



ARPC

CORPORATE PLAN
2020-2024



Australian Government
Australian Reinsurance Pool Corporation

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Australian Government

Australian Reinsurance Pool Corporation

The Hon Michael Sukkar MP
Assistant Treasurer
PO Box 6022
House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Assistant Treasurer

On behalf of the Board, I am pleased to present you with the ARPC Corporate Plan for 2020 and beyond. This plan commences on 1 July 2020 and spans the four reporting periods to 30 June 2024.

This plan has been prepared in accordance with the *Public Governance, Performance and Accountability Rule 2014*. The plan has been approved by the Accountable Authority (the ARPC Board) as required under paragraphs 35(1) and 35(2) of the *Public Governance, Performance and Accountability Act 2013*.

To perform ARPC's functions under the *Terrorism Insurance Act 2003*, the Board and executive team undertake an annual strategic planning process to set the Corporation's vision, mission, strategy and values. The Corporate Plan is the principal planning document for ARPC and outlines the actions required for implementation of ARPC's strategy. The plan also details Key Performance Indicators to measure progress.

If you have any questions or require further information, please do not hesitate to contact me.

Yours sincerely

(signature supplied)

Ian Carson AM
Chair
cc Senator the Hon. Mathias Cormann
Minister for Finance

1. INTRODUCTION

Australian Reinsurance Pool Corporation (ARPC) is a Corporate Commonwealth entity and Treasury portfolio agency which provides cost effective terrorism risk reinsurance. The ARPC terrorism insurance scheme has \$13.7 billion in funding (excluding industry retentions) available for claims arising from a Declared Terrorism Incident (DTI) and protects more than 835,000 eligible insured property assets valued at more than \$3.7 trillion nationwide.

ARPC was established in 2003 under the *Terrorism Insurance Act 2003 (TI Act)*. ARPC complies with the *TI Act*, the *Public Governance, Performance and Accountability Act 2013 (PGPA Act)* and the *Public Governance, Performance and Accountability Rule 2014 (PGPA Rule)*, along with other relevant legislation.

The 2020-2024 ARPC Corporate Plan covers the four year period commencing 1 July 2020 to 30 June 2024, and is the primary planning document for ARPC. This Plan addresses its purpose, key activities, operating context (including environment, capabilities, risk management and key organisations ARPC co-operates with to deliver its purpose) and performance. This Plan has been prepared in accordance with the *Public Governance, Performance and Accountability Rule 2014*. This Plan has been approved by the Accountable Authority (the ARPC Board) as required under paragraphs 35(1) and 35(2) of the *Public Governance, Performance and Accountability Act 2013*.

ARPC's corporate purpose is to perform its statutory functions. ARPC expresses its purpose through its vision and mission. This Plan outlines its vision and mission, as well as its strategic priorities, the activities it will undertake to deliver them, and the performance measures used to determine success.

ARPC's values of integrity, collaboration, personal leadership and delivering to stakeholders underpin its workplace culture. The values also support ARPC's Code of Conduct.

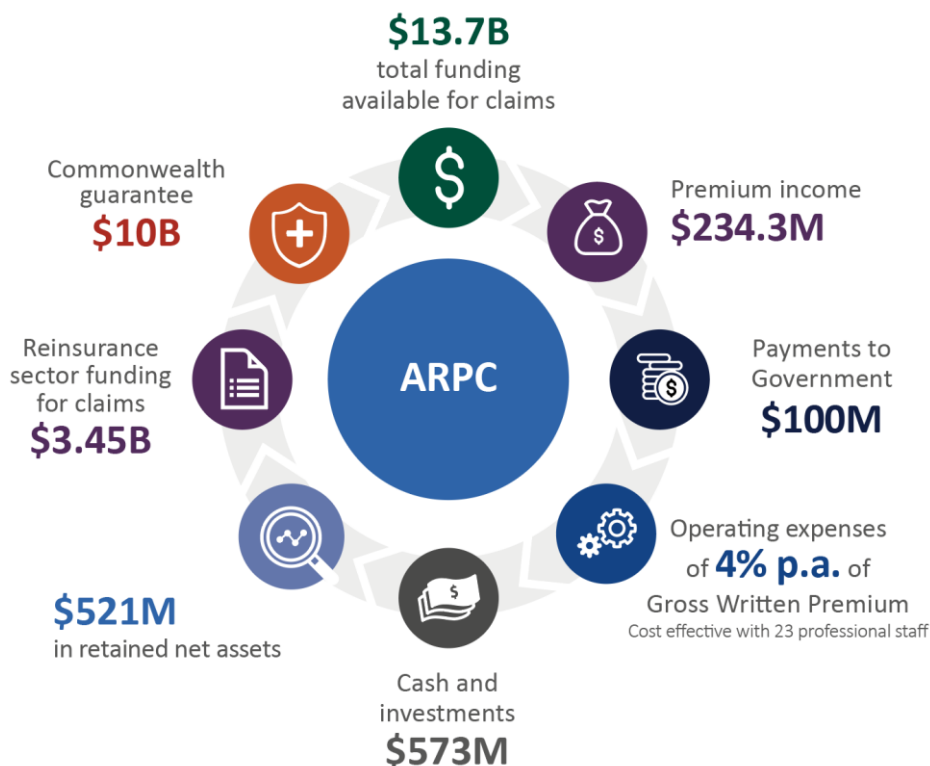
ARPC's functions under section 10 of the TI Act are:

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

Figure 1.1: ARPC's vision, mission, values and strategic priorities



Figure 1.2 ARPC Financial Snapshot 2019-20 as at 30 June 2020.



1.1 KEY ACTIVITIES

The five key activity areas and key performance areas of ARPC to support its functions are to:

- 1) provide reinsurance for eligible terrorism losses
- 2) encourage private sector participation through the retrocession program
- 3) compensate the Government
- 4) maintain financial sustainability and organisational resilience, and
- 5) engage, understand and collaborate with stakeholders.

A tabular view of how these five areas link to strategic priorities is shown in *Figure 2.3* on page 12 with full financial details in **Section 3, Performance**, starting on page 23.

Over the four-year period of this plan, ARPC will continue the following activities to support the functions of the corporation:

- continue the retrocession program
- enhance our catastrophe modelling capabilities
- develop thought leadership by engaging and working with academics both locally and internationally and continue our strong engagement with other global terrorism pools through the International Forum of Terrorism Risk Insurance Pools (IFTRIP)
- improve our capability to respond to a terrorism catastrophe by improving systems and processes, through regular testing and continuous improvement; and
- work with the Government as the general insurance experts within Government.

