that work in collaboration.

The following three tables illustrate classification, gender and staff service length for ARPC employees as at 30 June 2017.

Figure 5.1: Number of permanent on-going employees by classification and gender

Classification	Male	Female	Total
ARPC level 2	–	1	1
ARPC level 3	–	–	–
ARPC level 4	1	–	1
ARPC level 5	1	1	2
ARPC level 6	2	3	5
ARPC EL 1	–	4	4
ARPC EL 2	2	1	3
Senior executive Service (SES)	5	1	6
Total	**11**	**11**	**22**

At 30 June 2017, ARPC had all positions filled. Included in the above table is an EL1 contract role for a Senior Advisor–Counter Terrorism Risk, and an indigenous-identified role of Communications Intern.

Figure 5.2: Length of service by team

Staff Group	< 2 years	2-4 years	5-7 years	8-10 years	>10 years
Underwriting	2	–	–	–	1
Insurance Audit & Claims	1	–	–	–	1
Operations	5	–	–	–	–
Governance, Risk & Compliance	4	–	–	–	–
Business Performance & Strategy	6				
CEO and EA	1	1	–	–	–
Total	**19**	**1**	–	–	**2**

The following table provides the Enterprise agreement annual base salary bands for non-SES staff as at 30 June 2017. In addition to base salary, staff receive 15.4 per cent superannuation.

Figure 5.3: Classification level base salary bands for non SES staff

Classification Level	Salary Band
ARPC level 1	$45,864–$49,807
ARPC level 2	$52,866–$56,366
ARPC level 3	$59,866–$63,364
ARPC level 4	$66,863–$70,363
ARPC level 5	$75,177–$79,990
ARPC level 6	$84,801–$102,739
Executive Level 1	$110,612–$126,887
Executive Level 2	$135,111–$155,062

Human Resources

The Human Resources (HR) team provides people-related advice and support to ARPC staff and develops and implements HR strategic plans and policies including:

- employment contracts and remuneration;
- engagement and enablement;
- performance planning and appraisals;
- learning and development; and
- work health and safety.

The Department of the Treasury provides payroll functions under its Memorandum of Understanding (MoU) with ARPC.

Employment terms and conditions

The ARPC Enterprise Agreement 2016–19 (the Agreement) came into effect on 27 May 2016, to provide employment terms and conditions for non-SES staff. SES staff employment terms and conditions are provided in individual contracts.

Performance and Development Management System

During the year, a new Performance Management and Appraisal Framework and technology software (Cognology) was implemented to support the management of staff performance and development.

The performance appraisal process commences with the initial setting of performance and development objectives. Whilst performance conversations are held frequently during the year, formal discussions are held mid-year and year end. The aim of this approach is to measure progress against agreed objectives with a focus on achievement, continuous development and growth.

The framework appraises staff on both:

- Outcomes: achievement against specific role based objectives; and
- Demonstration of classification level competencies (based on the Australian Public Service Integrated Leadership System) and ARPC's corporate values.

Supported by Human Resources, final performance ratings are calibrated and finalised during a collaborative leadership team meeting.

Staff are rated on a five-scale system from 1 (not meeting standard) to 5 (exceeds standard), with an overall rating of 3 (meets standard) required for salary advancement.

Learning and development

We are committed to providing technical and professional development for all ARPC staff to expand their capability and knowledge through a range of industry specific, role specific and personal career development opportunities.

Development programs attended by staff during the year included:

- Internal ARPC policy awareness sessions;
- Reinsurance simulation exercise (Ernst & Young (EY));
- Introduction to Reinsurance Workshop;
- Reinsurance Study Course (Australian and New Zealand Institute of Insurance and Finance (ANZIIF);
- The Effective Leader Course (Macquarie Graduate School of Management (MGSM));
- Reinsurance Discussion Group Seminars and Events;
- Company Directors' Course (Australian Institute of Company Directors);
- Governance Summit (Australian Institute of Company Directors);
- Regulatory Summit (Thomson Reuters);
- Empowering Safer Cities Seminar;
- ANZIIF and Finity Cyber Risk Seminar (ANZIIF and Finity); and
- Insurance Professionals discussions and conventions (National Insurance Broker's Association(NIBA)).

Study assistance

ARPC offers a study assistance program for all permanent staff. Staff members undertaking studies aligned with ARPC's core business may access study support including paid time off and financial assistance.

Participation in the study assistance program during the year included the following courses:

- Certificate IV in General Insurance;
- Institute of Chartered Accountants (Australian and New Zealand) Graduate Diploma; and
- RMIT – Post-Graduate Certificate in Marketing.

Work health and safety

Work Health Safety (WHS) updates are provided weekly to the Executive and regularly to the Board. No significant incidents were reported in 2016-17. ARPC appoints First Aid representatives and Emergency Wardens who are provided with formal training, as required.

Wellbeing

ARPC is committed to the wellbeing of its staff through a range of initiatives outlined below.

Wellbeing Committee

There is a staff-led Wellbeing Committee supported by HR which coordinates a range of activities each quarter addressing topics of physical and mental wellbeing, professional and personal development, and community service.

Employee Assistance Program

Confidential counselling and support services are available to all staff and immediate family members through the Employee Assistance Program (EAP), accessed through the Department of the Treasury.

Lifestyle payment

Eligible staff can access an annual payment towards positive lifestyle expenses through ARPC's current Enterprise Agreement. The lifestyle payment has 100 per cent participation and is used by staff participating in a range of fitness and wellbeing activities.

Staff inclusion

We hold regular all-staff meetings. These meetings provide an informal, open forum with the CEO for questions and discussions relating to ARPC business activities and operations.

Other Staff Programs

Other staff-led activities in the period included a staff funded on-site Pilates class, a running group and futsal team. There are also occasional social activities.