2. OPERATING CONTEXT

2.1 ENVIRONMENT

Following the September 11, 2001 terrorist attacks in the United States, terrorism cover was excluded from commercial and industrial property policies in Australia. Without a whole-of-market alternative, ARPC was established in 2003 to provide reinsurance cover for eligible terrorism losses.

Today, ARPC operates in a dynamic global reinsurance environment and provides funding for eligible terrorism losses arising from a Declared Terrorism Incident (DTI). The organisation exists in a political and commercial environment which requires ongoing and close engagement with all stakeholders.

There are factors and events outside ARPC's control that can significantly impact the organisation's operations.

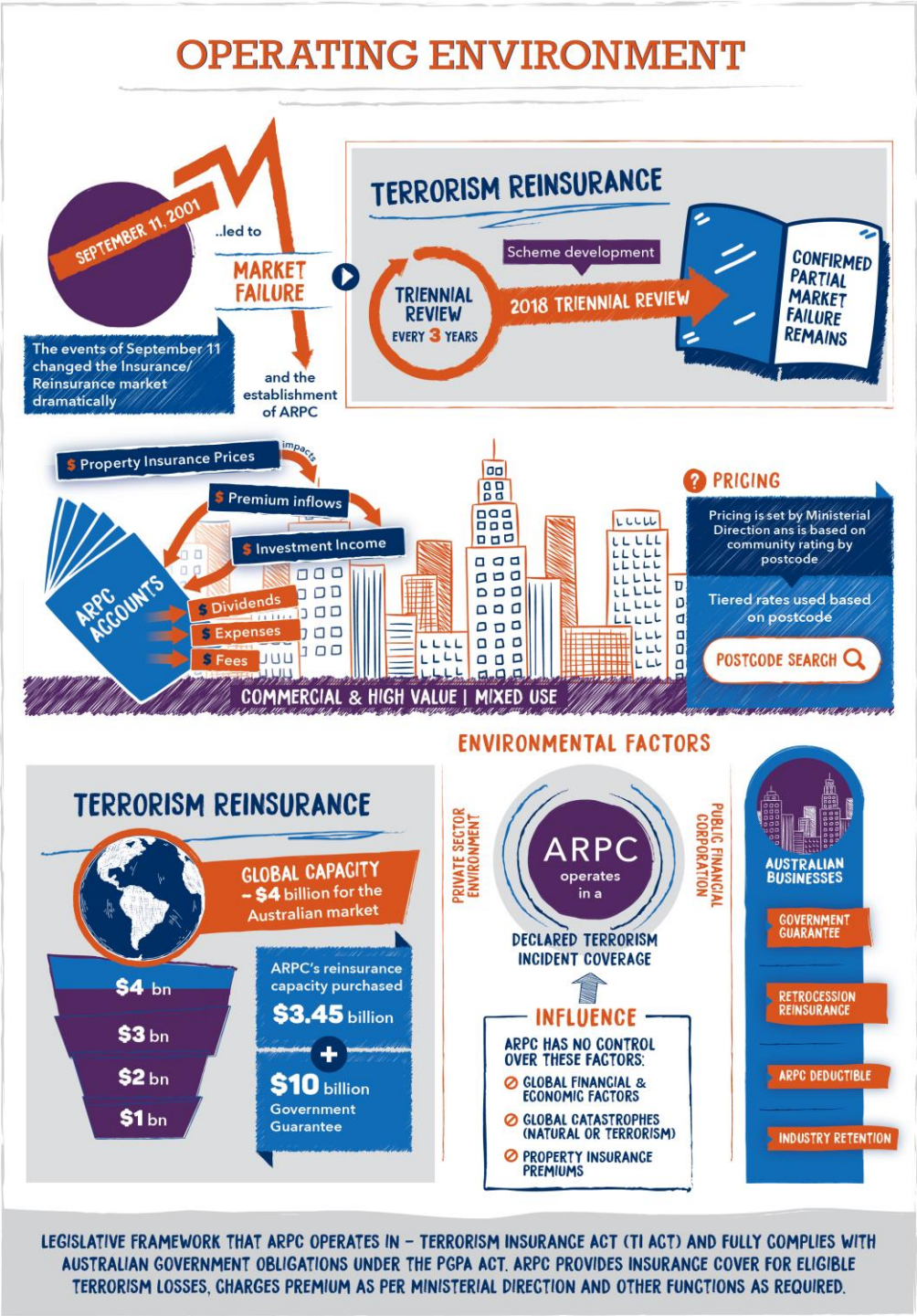
ARPC has the power to charge premiums and a fee for service in return for reinsurance contracts. Pricing terrorism insurance is very difficult, as the frequency and severity of terrorist attacks is impossible to predict. Claims from a terrorism incident could also be very large in scale. Premiums can only be changed by Australian Government Ministerial Direction.

Income is linked to the property insurance market and as such is affected by property insurance premiums set by insurers, the volume of policies sold by insurers, global catastrophes, financial market fluctuations and global terrorism incidents, all of which impact the underlying price of property insurance.

Modelling terrorism risk is difficult due to the unpredictable nature of the peril. ARPC can model the potential severity of a loss event but it is impossible to predict a terrorist attack.

See *Figure 2.1* for a pictorial view of ARPC's Operating Environment

Figure 2.1: ARPC's Operating Environment



2.1.1 MARKET GAPS

ARPC was established to address market gaps in the terrorism risk insurance market for Australian commercial properties.

The scheme is subject to a Treasury review of the scheme every three years (triennial review) to test whether market failure still exists and whether there is still a need for the scheme to exist.

The 2018 Triennial Review of the Terrorism Insurance Act, completed in December 2018, concluded that 'in the absence of the (TI) Act there would likely be a market failure in the terrorism insurance market with wider economic implications' and that global terrorism insurance capacity for commercial property was insufficient to cover against 'large, but possible, terrorism incidents'.

The 2018 Review estimated that terrorism risk reinsurance available to Australian insurers at a reasonable price totals around \$4 billion, well below the \$13.6 billion of reinsurance cover provided by the Scheme administered by ARPC, at the time of the review.

The review made the following recommendations and findings:

- That the TI Act remain in force.
- That ARPC pay an additional temporary dividend of \$10 million a year for three years commencing in 2018-19 and terminating in 2020-21, with the Government to consider again the appropriate level of payments when this dividend ceases.
- The current structure of pricing for the range of risks currently covered by the TI Act and the approach to declaring a terrorism incident remains appropriate.
- Cyber terrorism is an emerging risk and there is yet to be a clear and evident market failure in relation to physical property damage from cyber terrorism requiring government intervention through the TI Act 'at this time'.

2.1.2 PRICING TERRORISM INSURANCE

ARPC is a Public Financial Corporation operating in a private sector environment that is subject to global economic factors. As previously noted, there are often events outside ARPC's control that can significantly impact the organisation's operations.

The TI Act states that the Corporation has the power to do everything necessary or convenient to be done for, or in connection with, the performance of its functions, including:

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

ARPC's current rates are flat percentages of the underlying premium charged by insurers based on postcode tiers and are community rated. ARPC's pricing is based on population density and is split into city, suburban and other area tiers.

The link between Australian terrorism risk insurance and commercial property insurance premiums leaves ARPC exposed to pricing shifts associated with global catastrophes, such as the current COVID-19 pandemic, financial market fluctuations and terrorist incidents both in Australia and abroad.

Over the past 12 months, increased underlying premiums in commercial property insurance has led to increased premium income for ARPC. Commercial property insurance rates commenced increasing in 2017-18 and premium rates continued to increase through 2019-20 after a decade of low and unprofitable premium rates for insurers.

All ARPC's operations are funded (including retrocession premiums and fee and dividend payments to government) from premium income received from insurers and investment income. A fixed percentage of insurers' underlying premiums is charged and, as a result, ARPC's premium income is linked to insurer price fluctuations. In addition, tier rates are based on the applicable postcode of each commercial property and can only be amended through a Ministerial Direction.

2.1.3 SCHEME STRUCTURE

ARPC provides significant reinsurance capacity to insurer clients with \$13.7 billion reinsurance cover available in the event of a DTI.

Total capacity comprises insurer or industry retentions, ARPC net assets, retrocession (private cover from reinsurers) and the \$10 billion Commonwealth guarantee.

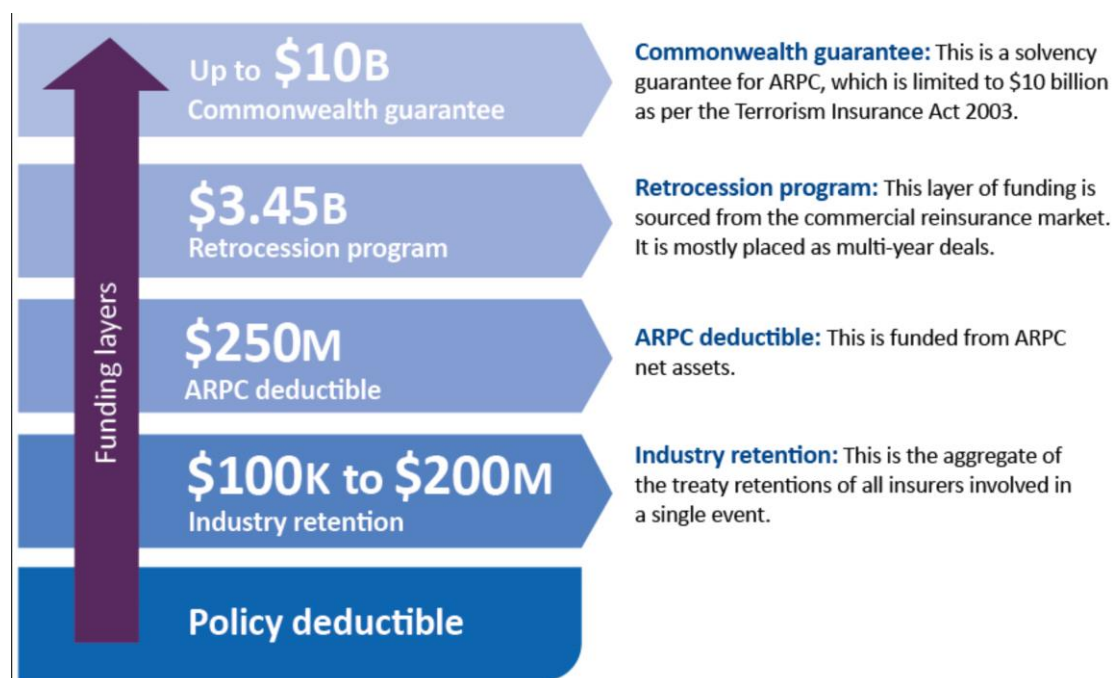
ARPC places an annual retrocession (private market reinsurance) program to provide a valuable funding source for rebuilding Australian commercial infrastructure in the event of a major terrorist attack. Additionally, the program encourages the private market and reduces the risk to Government that ARPC will need to draw on the Commonwealth guarantee.

In the 2020 calendar year, ARPC purchased a \$3.45 billion retrocession program.

Although the maximum funds available to pay claims is \$13.7 billion (excluding industry retentions), the insurers who have cover with ARPC insure approximately \$3.7 trillion in Australian-based commercial property sector assets.

Figure 2:2 illustrates the funding layers of the ARPC scheme structure as at 30 June 2020

Figure 2.2 ARPC Scheme Structure



In 2020, ARPC purchased an additional \$135 million of retrocession compared to 2019. This was achieved by ARPC reducing the deductible from \$285 million to \$250 million, as well as purchasing an additional \$100 million of retrocession. This expanded the scheme size and further protected the Commonwealth guarantee.

In 2019, ARPC increased private reinsurance sector participation in the scheme purchasing an additional \$250 million of retrocession.

2.2 CAPABILITY

ARPC uses its capability to deliver on its purpose and support the functions of the corporation under the TI Act.

2.2.1 KEY PERFORMANCE AREAS

ARPC has five key performance areas to measure the delivery of its strategic priorities.

- One - provide reinsurance for eligible terrorism losses
- Two - encourage private sector participation through the retrocession program
- Three - compensate the Government
- Four - maintain financial sustainability and organisational resilience
- Five - engage, understand and collaborate with stakeholders

The relationship between ARPC's strategic priorities, core activities and key performance areas is summarised in *Figure 2.3*.