Workplace diversity program

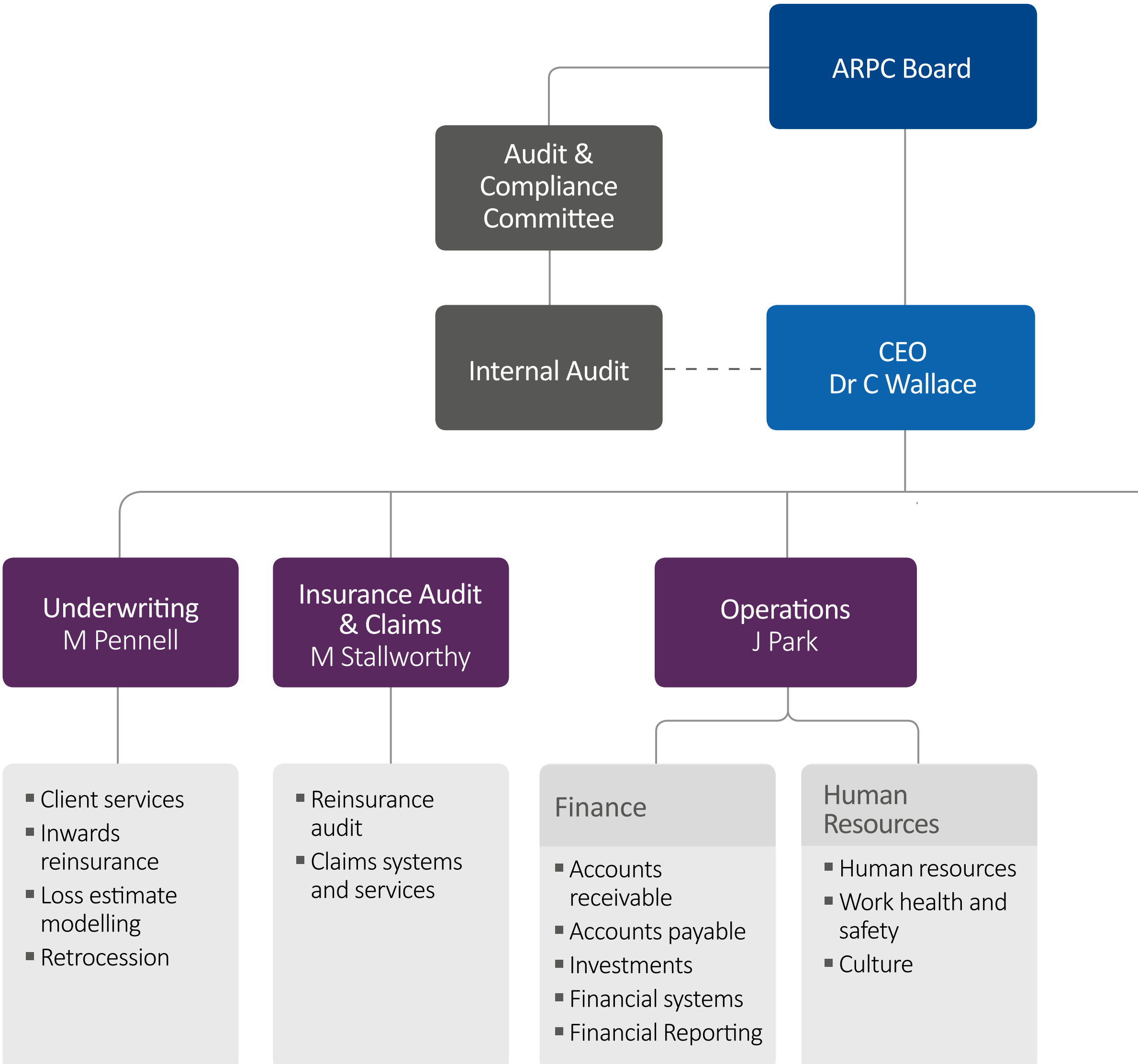
ARPC's Diversity and Equal Employment Opportunity (EEO) policies are provided by Treasury under the MoU. We strive to provide a workplace that demonstrates diversity and EEO through our recruitment processes. We also provide flexible work-life balance opportunities, including arrangements to work remotely on a regular basis.

As at 30 June 2017, ARPC met the Indigenous employment target of three per cent set by the Australian Government in response to the Forrest Review.

Promoting an ethical working environment

ARPC continues to promote the ARPC Values and Code of Conduct.

Figure 5.4: ARPC organisational chart



Business Performance & Strategy
M Flanagan

- Business performance
- Strategy and planning
- Projects and initiatives
- Communications
- Stakeholder engagement
- Research & policy development

Information Technology

- Internet
- Intranet
- Records Management
- Insurance systems

Governance, Risk & Compliance
J Everson

- Governance
- Enterprise risk management
- Board secretariat
- Business continuity
- Incident response

Financial Statements

06

Financial Statements

INDEPENDENT AUDITOR'S REPORT

To the Minister for Revenue and Financial Services

Opinion

In my opinion, the financial statements of the Australian Reinsurance Pool Corporation for the year ended 30 June 2017:

(a) comply with Australian Accounting Standards – Reduced Disclosure Requirements and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and

(b) present fairly the financial position of the Australian Reinsurance Pool Corporation as at 30 June 2017 and its financial performance and cash flows for the year then ended.

The financial statements of the Australian Reinsurance Pool Corporation, which I have audited, comprise the following statements as at 30 June 2017 and for the year then ended:

- Statement by the Accountable Authority, Chief Executive and Chief Financial Officer;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement; and
- Notes to the financial statements, comprising an Overview, Summary of Significant Accounting Policies and other explanatory information.

Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Australian Reinsurance Pool Corporation in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* to the extent that they are not in conflict with the *Auditor-General Act 1997* (the Code). I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Accountable Authority's Responsibility for the Financial Statements

As the Accountable Authority of the Australian Reinsurance Pool Corporation the Chair is responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards – Reduced Disclosure Requirements and the rules made under that Act. The Chair is also responsible for such internal control as the Chair determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chair is responsible for assessing the Australian Reinsurance Pool Corporation's ability to continue as a going concern, taking into account whether the entity's operations will cease as a result of an administrative restructure or for any other reason. The Chair is also responsible for disclosing matters related to going concern as applicable and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when

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it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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 entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Australian National Audit Office

(signature supplied)

Jodi George

Acting Executive Director

Delegate of the Auditor-General

Canberra

19 September 2017

STATEMENT BY THE ACCOUNTABLE AUTHORITY, CHIEF EXECUTIVE AND CHIEF FINANCIAL OFFICER

In our opinion, the attached financial statements for the year ended 30 June 2017 comply with subsection 42(2) of the Public Governance, Performance and Accountability Act 2013 (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

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 fall due.

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

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

(signature supplied)	(signature supplied)	(signature supplied)
I CARSON	**C WALLACE**	**J PARK**
Chair 19 September 2017	Chief Executive Officer 19 September 2017	Chief Financial Officer 19 September 2017

STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 JUNE 2017

	Notes	2017 $'000	2016 $'000
Premium revenue	1.1A	**147,208**	126,172
Outwards retrocession premium expense	1.1A	**(61,546)**	(63,002)
Commonwealth guarantee fee	1.1A	**(55,000)**	(55,000)
Net premium revenue		**30,662**	8,170
Claims expense		–	–
Retrocession and other recoveries revenue		–	–
Net claims incurred		–	–
Retrocession commission income	1.1B	**5,953**	6,118
Acquisition costs	1.2G	**(2,072)**	(1,549)
Other operating expenses	1.2G	**(6,291)**	(6,622)
Underwriting result		**28,252**	6,117
Investment income	1.1C	**15,574**	17,230
Other income	1.1D	**176**	150
Finance charges	1.2E	**(3)**	(20)
Operating result before capital holding fee		**43,999**	23,477
Capital holding fee	1.2D	**(35,000)**	–
Operating result		**8,999**	23,477

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

Accounting Policy

Reclassification of fees paid to the Government from finance charges to Commonwealth guarantee fee in the comparatives. In the previous year the Commonwealth guarantee fee was classified as finance charges and not included in the underwriting result. The Commonwealth guarantee fee is akin, if not identical to retrocession cover. As such the fee has been classified as retrocession premium and deducted from premium revenue to calculate net premium revenue.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	Notes	**2017 $'000**	2016 $'000
ASSETS			
Financial assets			
Cash and cash equivalents	2.1A	**809**	2,280
Trade and other receivables	2.1B	**43,124**	44,205
Investments	2.1C	**490,000**	524,000
Deferred insurance assets	2.1D	**31,377**	32,641
Total financial assets		**565,310**	603,126
Non-financial assets			
Leasehold improvements	2.2A	**678**	772
Plant and equipment	2.2A	**137**	147
Intangibles	2.2A	**71**	492
Other non-financial assets	2.2B	**97**	88
Total non-financial assets		**983**	1,499
Total assets		**566,293**	604,625
LIABILITIES			
Unearned liabilities			
Unearned premium liability	2.3A	**75,842**	64,563
Unearned commission liability	2.3A	**2,943**	3,058
Total unearned liabilities		**78,785**	67,621
Payables			
Suppliers	2.4A	**31,029**	32,132
Other payables	2.4B	**25**	297
Total payables		**31,054**	32,429
Provisions			
Employee provisions	3.1A	**420**	461
Other provisions	2.5A	**858**	437
Total provisions		**1,278**	898
Total liabilities		**111,117**	100,948
Net assets		**455,176**	503,677
EQUITY			
Accumulated reserves		**–**	–
Asset revaluation reserve		**60**	60
Claims handling reserve		**24,513**	24,036
Reserve for claims		**465,603**	479,581
Total equity		**490,176**	503,677