Figure 2.3: 2020-2024 Activities to deliver the strategic priorities

Strategic Priority 1. Extend thought leadership and expertise	Key Performance Areas				
Core Activities	One	Two	Three	Four	Five
• Prepare for the 2021 Triennial review of the scheme by Treasury.	✓				✓
• Continually review, identify and inform the market about potential gaps in cover.	✓	✓			✓
• Continue to raise awareness of emerging terrorism risks, such as cyber terrorism.	✓			✓	✓
• Complete project with Standards Australia to develop a risk mitigation Handbook for business. Promote the Handbook to stakeholders to assist property owners to mitigate terrorism risk.		✓			✓
• Provide advice to Government as a trusted expert on terrorism risk insurance.				✓	✓

Note: Core activities have been allocated to the Key Performance Area that they predominantly address

Strategic Priority 2. Engage, understand and collaborate with stakeholders	Key Performance Areas				
	One	Two	Three	Four	Five
Core Activities					
<ul style="list-style-type: none"> Enhance stakeholders' understanding of terrorism reinsurance pooling 	✓				✓
<ul style="list-style-type: none"> Develop and launch a stakeholder engagement survey to set a baseline for measuring effectiveness. 	✓				✓
<ul style="list-style-type: none"> Deliver the annual Terrorism Risk Insurance Seminar to share knowledge of global and local terrorism trends 	✓	✓			✓
<ul style="list-style-type: none"> Organise the International Forum of Terrorism Risk Insurance Pools (IFTRIP) conference to be held in Sydney in 2022. Continue to participate in global and local forums on terrorism risk insurance and catastrophe insurance and financing 		✓			✓
<ul style="list-style-type: none"> Participate in the OECD High Level Advisory Board for the Financial Management of Large-Scale Catastrophe. 		✓			
<ul style="list-style-type: none"> Participate in discussions on terrorism risk with Australian government departments 			✓		✓

Note: Core Activities have been allocated to the Key Performance Area that they predominantly address

Strategic Priority 3. Provide a world class response to terrorism incidents	Key Performance Areas				
Core Activities	One	Two	Three	Four	Five
<ul style="list-style-type: none"> Continue catastrophe modelling development for blasts and biochemical events throughout Australia. 		✓		✓	
<ul style="list-style-type: none"> Commence development of a probability matrix to enhance the deterministic models with probabilistic capabilities. 		✓		✓	
<ul style="list-style-type: none"> Purchase retrocession reinsurance to increase ARPC's total funds available for claims following a DTI, while reducing the need to call on the Commonwealth guarantee. 		✓			
<ul style="list-style-type: none"> Continuous improvement of ARPC's DTI Response Procedure through regular DTI exercises, including an issues log and an external firm to track employee responses to scenarios, and monitoring completion of improvement opportunities. 				✓	
<ul style="list-style-type: none"> Continuous improvement of ARPC's claims response plan. 				✓	

Note: Core Activities have been allocated to the Key Performance Area that they predominantly address

Strategic Priority 4. Embrace and evolve to a changing market environment	Key Performance Areas				
Core Activities	One	Two	Three	Four	Five
<ul style="list-style-type: none"> Host the postponed Cyber Terrorism Research and Insurance Seminar to share findings with industry and government to advance understanding and solutions. 	✓			✓	✓
<ul style="list-style-type: none"> Engage with local universities on research to further knowledge of terrorism risk and development of analytical tools. 	✓	✓			✓
<ul style="list-style-type: none"> Maintain postcode changes and rating tiers for accurate pricing. 	✓		✓		
<ul style="list-style-type: none"> Continue to review and upgrade the IT environment for maximum operational effectiveness. 				✓	

Note: Core Activities have been allocated to the Key Performance Area that they predominantly address

Strategic Priority 5. Enhance and strengthen resilience and preparedness of our people and organisation	Key Performance Areas				
	One	Two	Three	Four	Five
Core Activities					
• Make payments to government as per Ministerial Direction.			✓		
• Continue professional development for employees.				✓	
• Update employee engagement survey and action plans.				✓	
• Continue to monitor the Capital Management Policy to support ARPC's financial sustainability.				✓	
• Redesign of risk management framework with a focus on risk culture (refer to risk culture statement)				✓	

Note: Core Activities have been allocated to the Key Performance Area that they predominantly address

2.2.2 PEOPLE CAPABILITY

ARPC's success is dependent on the quality and commitment of its employees and their ability to deliver on ARPC's purpose and strategic priorities.

ARPC values emphasise understanding and collaborating with stakeholders, therefore its organisational structure supports stakeholder engagement. These stakeholders include the Australian Government, together with the insurance, reinsurance, investment and property sectors.

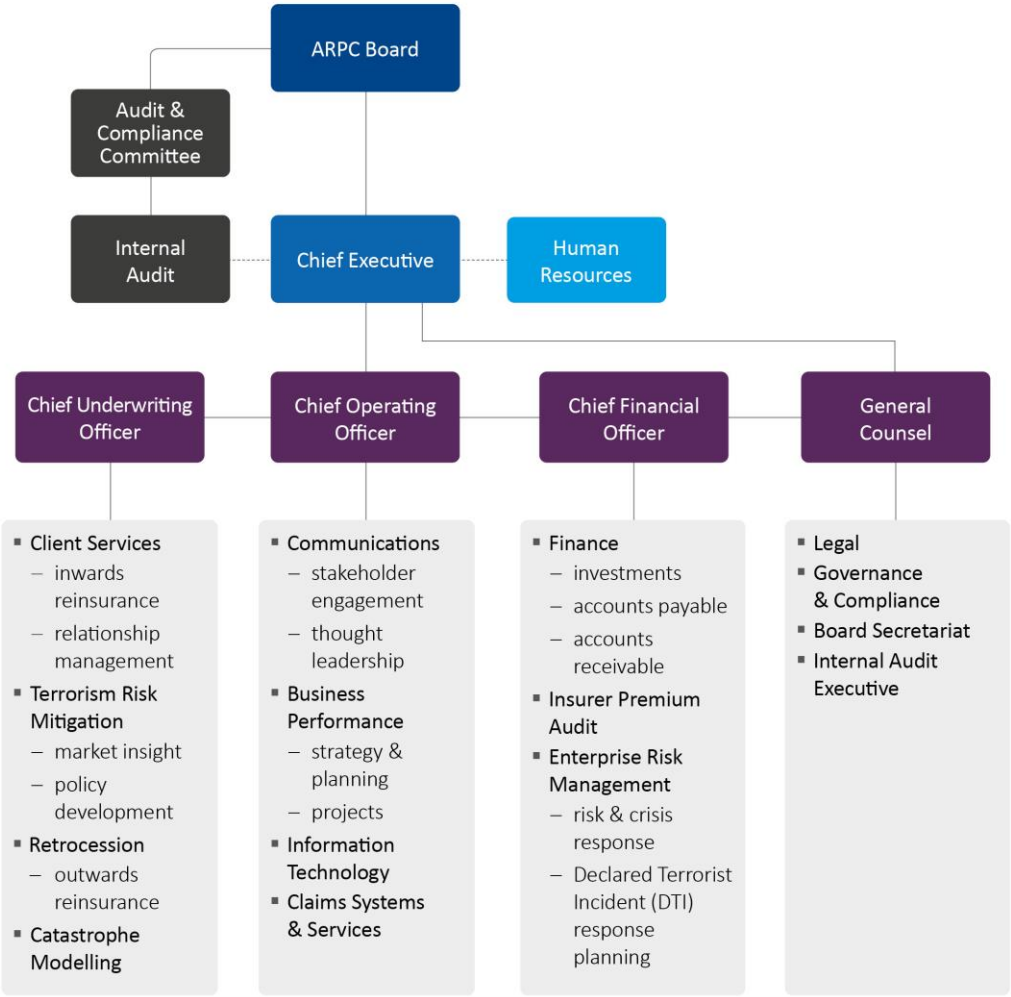
Through workforce and succession planning, ARPC ensures employees have suitable capabilities to undertake core functions during business as usual periods and in the event of a DTI. The primary employee capabilities within ARPC include:

- DTI response expertise (communications, operations, claims handling, customer interaction, corporate governance and security)
- insurance and reinsurance expertise
- external market liaison employees
- regulatory expertise
- financial management expertise
- stakeholder engagement and communications expertise; and
- technology expertise (to enable delivery).

ARPC aspires to connect, develop, and empower all employees to execute meaningful work. The organisational structure has been designed to support this aspiration.

See *Figure 2.4* to view the Organisational Chart as at August 2020.

Figure 2.4: Organisational Chart



2.2.3 VALUES

ARPC strives to be high achieving, with its culture underpinned by its values of collaboration, integrity, personal leadership and delivering for our stakeholders.

The organisation promotes a values-based approach to its workforce and decision-making. These values support ARPC' strategic priorities and are fundamental to the success of the organisation. *Figure 2.5* shows the detail of ARPC's values.

Figure 2.5: ARPC's values



2.3 RISK OVERSIGHT AND MANAGEMENT

ARPC is committed to a comprehensive, coordinated and systematic approach to risk management. Effective risk management has a critical role in all organisational decisions.

ARPC's approach to risk management involves supporting all staff to anticipate uncertain events, identify opportunities and respond appropriately to potential weaknesses. This includes:

- harnessing resources to more effectively manage risks which may prevent ARPC from achieving its objectives
- protecting people, and
- managing assets, resources and the environment in an efficient, effective, economical and ethical manner.

2.3.1 ARPC RISK MANAGEMENT POLICY

As a Public Financial Corporation under the PGPA Act, ARPC has an obligation to establish risk management systems and controls. The ARPC Risk Management Policy assists ARPC in meeting its risk management obligations under the PGPA Act. The Risk Management Policy outlines the commitment of the Board and senior management to promote a supportive risk aware culture, set risk objectives, provide training and resources for risk management activities, manage and report risk information, and monitor, review and continually improve. ARPC's risk management principles and policy objectives are consistent with the Commonwealth Risk Management Policy and the international standard for risk management ISO 31000.

ARPC undertakes a Fraud Risk Assessment at least every two years, which is reviewed by an independent external consultant. This requirement complies with ARPC's Fraud Control Policy, which also documents the internal controls established within the organisation to mitigate fraud occurrence.

2.3.2 ACCOUNTABILITIES

As the accountable authority, the ARPC Board has overall responsibility for providing strategic direction, risk oversight and setting the organisation's risk appetite and tolerance. Risk responsibilities are also outlined in the Risk Management Policy.

The ARPC Board has a standing agenda item to examine risk at each Board meeting. Under section 17 of the PGPA Rule, the ARPC Audit and Compliance Committee is responsible for reviewing the appropriateness of ARPC's risk management systems and internal controls. ARPC's internal controls are routinely reviewed by ARPC's Internal Auditor which is an external organisation. ARPC's financial statements are audited annually by the Australian National Audit Office and published in the ARPC Annual Report.

2.3.3 RISK APPETITE AND TOLERANCE STATEMENTS

Each year, the ARPC Board reviews the Risk Appetite and Tolerance Statement as part of the annual strategic workshop held by the Board, together with the Executive Management team. ARPC's risk register is regularly reviewed to capture new or emerging risks, and monitor risk target levels and ratings for potential changes. The ARPC Board receives regular reporting, sourced from the risk register, on risks which are outside tolerance levels, the status of risk controls, and any risk incidents that may occur.

2.3.4 LEGISLATIVE COMPLIANCE

ARPC employees are made aware of legislative requirements through ongoing information and training. ARPC conducts regular testing in relation to compliance with legislative requirements.

In addition, ARPC monitors regulatory updates from a range of subscription and alert services and implements ongoing training and information sessions to make staff aware of legislative requirements.

2.3.5 RISK CULTURE STATEMENT

In 2020-21, ARPC intends to refresh its risk management framework by developing a formalised statement to define and support the desired risk culture.

The risk culture statement will draw on existing ARPC policies and procedures covering code of conduct, risk management, conflict of interest, bullying and harassment, legal compliance, delegations, human resources, remuneration, investment, fraud control, and public interest disclosure.

The desired risk culture will be built through employees embracing mindsets and behaviours that reinforce ARPC's values and risk appetite. This means providing the right motivation, communicating the right message, taking the right risks, and establishing the right environment.

The outcome of this project will be to embed ARPC's risk culture through our employees.

2.4 KEY ORGANISATIONS

ARPC co-operates with the following key organisations to deliver our purpose:

- Treasury
- Australian Office of Financial Management (AOFM)
- Our insurer customers
- Our reinsurance broker Guy Carpenter (part of the global Marsh McLennan Group)
- Global reinsurers
- Geoscience Australia
- Risk Frontiers
- Defence Science and Technology Group
- Finity Actuarial Consultants
- Standards Australia

ARPC is an agency within the Treasury portfolio, therefore ARPC works with Treasury to assist ARPC to deliver to the needs of the Government. ARPC meets with Treasury regularly.

AOFM will raise funds in the event of a catastrophic terrorism event that would require a call on the \$10 billion Commonwealth guarantee.

Under ARPC's reinsurance business model, ARPC operates with a small team of 23 staff. ARPC relies on the claim infrastructure of its insurer customers to manage all claims in the first instance. ARPC will conduct post claims audits to validate that public funds have been used in an efficient and effective manner.