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

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2017

	Accumulated reserves		**Asset revaluation reserve**		**Claims handling reserve**		**Reserve for claims**		**Total equity**	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000	**2017 $'000**	2016 $'000	**2017 $'000**	2016 $'000	**2017 $'000**	2016 $'000
Opening balance at 1 July	–	–	60	60	**24,036**	27,165	479,581	510,475	**503,677**	537,700
Income and expenses										
Net operating result	**43,999**	23,477	–	–	–	–	–	–	**43,999**	23,477
Total income and expenses	**43,999**	23,477	–	–	–	–	–	–	**43,999**	23,477
Asset revaluation reserve	–	–	–	–	–	–	–	–	–	–
Transfers between equity components										
Transfer to reserve for claims	(43,999)	(23,477)	–	–	–	–	–	–	**(43,999)**	(23,477)
Claims handling reserve	–	–	–	–	**477**	(3,129)	–	–	**477**	(3,129)
Transfer to reserve for claims from accumulated reserves	–	–	–	–	–	–	43,522	26,606	**43,522**	26,606
Transactions with owners										
Distributions to owners	–	–	–	–	–	–	(57,500)	(57,500)	**(57,500)**	(57,500)
Closing balance at 30 June	–	–	**60**	60	**24,513**	24,036	**465,603**	479,581	**490,176**	503,677

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

CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 JUNE 2017

	Notes	2017 $'000	2016 $'000
OPERATING ACTIVITIES			
Cash received			
Premiums		**171,931**	134,856
Commission		**6,565**	6,712
Interest		**18,122**	20,505
Rent		**100**	150
Other cash received		**76**	–
Total cash received		**196,794**	162,223
Cash used			
Retrocession payments		**64,136**	65,168
Suppliers & Employees		**98,355**	63,653
Net GST paid		**12,247**	8,835
Total cash used		**174,738**	137,656
Net cash from operating activities		**22,056**	24,566
INVESTING ACTIVITIES			
Cash received			
Proceeds from maturities of term deposits		**1,292,000**	992,500
Total cash received		**1,292,000**	992,500
Cash used			
Placement of term deposits		**1,258,000**	957,000
Purchase of property, plant and equipment		**27**	858
Purchase of intangibles		–	71
Total cash used		**1,258,027**	957,929
Net cash from investing activities		**33,973**	34,571
FINANCING ACTIVITIES			
Cash used			
Distributions to owners		**57,500**	57,500
Total cash used		**57,500**	57,500
Net cash used by financing activities		**(57,500)**	(57,500)
Net increase/(decrease) in cash held		**(1,471)**	1,637
Cash and cash equivalents at the beginning of the reporting period		**2,280**	643
Cash and cash equivalents at the end of the reporting period	2.1A	**809**	2,280

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

Objectives of the Australian Reinsurance Pool Corporation

The Australian Reinsurance Pool Corporation (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). ARPC was established to protect Australia from economic losses caused by terrorism catastrophe. ARPC operates on a not-for-profit basis.

The role of ARPC is to administer the terrorism reinsurance scheme, using our expertise to provide cost effective reinsurance to support the economic resilience of the nation. Specifically, ARPC provides primary insurers with reinsurance for commercial property and associated business interruption losses arising from a Declared Terrorism Incident (DTI). The TI Act operates by overriding terrorism exclusion clauses in eligible insurance contracts to the extent that losses excluded are eligible terrorism losses arising from a DTI.

ARPC has the power to do all things necessary in connection with the performance of its functions. The continued existence of ARPC in its present form and with present programs is dependent upon Government policy.

The Basis of Preparation

The financial statements are general purpose financial statements and are required by section 42 of the ***Public Governance, Performance and Accountability Act 2013*** (PGPA Act 2013).

The financial statements have been prepared in accordance with:

a. ***Public Governance, Performance and Accountability (Financial Reporting)*** Rule 2015 (FFR) for reporting periods ending on or after 1 July 2015; and

b. Australian Accounting Standards and Interpretations – Reduced Disclosure Requirements issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and in accordance with the historical cost convention, except for certain assets and liabilities 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.

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

New Accounting Standards

No accounting standard has been adopted earlier than the application date as stated in the standard. No new standards, revised standards, interpretations and amending standards that were issued prior to the signing of the statement by the Accountable Authority, Chief Executive and the Chief Financial Officer, were applicable to the current reporting period and had no material impact on ARPC's financial statements.

Taxation

ARPC is exempt from income tax by virtue of section 36 of the TI Act. ARPC is subject to Fringe Benefits Tax (FBT) and the Goods and Services Tax (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 Australian Taxation Office (ATO), or
- for receivables and payables.

Insurance

ARPC has insured its operating risks with a number of leading insurers using the brokering services of Aon Risk Services Australia Limited. The insurance coverage includes Directors and Officers Liability, Public and Products Liability, Group Journey Injury Insurance, Corporate Travel Insurance, and Business Package Insurance. Workers compensation is insured through Comcare Australia.

Outstanding claims liability

The financial statements have not included a liability for outstanding claims (2016: $0).

There were no declared terrorist incidents announced during the reporting period or outstanding claims from incidents in prior periods. 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 established a central estimate and has not, therefore, applied a prudential margin in respect of the outstanding claims liability. This is in accordance with AASB 1023 *General Insurance Contracts*.

In the event of a declared terrorist incident, an actuary will be engaged to independently assess the outstanding claims liability at the balance date when it is possible that claims will be in excess of the primary insurer's deductible.

Net claims incurred

There were no declared terrorist incidents during the reporting period. Net claims incurred from prior year declared terrorist incidents did not exceed the individual primary insurer's deductible.

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.

Events after the reporting period

Commencing 1 July 2017, the following changes to Australia's Terrorism Insurance Scheme came into effect:

- broaden the definition of eligible property to include buildings with a floor space of at least 20% used for commercial purposes or which have a building sum insured of at least $50 million, whether used for commercial or other purposes (effective on contracts of insurance issued or renewed from 1 July 2017); and
- amendment to the TI Act to extend the definition of a terrorism exclusion or exception in an eligible insurance contract to include acts described as "chemical", "biological", "polluting", "contaminating", "pathogenic", "poisoning", or words of similar effect.

These changes are not expected to materially impact ARPC's financial statements in the next 12 months.

1. Financial Performance

This section analyses the financial performance of ARPC for the financial year.