ARPC uses the services of a reinsurance broker to access global reinsurance markets. ARPC currently has 71 reinsurers participating in its \$3.45 billion retrocession program. The reinsurance broker would also administer and co-ordinate the collection of reinsurance recoveries in the event ARPC makes a claim on its retrocession program. ARPC has negotiated claims recovery wordings in its retrocession agreements that allows ARPC to make recoveries before paying any claims to insurers to further protect the Commonwealth.

Global reinsurers support ARPC's retrocession program by providing \$3.45 billion of claims paying capacity before the \$10 billion Commonwealth guarantee will be called on. This retrocession program increases the size of the terrorism scheme that protects Australia in the event of a terrorism catastrophe and protects the Commonwealth guarantee.

ARPC works with two organisations, Geoscience Australia and Risk Frontiers, to build catastrophe models. These models assist ARPC to estimate the cost of potential attacks and allow ARPC to design a scheme size that meets the needs of the Australian economy. The models also help to educate and inform global reinsurers about the risk so they are able to provide capital to support terrorism insurance in Australia.

ARPC has partnered with Geoscience Australia to build classified three-dimensional explosive blast and bio-chemical plume catastrophe models that cover the central business districts of each capital city. The biochemical catastrophe model utilises inputs from Federal Government's Defence Science and Technology Group (DSTG). ARPC has also partnered with Risk Frontiers to build a geospatial catastrophe model covering the entire mainland of Australia for commercial property assets.

During the plan period, ARPC intends to build a probability matrix to be used in conjunction with these deterministic catastrophe models to add probabilistic capability to our catastrophe models.

ARPC has appointed Finity as actuarial consultants. In the event of a DTI, Finity will perform the actuarial reserving valuation process and loss estimate models.

In accordance with our strategic priority to extend thought leadership and expertise, ARPC is working with Standards Australia to develop a risk mitigation Handbook to assist property owners mitigate physical damage to assets from terrorism risk.

3. PERFORMANCE

There are five key performance areas ARPC will measure over the reporting period.

The key performance areas are listed in *Figure 3.1*, together with the measures and assessment criteria used to determine success.

Figure 3.1: Key Performance Areas and Measures

Key Performance Area	Measure	Assessment Criteria	Level of ARPC Influence
One: Provide reinsurance for eligible terrorism losses.	Measure 1: Income – Gross Written Premium	Gross Written Premium (GWP) against target	Limited
	Measure 2: Scheme Capacity – Total Funding Available	Purchase of > \$2.5 billion in retrocession within approved budget ¹	Moderate
Two: Encourage private sector participation through the retrocession program	Measure 3: Private sector participation	Number and quality of retrocessionaires (reinsurers) in the program	Moderate
Three: Compensate the Government	Measure 4: Payments to government	Payments made as per Ministerial Direction	Limited
Four: Maintain financial sustainability and organisational resilience	Measure 5: Net assets against ARPC target and minimum capital	Net assets at or above \$370 million	Limited
	Measure 6: Strategic Projects - timeliness, cost effectiveness	Strategic projects progressed or completed to plan	High
Five: Engage, understand and collaborate with stakeholders	Measure 7: Stakeholder engagement activity-based metrics	Measure and publish stakeholder engagement activity	High
	Measure 8: Stakeholder-engagement outcome-based metrics	Develop and launch baseline stakeholder survey and use to improve stakeholder outcomes	High

¹ Purchase must also be value for money.

3.1 KEY PERFORMANCE AREAS DETAIL

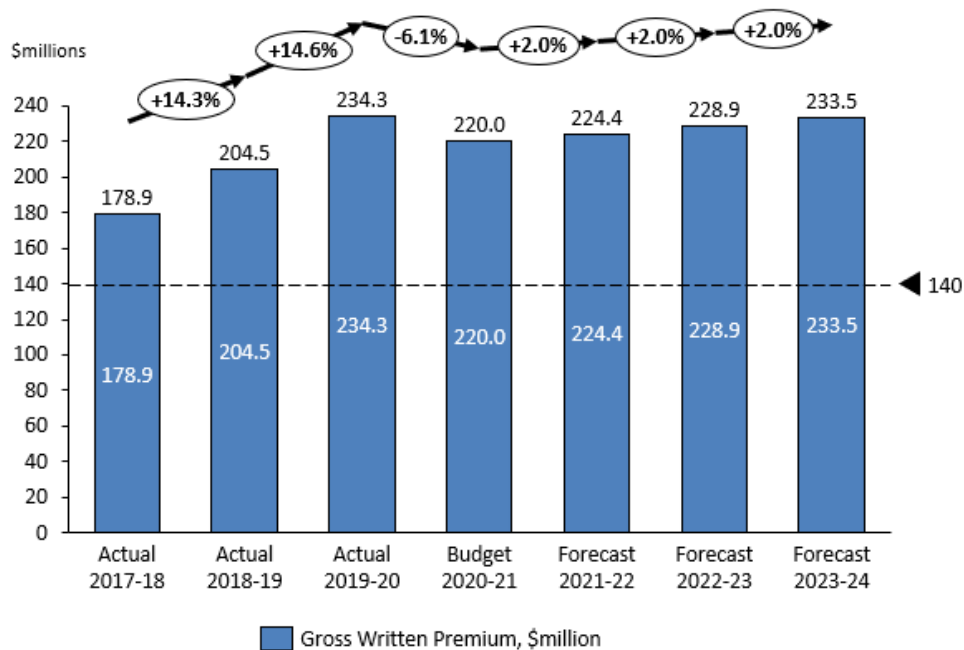
ONE: PROVIDE REINSURANCE FOR ELIGIBLE TERRORISM LOSSES

Measure 1: Income – Gross Written Premium

To improve financial sustainability and achieve at least the target premium in each plan period.

Notwithstanding ARPC's limited capacity to influence this key performance area, providing reinsurance for eligible terrorism losses is ARPC's function under section 10 of the TI Act. Over the period covered by the Corporate Plan, the success for this activity will be measured by ARPC's total premium income, with the minimum target premium level for the forecast period being \$140 million.

Figure 3.2: Gross written premium



During the current year, there have been continued increases in commercial property insurance premiums after a decade of soft premium rates. Rates are expected flatten in the forecast years.

Measure 2: Scheme capacity – total funding available

To protect the government from losses through the purchase of more than \$2.5 billion in retrocession in each program period.

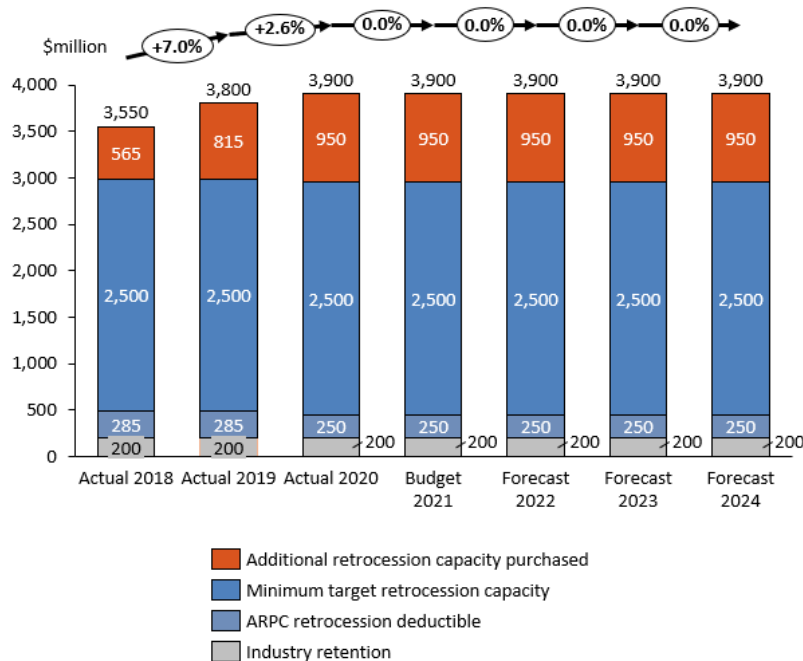
ARPC uses premium income to purchase retrocession (reinsurance cover from private sector reinsurers) and to compensate the Australian Government for the Commonwealth guarantee. Through ARPC's retrocession program and the Commonwealth guarantee, ARPC has \$13.7 billion in funding available to meet DTI claims as at 30 June 2020.

ARPC purchases retrocession from global terrorism reinsurers, thereby transferring a large proportion of risk to the private sector and reducing risk to the Australian Government. For 2020, reinsurers, or 'retrocessionaires', provide \$3.45 billion² private cover for claim payments above the \$250 million ARPC deductible and any industry retentions.

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 & Poor's (or equivalent) long-term rating of A- or greater.

To measure success in this activity, ARPC measures total retrocession capacity purchased each calendar year and the total purchase cost, while monitoring the number of participating retrocessionaires. Scheme capacity details can be viewed in *Figure 3.3*.

Figure 3.3: Scheme capacity (including retrocession) before the Commonwealth guarantee



² Representative of the tranche of cover commencing in that calendar year.

TWO: ENCOURAGE PRIVATE SECTOR PARTICIPATION THROUGH THE RETROCESSION PROGRAM

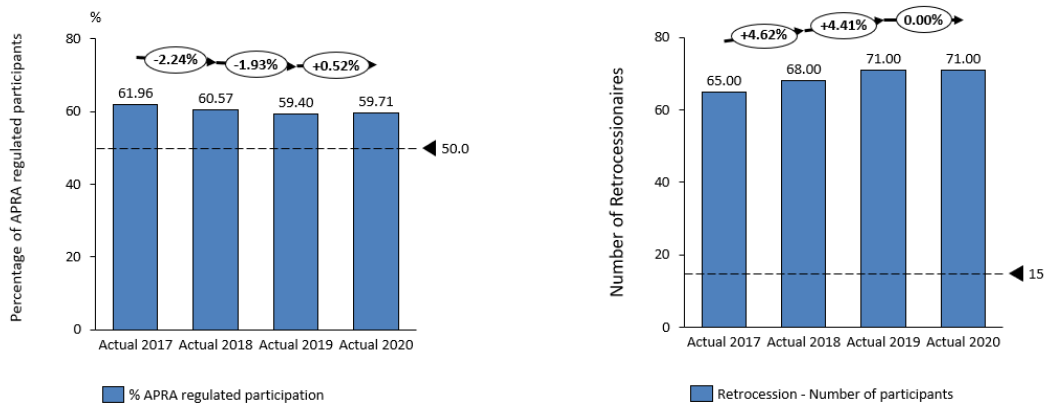
Measure 3: Private reinsurance sector participation

The objective is to maximise private sector reinsurance participation in the retrocession program.

ARPC aims to maximise the participation of high credit quality reinsurers in the annual ARPC retrocession program, subject to retrocession being available at a cost that provides value to ARPC. Each year, ARPC seeks more than 15 high credit quality reinsurers³ to participate in the program. ARPC also aims to have more than 50 per cent of retrocession scheme capacity provided by APRA regulated reinsurers.

Retrocession Program Detail can be viewed in *Figure 3.4*.

Figure 3.4: Retrocession Program Detail



³ Reinsurers who hold a Standard & Poor's long-term rating of A- (or equivalent) or greater.

THREE: COMPENSATE THE GOVERNMENT

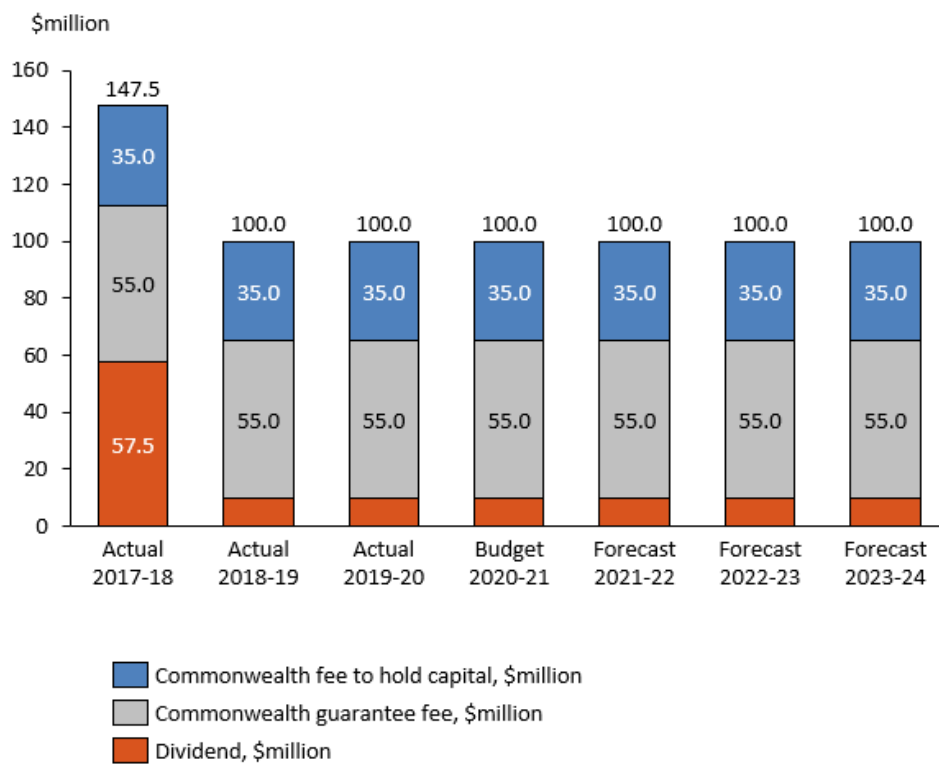
Measure 4: Payments to Government

To meet ARPC's obligations, the objective is to deliver scheduled Government payments in each plan period.