1.1 REVENUE

	2017 $'000	2016 $'000
1.1A: Net premium revenue		
Gross written premium	**158,486**	129,846
Movement in unearned premium reserve	**(11,278)**	(3,674)
Total premium revenue	**147,208**	126,172
Outwards retrocession premium expense	**(61,546)**	(63,002)
Commonwealth guarantee fee	**(55,000)**	(55,000)
Net premium revenue	**30,662**	8,170

Accounting Policy

Revaluations

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 2017 are recognised as premiums receivable in the Statement of Financial Position. The proportion of premium received or receivable not earned in the Statement of Comprehensive Income at the reporting date is recognised in the Statement of Financial Position as unearned premium.

Unearned premiums are determined using the one eighth method; 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 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 contract indemnity period. This is in accordance with the expected pattern of the incidence of risk ceded.

Commonwealth guarantee fee

Pursuant to section 38(3)(a) of the TI Act, the Minister may give written direction to require ARPC to make payments to the Commonwealth designed to ensure that sections 35 and 36 do not result in a competitive advantage for ARPC. A direction was given by the Acting Minister on 9 May 2017, to pay to the Commonwealth a sum of $55 million in the nature of a Commonwealth guarantee fee. The Commonwealth guarantee operates as retrocession protection above the private market retrocession layers. The guarantee is an unlimited solvency guarantee, but the reduction percentage mechanism is designed to limit the guarantee to $10 billion.

	2017 $'000	2016 $'000
1.1B: Retrocession commission income		
Retrocession commission income	**5,953**	6,118
Total retrocession commission income	**5,953**	6,118

Accounting Policy

Retrocession commission revenue is recognised in the Statement of Comprehensive Income in accordance with the pattern of retrocession expenses incurred.

	2017 $'000	2016 $'000
1.1C: Investment income		
Cash at bank	**179**	744
Term deposits	**15,395**	16,486
Total investment income	**15,574**	17,230

Accounting Policy

Interest revenue is recognised using the effective interest method.

	2017 $'000	2016 $'000
1.1D: Other income		
Rental income	**100**	150
Other revenue	**76**	–
Total other income	**176**	150

1.2 EXPENSES

	Notes	2017 $'000	2016 $'000
1.2A: Employee benefits			
Wages and salaries		**2,916**	2,562
Superannuation			
Defined contribution plans		**418**	357
Defined benefit plans		**7**	46
Leave and other entitlements		**345**	240
Separation and redundancies		**–**	(35)
Total employee benefits	1.2G	**3,686**	3,170

Accounting Policy

Accounting policies for employee related expenses are contained in the People and Relationships section.

	Notes	2017 $'000	2016 $'000
1.2B Suppliers			
Goods and services supplied or rendered			
Consultants		**908**	1,210
Reinsurance broker services		**674**	439
Assurance services		**352**	377
Information Technology		**376**	107
Travel		**245**	397
Shared services		**332**	351
Conferences and seminars		**246**	44
Other		**472**	156
Total goods and services supplied or rendered		**3,605**	3,081
Goods supplied		**81**	52
Services rendered		**3,524**	3,029
Total goods and services supplied or rendered		**3,605**	3,081
Other supplier expenses			
Operating lease rentals		**488**	1,180
Workers compensation insurance		**33**	27
Total other supplier expenses		**521**	1,207
Total supplier expenses	1.2G	**4,126**	4,288

Leasing commitments

ARPC in its capacity as lessee currently has one agreement relating to office accommodation. Lease payments are subject to regular increases in accordance with rent reviews and pre-determined percentage increases. The remaining period of the lease agreement is 7 years. This operating lease is effectively non-cancellable.

	Notes	2017 $'000	2016 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:			
Within 1 year		**334**	755
Between 1 to 5 years		**1,507**	1,881
More than 5 years		**603**	1,276
Total operating lease commitments		**2,444**	3,912

Accounting Policy

An operating lease is a lease where the lessor retains substantially all risks and benefits in the underlying asset. Operating lease payments are expensed on a straight-line basis which is representative of the pattern of benefits derived.

1.2C Depreciation and amortisation			
Depreciation			
Leasehold improvements		**105**	199
Property, plant and equipment		**25**	18
Total depreciation		**130**	217
Amortisation			
Intangibles – computer software		**421**	420
Total amortisation		**421**	420
Total depreciation and amortisation	1.2G	**551**	637

Accounting Policy

Accounting policies for depreciation and amortisation are contained in the non-financial assets sections.

1.2D Capital holding fee paid to the commonwealth			
Capital holding fee		**35,000**	–
Total capital holding fee paid to the commonwealth	1.2G	**35,000**	–

Accounting Policy

All finance charges are expensed as incurred.

1.2E Finance charges			
Bank charges		**3**	20
Total finance charges	1.2G	**3**	20

1.2F Losses from asset sales			
Property, plant and equipment			
Carrying value of assets disposed		–	76
Total losses from asset sales	1.2F	–	76

1.2G: Reconciliation of expenses to the statement of comprehensive income

Expenses by nature			
Employee expenses	1.2A	**3,686**	3,170
Total suppliers	1.2B	**4,126**	4,288
Depreciation and amortisation	1.2C	**551**	637
Capital holding fee paid to the Commonwealth	1.2D	**35,000**	–
Finance charges	1.2E	**3**	20
Losses from asset sales	1.2F	**–**	76
Total expenses by nature		**43,366**	8,191
Expenses by function			
Acquisition costs		**2,072**	1,549
General and administration expenses		**41,294**	61,642
Total expenses by function		**43,366**	63,191
Reconciliation of expenses to the Statement of Comprehensive Income			
General and administration expenses		**41,294**	61,642
Less: Capital holding fee paid to the Commonwealth		**(35,000)**	–
Less: Finance costs		**(3)**	(20)
Other operating expenses		**6,291**	61,622

2. Financial Position

This section analyses ARPC's assets used to conduct its operations and the operating liabilities incurred as a result. Employee related information is disclosed in the People and Relationships section.

2.1 FINANCIAL ASSETS

	2017 $'000	2016 $'000
2.1A: Cash and Cash Equivalents		
Cash at bank	**809**	2,280
Total cash and cash equivalents	**809**	2,280

Accounting Policy

Cash and cash equivalents includes notes and coins held and any deposits in bank accounts with an original maturity of three months or less and subject to insignificant risk of valuation changes. Cash is recognised at the nominal amount.

2.1B: Trade and Other Receivables		
Premium receivable	**37,482**	35,923
Commission receivable	**2,919**	3,049
Interest receivable	**2,689**	5,237
Net GST receivable from/(payable to) the Australian Taxation Office	**34**	(4)
Total receivables	**43,124**	44,205

Credit terms are net 30 days (2016: 30 days). Trade debtors are non-interest bearing.

Interest Receivable

Effective interest rates range from 0.9% to 2.71% (2016: 1.15% to 3.07%) and the frequency of payment is monthly for cash accounts and on maturity for term deposits.

Accounting Policy

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 receivables impairment 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 provision established 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.

	2017 $'000	2016 $'000
2.1C: Investments		
Fixed interest term deposits	**490,000**	524,000
Total investments	**490,000**	524,000

Term deposits at balance date are held with local banks regulated by the Australian Prudential Regulation Authority. These deposits earn an effective rate of interest of 2.53% (2016: 2.97%). Interest is payable on maturity for all term deposits. Terms are between 91 and 367 days (2016: 30 and 365 days).

Accounting Policy

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

2.1D: Deferred Insurance Assets

(i) Deferred insurance assets as at 1 July			
Deferred retrocession premium	2.1D(ii)	**30,412**	31,629
Deferred acquisition costs	2.1D(iii)	**965**	1,012
Total deferred insurance assets		**31,377**	32,641

(ii) Deferred retrocession premium as at 1 July		
Deferred retrocession premium as at 1 July	**31,629**	31,546
Retrocession premium deferred	**30,412**	31,629
Amortisation charged to expense	**(31,629)**	(31,546)
Deferred retrocession premium as at 30 June	**30,412**	31,629

(iii) Deferred acquisition costs as at 1 July		
Deferred acquisition costs as at 1 July	**1,012**	525
Acquisition costs deferred	**965**	1,012
Amortisation charged to expense	**(1,012)**	(525)
Deferred acquisition costs as at 30 June	**965**	1,012

Accounting Policy

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 corporation, 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 benefit received. The amount deferred represents the future economic benefit to be received from the retrocession contracts.

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 (2016: $0). Accordingly, there has been no write down in ARPC's deferred acquisition costs.

2.2 NON-FINANCIAL ASSETS

2.2A: Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment and Intangibles

Reconciliation of the opening and closing balances of property, plant and equipment for 2017

	Leasehold improvements $'000	Plant and equipment $'000	Intangibles – Computer Software Purchased $'000	Total $'000
As at 1 July 2016				
Gross book value	788	184	2,661	3,633
Accumulated depreciation, amortisation and impairment	(16)	(37)	(2,169)	(2,222)
Total as at 1 July 2016	**772**	**147**	**492**	**1,411**
Additions	11	15	–	26
Depreciation and amortisation expense	**(105)**	**(25)**	**(421)**	**(551)**
Asset disposal	–	(10)	–	(10)
Accumulated depreciation on asset disposed	–	10	–	10
Total as at 30 June 2017	**678**	**137**	**71**	**886**
Total as at 30 June 2017 represented by				
Gross book value	799	189	2,661	3,649
Accumulated depreciation, amortisation and impairment	(121)	(52)	(2,590)	(2,763)
Total as at 30 June 2017	**678**	**137**	**71**	**886**

No indicators of impairment found for property, plant and equipment and intangibles (2016: Nil).

No property, plant and equipment and intangibles are expected to be sold or disposed of within the next 12 months (2016: Nil).

Revaluations of non-financial assets

All revaluations were conducted in accordance with the revaluation accounting policy stated below. The last revaluation was conducted by Preston Rowe Paterson, an independent qualified valuer, on 01 September 2014. The next revaluation will be completed for the year ending 30 June 2018.

Accounting Policy

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.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and income at their fair value at the date of acquisition.

Asset Recognition Threshold

Purchases of property, plant and equipment are recognised initially at cost in the statement of financial position, except for purchases costing less than $2,000, which are expensed in the year of acquisition (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 also relevant to make good provisions in property leases taken up by ARPC where there exists an obligation to restore the property back 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

Following initial recognition at cost, property, plant and equipment are carried at fair value less subsequent accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets did not differ materially from the assets' fair values as at the reporting date. The regularity of independent valuations depended upon the volatility of movements in market values for the relevant assets. ARPC has assessed a three year update is appropriate to meet this requirement.

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 reversed a previous revaluation decrement of the same asset class that was previously recognised in the surplus/deficit. Revaluation decrements for a class of assets are recognised directly in the surplus/deficit except to the extent that they reversed 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 revalued amount. Depreciation is recalculated over the remaining estimated useful life of the asset.

Depreciation

Depreciable plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to ARPC using 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:

	2017	2016
Leasehold improvements	Lease term	Lease term
Plant and equipment	3 to 8 years from purchase date	3 to 8 years from purchase date

Impairment

All assets were assessed for impairment at 30 June 2017. 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 of disposal and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Intangibles

Software development expenditure that meets the criteria as an intangible asset is capitalised in the Statement of Financial Position 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 project commitment are treated as research costs and are expensed as incurred.

ARPC's intangibles comprise purchased 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 lives of ARPC's software are 4 years (2016: 4 years).

All software assets were assessed for indications of impairment as at 30 June 2017.

	2017 $'000	2016 $'000
2.2B Other Non-Financial Assets		
Prepayments	**97**	88
Total other non-financial assets	**97**	88

2.3 UNEARNED LIABILITIES

	Notes	2017 $'000	2016 $'000
2.3A: Unearned liability			
Unearned premium liability	2.3B	**75,842**	64,563
Unearned commission liability	2.3C	**2,943**	3,058
Total unearned liability		**78,785**	67,621
2.3B: Unearned premium liability			
Unearned premium liability as at 1 July		**64,563**	60,890
Deferral of premiums on contracts written in the period		**75,842**	64,563
Earning of premiums written in the previous periods		**(64,563)**	(60,890)
Unearned premium liability as at 30 June		**75,842**	64,563
2.3C: Unearned commission liability			
Unearned commission liability as at 1 July		**3,058**	3,077
Deferral of commissions on contracts written in the period		**2,943**	3,058
Earning of commissions written in the previous periods		**(3,058)**	(3,077)
Unearned commission liability as at 30 June		**2,943**	3,058

2.4 PAYABLES

	2017 $'000	2016 $'000
2.4A: Suppliers Payable		
Retrocession payable	**30,164**	31,544
Trade creditors	**–**	16
Accruals	**865**	572
Total suppliers payables	**31,029**	32,132

Retrocession payable:

In accordance with ARPC's retrocession treaty expiring 31 December 2017, the retrocession premium is paid quarterly in advance. Settlement is made net 30 days.

Trade creditors:

Settlement is made net 30 days. All of ARPC's liabilities are guaranteed by the Commonwealth by virtue of section 35 of the TI Act.

2.4B: Other Payables		
Salaries and wages	**22**	63
Superannuation	**3**	2
Separations and redundancies	**–**	232
Total other payables	**25**	297

Accounting Policy

Accounting policies for employee related payables are contained in the People and Relationships section.

2.5 OTHER PROVISIONS

2.5A: Other Provisions

	Lease incentive $'000	Provision for restoration $'000	Other provisions $'000	Total $'000
Carrying amount as at 1 July 2016	89	122	226	437
Additional provisions made	**51**	–	**651**	**702**
Amounts used	**(55)**	–	**(226)**	**(281)**
Unwinding of discount	–	–	–	–
Amounts owing at end of period	**85**	**122**	**651**	**858**

The lease end date for ARPC's Market Street, Sydney office is 30 November 2023.

Provisions noted in other provisions relate to future premium refund payable (2016: Other provisions relate to an onerous operating lease contract).

The financial statements have not included a provision for outstanding claims (2016: nil).

Accounting Policy

Lease Incentives

Lease incentives taking the form of rent free periods are recognised as liabilities when received and subsequently reduced by allocating lease payments between rental expense and a reduction of the lease liability over the lease term.

3. People and Relationships

This section describes a range of employment and post-employment benefits provided to our people and our relationships with other key people.

3.1 EMPLOYEE PROVISIONS

	2017 $'000	2016 $'000
3.1A: Employee Provisions		
Leave	**420**	461
Total employee provisions	**420**	461

Accounting Policy

Liabilities for short term employee benefits and termination benefits expected within twelve months of the end of reporting period end are measured at their nominal amounts.

Other long-term employee benefits are measured as the net total of the present value of the defined benefit obligation at the end of the reporting period.

Leave

The liability for employee benefits includes provision for annual leave, long service leave and purchased lease. 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 sick leave entitlement.

The leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will be applied at the time the leave is taken. This includes ARPC's employer superannuation contribution rates and other employee benefits 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 is the present value of employee entitlements based on the Australian Government shorthand method as per the FRR. 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 Members.

The default superannuation scheme is the Australian Super Fund.

The liability for superannuation recognised as at 30 June 2017 represents the outstanding contributions for the final fortnight of the year.

3.2 KEY MANAGEMENT PERSONNEL REMUNERATION

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of ARPC, directly or indirectly, including any director (whether executive or otherwise) of ARPC. ARPC has determined the key management personnel to be the responsible Portfolio Minister and Cabinet, ARPC's seven Board Members, the Chief Executive Officer and five General Managers.

Key management personnel remuneration is reported in the table below:

	2017 **$**	2016 $
Short-term employee benefits	**1,770,273**	1,450,190
Post-employment benefits	**201,099**	213,056
Other long-term employee benefits	**170,388**	231,189
Termination benefits	**–**	190,429
Total key management personnel remuneration expense[1]	**2,141,760**	2,084,864

1 The above key management personnel remuneration excludes the remuneration and other benefits of the responsible Portfolio Minister and Cabinet. The Portfolio Minister and Cabinet's remuneration and other benefits are set by the Remuneration Tribunal and are not paid by ARPC.

3.3 RELATED PARTY DISCLOSURES

Members of ARPC during the financial year were:

Ms J Fitzpatrick	Ms J Torney	Mr T Karp	Ms R Low
Mr J Peberdy	Mr M Callaghan	Ms E Collins	

Changes in membership during the year:

- Ms J Fitzpatrick's term expired on 30 June 2017.
- Mr T Karp's term expired on 30 September 2016 and he was reappointed on 5 October 2016.
- Ms R Low was appointed on 5 October 2016.
- Mr M Callaghan was appointed on 5 October 2016.
- New appointments:
- Mr I Carson was appointed on 1 July 2017.

New appointments:

- Mr I Carson was appointed on 1 July 2017.

Related party relations:

ARPC is an Australian Government controlled entity established by section 9 of the TI Act. 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. Related parties to ARPC are the Members, Key Management Personnel including the Portfolio Minister and Cabinet, and other Australian Government entities.

Transactions with related parties:

Given the breadth of Government activities, related parties may transact with the government sector in the same capacity as ordinary citizens. These transactions have not been separately disclosed in this note.

The following cash transactions with related parties occurred during the year:

		2017 $	2016 $
Related Party	**Purpose**		
Geoscience Australia	Development of loss estimate model	**389,400**	34,000
The Treasury	Provision of corporate support services to ARPC	**331,958**	350,815
Australian National Audit Office	Provision of external audit services	**125,125**	212,575
Australian Government Solicitor	Provision of legal services	**7,640**	119,380
Artbank	Hire of artwork	**3,210**	405
Attorney General's Department	Course registration fees	**2,250**	3,750
Department of Communications and the Arts	Copyright fees	**1,009**	–
Australian Public Service Commission	Course registration fees	**–**	5,750
		860,592	726,675

4. Managing Uncertainties

This section describes a range of employment and post-employment benefits provided to our people and our relationships with other key people.

4.1 RISK MANAGEMENT

ARPC's approach to managing risk is consistent with the Australian/New Zealand Standard for Risk Management (AS/NZS ISO 31000:2009). The Risk Management Strategy (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.

ARPC senior management have developed, implemented and maintained a RMS. The Board reviews the RMS at each meeting and confirms there are systems in place to manage and mitigate the risk of breaching legislative and prudential requirements.

The broad risk categories discussed below are:

- insurance risk;
- operational risk;
- capital risk; and
- financial risks (considered in Note 4.2).

Within each of these categories, risks are evaluated before considering the impact of mitigating controls. The existence and effectiveness of such mitigating controls are measured such 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 in the event of a declared terrorist incident. 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, with retentions to share risk exposure with each cedant;
- ARPC undertakes a cedant review program to verify premium levels;
- ARPC's exposure to insurance risk concentrations is mitigated by the fact the TI Act applies to all eligible insurance contracts. The TI Act wording is designed to facilitate concentration risk diversification both geographically and by type of risk.

Claims risk

Claims submitted to ARPC associated with the 2014 DTI did not exceed the retentions of the reinsured. Therefore no claims expense has been incurred and no liability has been recognised for the payment of claims. ARPC's mitigation strategies for the claims risks include:

- access to a Commonwealth guarantee for the due payment of money that may become payable by the Corporation to any person other than the Commonwealth. If a DTI occurs the Treasurer must specify a pro rata (percentage) reduction in claims to be paid out by insurers, if, in the absence of such a reduction percentage, the total amounts payable by the Commonwealth might exceed $10 billion;
- the appointment of a claims manager and the development of claims procedures to validate that all claims advices are captured and updated on a timely basis;
- a standing agreement with an actuarial firm to value claims arising from a DTI;
- collecting annual aggregate exposure data from cedants;
- supporting the continued development of blast and plume models estimating terrorism losses to support advice given regarding a reduction percentage and ultimate claim costs;
- the asset mix which ARPC invests in is regulated by section 59 of the PGPA Act. The management of investments is closely monitored to confirm the liquidity of funds match the cash needs of the entity;
- maintaining a claims handling reserve. The purpose of this reserve is to validate that there are sufficient monies set aside to allow ARPC to continue to operate in order to finalise any claims and reinsurance recoveries following the scheme cessation or a significant DTI. The claims handling reserve as at 30 June 2017 is $24.51 million (2016: $24.04 million).

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 risks within the entity's enterprise wide risk management framework. ARPC's mitigation strategies for operational risk include:

- effective staff recruitment and retention policies;
- 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
- ongoing management of ARPC's Business Continuity Plan.

Capital Risk

ARPC's capital structure to cover claims from declared terrorist incidents is outlined below:

- ARPC has access to its reserve for claims in cash and investments of $431 million (2016: $480 million);
- In the event of a DTI, ARPC would be required to pay $350 million (2016: $350 million) before claiming on its retrocession program;
- ARPC has access to a $3.0 billion retrocession program in excess of the $350 million retention (2016: $2.9 billion retrocession program, in excess of $350 million);
- ARPC has access to a Commonwealth guarantee for the due payment of money that may become payable by ARPC to any person other than the Commonwealth. If a DTI occurs, the Treasurer must specify a pro rata (percentage) reduction in claims to be paid out by insurers if, in the absence of such a reduction percentage, the total amounts payable by the Commonwealth might exceed $10 billion (2016: $10 billion).

4.2 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 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 (owing to fluctuations in foreign exchange rates);
- interest rate risk (owing to fluctuations in market interest rates); and
- price risk (owing to fluctuations in market prices).

Foreign currency risk

Foreign currency risk refers to the risk that the value of the Australian dollar will fluctuate because of changes in foreign exchange rates.

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 (2016: $0).

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 PGPA Act. Section 59(1)(b) of the PGPA Act provides that a corporate Commonwealth entity may invest surplus money:

i. on deposit with a bank, including a deposit evidenced by a certificate of deposit; or

ii. in securities of, or securities guaranteed by, the Commonwealth, a State or a Territory; or

iii. in any other form of investment authorised by the Finance Minister in writing; or

iv. in any other form of investment prescribed by the rules; or

v. for a government business enterprise – in any other form of investment that is consistent with sound commercial practice.

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

4.2A FINANCIAL RISK MANAGEMENT

		Floating interest rate	Fixed interest rate maturing in			Total
		1 year or less	1 year or less	1-5 years	> 5 years	
	Notes	2017 $'000	2017 $'000	2017 $'000	2017 $'000	2017 $'000
Interest bearing financial assets						
Cash and cash equivalents	2.1A	**809**	**–**	**–**	**–**	**809**
Fixed term deposits	2.1C	**–**	**490,000**	**–**	**–**	**490,000**
Total		**809**	**490,000**	**–**	**–**	**490,809**
Weighted average interest rate		**1.05%**	**2.53%**	**–**	**–**	**2.53%**

		Floating interest rate	Fixed interest rate maturing in			Total
		1 year or less	1 year or less	1-5 years	> 5 years	
	Notes	2016 $’000	2016 $’000	2016 $’000	2016 $’000	2016 $’000
Interest bearing financial assets						
Cash and cash equivalents	2.1A	2,280	–	–	–	2,280
Fixed term deposits	2.1C	–	524,000	–	–	524,000
Total		**2,280**	**524,000**	**–**	**–**	**526,280**
Weighted average interest rate		1.62%	2.97%	–	–	2.96%

The Department of Finance deemed a 30 basis point change to be reasonably possible and ARPC adopted this when reporting interest rate risk. ARPC has considered the implied financial impact of the deemed 30 basis point change. The table below details the interest rate sensitivity analysis of ARPC at the reporting date, holding all other variables constant.

4.2B FINANCIAL RISK MANAGEMENT

	Movement in variable		Financial Impact			
			Profit/Loss		Equity	
	2017 %	2016 %	**2017 $'000**	2016 $'000	**2017 $'000**	2016 $'000
Interest rate movement						
- interest bearing	**+0.30**	+0.30	**1,472**	1,579	**1,472**	1,579
Financial assets	**-0.30**	-0.30	**(1,472)**	1,579	**(1,472)**	(1,579)

Price risk

Price risk is the risk that the fair value of a financial instrument’s future cash flows will fluctuate because of market price changes, other than those arising from interest rate or currency risk. These changes can be 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.

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 ARPC in respect of financial assets. The table classifies the assets according to Standard and Poor's counterparty credit ratings.

4.2C FINANCIAL RISK MANAGEMENT

		Credit Rating						
		AAA	**AA-**	**A+**	**A-**	**BBB+**	**Unrated**	**Total**
	Notes	**2017 $'000**	**2017 $'000**	**2017 $'000**	**2017 $'000**	**2017 $'000**	**2017 $'000**	**2017 $'000**
ARPC								
Cash and cash equivalents	2.1A	**809**	–	–	–	–	–	**809**
Receivables	2.1B		–	–	–	–	**43,124**	**43,124**
Fixed term deposits	2.1C	–	**302,000**	**94,500**	–	**93,500**	–	**490,000**
Total		**809**	**302,000**	**94,500**	–	**93,500**	**43,124**	**533,933**

		Credit Rating						
		AAA	AA-	A+	A-	BBB+	Unrated	Total
	Notes	2016 $’000	2016 $’000	2016 $’000	2016 $’000	2016 $’000	2016 $’000	2016 $’000
ARPC								
Cash and cash equivalents	2.1A	2,280	–	–	–	–	–	2,280
Receivables	2.1B	–	–	–	–	–	44,209	44,209
Fixed term deposits	2.1C	–	287,000	62,000	175,000	–	–	524,000
Total		2,280	287,000	62,000	175,000	–	44,209	570,489

The carrying amount of the relevant asset classes in the Statement of Financial Position 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.

4.2D FINANCIAL RISK MANAGEMENT

		Not past due or impaired		Past due		Total	
	Notes	2017 $'000	2017 $'000	2017 $'000	2017 $'000	2017 $'000	2016 $'000
Financial assets							
Premium receivables	2.1B	**37,452**	35,880	**30**	43	**37,482**	35,923
Commission receivables	2.1B	**2,919**	3,049	**–**	–	**2,919**	3,049
Interest receivable	2.1B	**2,689**	5,237	**–**	–	**2,689**	5,237
Total		**43,060**	44,166	**30**	43	**43,090**	44,209

Ageing of financial assets past due

		0 to 30 days	31 to 60 days	61 to 90 days	90+ days	Total
	Notes	2017 $'000	2017 $'000	2017 $'000	2017 $'000	2017 $'000
Financial assets						
Premium receivables	2.1B	**18**	**–**	**10**	**2**	**30**
Total		**18**	**–**	**10**	**2**	**30**

Ageing of financial assets past due

		0 to 30 days	31 to 60 days	61 to 90 days	90+ days	Total
	Notes	2016 $'000	2016 $'000	2016 $'000	2016 $'000	2016 $'000
Financial assets						
Premium receivables	2.1B	–	–	4	39	43
Total		–	–	4	39	43

Retrocession counterparty risk

ARPC purchases retrocession to encourage commercial market reinsurance capacity to return to the terrorism insurance market, control exposure to DTI losses and protect capital. ARPC's strategy for retrocession selection, approval and monitoring is addressed by:

- placing treaty retrocession in accordance with ARPC's retrocession management strategy requirements;
- regularly reassessing retrocession arrangements based on current exposure information; and
- actively monitoring the credit quality of retrocessionaires.

Counterparty exposures and limits are reviewed by management on a regular basis. Retrocession is only placed with counterparties that have a Standard and Poor's credit rating of A- and above and concentration risk is managed through 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 Standard and Poors' credit ratings.

4.2E RETROCESSION PROGRAM COUNTERPARTY CREDIT RATING

	AAA 2017 $'000	AA+ 2017 $'000	AA 2017 $'000	AA- 2017 $'000
ARPC total exposure	–	49,995	70,976	522,729

	A+ 2017 $'000	A 2017 $'000	A- 2017 $'000	Total 2017 $'000
ARPC total exposure	**1,225,558**	**708,234**	**422,508**	**3,000,000**

Retrocession program counterparty credit rating

	AAA 2016 $'000	AA+ 2016 $'000	AA 2016 $'000	AA- 2016 $'000
ARPC total exposure	–	49,995	46,250	620,750

	A+ 2016 $'000	A+ 2016 $'000	A- 2016 $'000	Total 2016 $'000
ARPC total exposure	1,133,855	700,575	348,575	2,900,000

Liquidity risk

ARP''s financial liabilities are payables. Liquidity risk is the risk of encountering difficulty in meeting obligations associated with financial liabilities. ARPC has the internal policies and procedures in place such that there are sufficient resources to meet its financial obligations. ARPC's liquidity risk is also mitigated through the strategy of short-term investments that provides for ready access to assets.

The table below summaries the maturity profile of ARPC's financial liabilities. All liabilities are measured on an undiscounted cash flow basis given their short term maturity.

4.2F FINANCIAL RISK MANAGEMENT

		1 year or less		From 1 - 5 years		Total	
	Notes	**2017 $'000**	2016 $'000	**2017 $'000**	2016 $'000	**2017 $'000**	2016 $'000
Financial liabilities							
Payables	2.4A	31,029	32,132	–	–	31,029	32,132
Total		31,029	32,132	–	–	31,029	32,132

4.3 CONTINGENT ASSETS AND LIABILITIES

Quantifiable Contingencies

As at 30 June 2017 ARPC had no quantifiable contingencies (2016: Nil).

Unquantifiable Contingencies

As at 30 June 2017 ARPC has no unquantifiable contingencies (2016: Nil).

Accounting Policy

Contingent assets and liabilities

Contingent assets and liabilities are not recognised in the Statement of Financial Position but are reported in the relevant 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, but not virtually certain, and contingent liabilities are recognised when settlement is greater than remote.

4.4 FINANCIAL INSTRUMENTS

	Notes	2017 $'000	2016 $'000
4.4A: Categories of financial instruments			
FINANCIAL ASSETS:			
Financial assets at fair value through profit or loss			
Cash and cash equivalents	2.1A	**809**	2,280
Fixed term deposits	2.1C	**490,000**	524,000
Total financial asset at fair value through profit or loss		**490,809**	526,280
Loans and receivables			
Receivables (gross)	2.1B	**43,124**	44,209
Total loans and receivables		**43,124**	44,209
Total financial assets		**533,933**	570,489
FINANCIAL LIABILITIES:			
Financial liabilities measured at amortised cost			
Suppliers payables	2.4A	**31,029**	32,132
Other payables	2.4B	**25**	297
Total financial liabilities measured at amortised cost		**31,054**	32,429
4.4B: Net income from financial assets			
Investment income	1.1C	**15,574**	17,230
Net gains from financial assets		**15,574**	17,230

Accounting Policy

Financial assets

Financial assets are designated at fair value through the Statement of Comprehensive Income.

Initial recognition is at cost in the Statement of Financial Position and subsequent measurement is at fair value. Any resultant unrealised profits and losses are recognised in the Statement of Comprehensive Income.

Effective Interest Rate Method

The effective interest rate method is a method of calculating the amortised cost of a financial asset and allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, where appropriate, a shorter period.

Financial Liabilities

Financial liabilities are classified as 'other financial liabilities' for the purposes of AASB 139 Financial instruments: Recognition and measurement.

Financial liabilities are recognised and derecognised at the transaction date. They represent trade creditors and accruals and are recognised at the amounts at which they are expected to be settled. Financial 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.

Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to the financial asset cash flows 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 (2016: $0).

4.5 FAIR VALUE MEASUREMENT

		Fair value measurements at the end of the reporting period	
	Notes	2017 $'000	2016 $'000
Financial assets			
Cash and cash equivalents	2.1A	**809**	2,280
Receivables (gross)	2.1B	**43,124**	44,209
Fixed term deposits[1]	2.1C	**490,000**	524,000
Total financial assets		**533,933**	570,489
Financial liabilities			
Suppliers payables	2.4A	**31,029**	32,132
Other payables	2.4B	**25**	297
Total		**31,054**	32,429

1. 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.

Appendices 07

APPENDIX A

2015 triennial review recommendations

The full list of recommendations from the 2015 Triennial Review appears below:

Structure of ARPC	
Recommendation 1	That the Act remains in force, subject to future three-yearly statutory reviews.
Recommendation 2	That the current administration structure of the ARPC as set out in the Act be retained.
Retentions	
Recommendation 3	The four per cent rate of gross fire and industrial special risk premium (less any fire services levy) should be increased to five per cent.
Recommendation 4	Current maximum retention levels for individual insurers should be removed. Note that after market consultation, the maximum individual insurer retention was increased from $10 million to $12.5 million.
Recommendation 5	The maximum industry retention should be increased from $100 million to $200 million.
Retrocession	
Recommendation 6	That the ARPC continue to have the discretion to purchase retrocession, subject to ARPC assessing the need for, and levels of, its retrocession programme and value for money.
Fee for the Government guarantee	
Recommendation 7	That the ARPC pay to the Australian Government each year, commencing in 2016-17: a) a fee of $55 million in respect of the Australian Government guarantee of the ARPC's liabilities; and b) an additional amount of $35 million per annum to reflect Australian Government support in making ARPC reserves available for payment of claims.
Premiums	
Recommendation 8	That the premiums charged by the ARPC be increased, with effect from 1 April 2016 to: – 16 per cent for Tier A, – 5.3 per cent for Tier B, and – 2.6 per cent for Tier C.
Scope of the Scheme	
Recommendation 9	That the scope of the Scheme be extended so that it applies to: a) buildings in which at least 20 per cent of floor space is used for commercial purposes; and b) buildings with a sum-insured value of at least $50 million, whether used for commercial or other purposes.
Recommendation 10	That the application of the Act be clarified by amendments that remove doubt about whether certain losses would be covered under the scheme; in particular, losses attributable to terrorism attacks that use chemical or biological means.

APPENDIX B:

Section 17BE Requirements of the PGPA Rule 2014:

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ACRONYMS AND ABBREVIATIONS

AASB	Australian Accounting Standards Board
AGA	Australian Government Actuary
AGD	Attorney General's Department
ANAO	Australian National Audit Office
ANZIIF	Australian and New Zealand Institute of Insurance and Finance
AMB	A.M. BEST
APRA	Australia Prudential Regulation Authority
APSC	Australian Public Service Commission
ARPC	Australian Reinsurance Pool Corporation
ATO	Australian Taxation Office
CAE	Chief Audit Executive
CBD	Central business district
CEO	Chief Executive Officer
CIPMA	Critical Infrastructure Protection Modelling and Analysis
COO	Chief Operating Officer
CY	Calendar year
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
ILS	Integrated Leadership System
IPS	Information Publication Scheme
OECD	Organisation for Economic Co-operation and Development
PGPA	*Public Governance, Performance and Accountability Act 2013*
PID	Public Interest Disclosure Act 2013
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*
UBSW	Union Bank of Switzerland Warburg
WCAG 2.0	Web Content Accessibility Guidelines 2.0
WHS Act	*Work Health and Safety Act 2011*
WHS	Work Health and Safety

GLOSSARY

Aggregate sums insured	The total of all a cedant's property sums in a reporting zone, such as ARPC's tiers.
Calendar year	Refers to 1 January to 31 December of a particular year.
Capacity	The ability of an insurer, reinsurer, syndicate or market to absorb risk.
Captive insurer	An insurance company that is wholly owned by one or more entities (parent organisations), and who's the main purpose of insuring the parent company's risks
Co-reinsurance	A 'co-reinsurance' warranty may be imposed on some catastrophe excess of loss and stop loss contracts. The effect is to require the reinsured to retain net and unprotected a specified percentage of a layer such that it maintains an interest in economical loss settlement once the deductible has been exceeded.
Deductible	The loss the reinsured assumes for its own account in non-proportional reinsurance.
Financial year	Refers to 1 July to 30 June of a particular year
Insurer clients	An insurer that transfers all or part of a risk to a reinsurer
Reinsurance	Reinsurance is insurance that is purchased by an insurance company from one or other insurance companies (the reinsurer) directly or through a broker as a means of risk management.
Retention	The amount retained by a reinsured after placing reinsurance.
Retrocession	A reinsurer that accepts retrocession business.
Triennial review	A review which examines the need for the TI Act to continue to operate and occurs every three years.
Underwriting year	An underwriting year includes all premiums for all policies commencing within the financial year

Source: Glossary of reinsurance terms, The Australian and New Zealand Institute of Insurance and Finance (ANZIIF).

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