ARPC pays the Australian Government a fee for provision of the Commonwealth guarantee together with a capital holding fee for the Australian Government's ownership of ARPC and dividends. These payments are implemented through Ministerial Direction.

ARPC compensates the government annually through a \$55 million fee for the Commonwealth guarantee plus a \$35 million capital holding fee and for 2018-19, 2019-20, and 2020-21, a dividend of \$10 million. Detail of payments to Government can be viewed in *Figure 3.5*.

Figure 3.5: Payments to Government



FOUR: MAINTAIN FINANCIAL SUSTAINABILITY AND ORGANISATIONAL RESILIENCE

Measure 5: Net assets against ARPC target and minimum capital

Maintain sufficient net assets to support targets in ARPC Capital Management Policy.

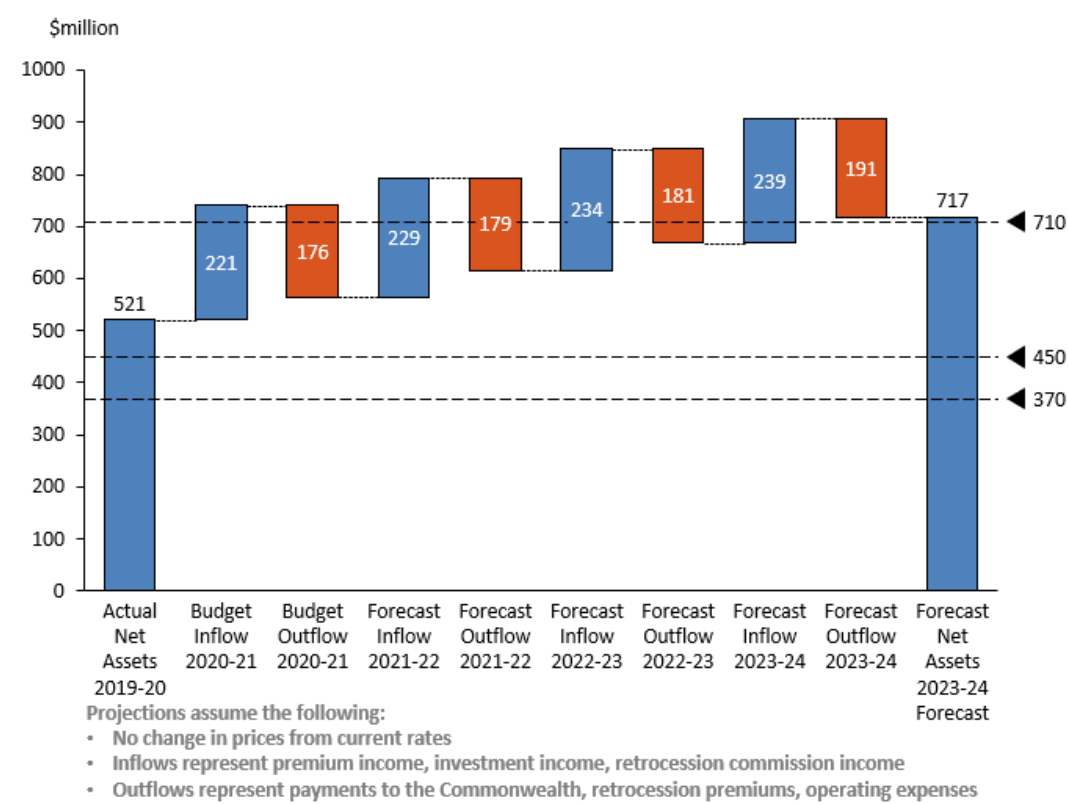
The Board approved Capital Management Policy was designed in consultation with management and ARPC's actuarial advisory firm, Finity. The Board has set capital thresholds after consideration of:

- the financial position of ARPC
- ARPC's risk appetite and tolerances for its financial, operational and strategic risks and
- reducing the probability of drawing upon the Commonwealth guarantee.

Figure 3.6: Capital Management Zones and Actions Required

Zone	Monetary Boundaries	Actions Required
Red Zone	Less than Minimum Capital. Below \$310 million	Actions are required to return to the Target Zone (Green Zone).
Yellow Zone Watch and Act	Less than the bottom of the Target Zone but greater than Minimum Capital Between \$310 million and \$370 million	Actively monitor the capital position and take corrective action to return to the Target Zone (Green Zone) where the capital position is forecast to deteriorate further.
Green Zone Target Zone	Approximately +/- 10% of Target Capital Between \$370 million and \$450million	Monitor and report capital position as business as usual.
Blue Zone	Greater than the top of the Target Zone and up to Maximum Capital. Between \$450 million and \$710 million	Capital Accumulation Zone, where ARPC can accumulate additional capital to provide additional resilience following a DTI.

Figure 3.7: Projected Net Assets



Measure 6: Strategic Projects

Complete and/or progress major projects according to plan.

Figure 3.8: Performance Information on Major Projects for the 2020-24 period

Project	Performance Criteria	Assessed as	Methodology	Timeline
Cyber terrorism research project – launch of the research findings to stakeholders	Launch the research to stakeholders at the ARPC Cyber Terrorism Research and Insurance Webinar in financial year 2020-21. The original launch seminar was postponed due to COVID-19.	Publish a high-quality compendium containing an ARPC summary of the project findings together with reports from the OECD and Cambridge ⁴ , to be shared with Government and industry stakeholders. Host the launch webinar	Manage a successful webinar with more than 100 attendees from government, the insurance industry and academia.	Webinar planned for financial year 2020-21.
Risk mitigation project through Standards Australia	Finalise the HB-188 Handbook 'Physical Protective Security Treatments for Buildings' incorporating additional feedback from Australian security agencies. ARPC to promote the handbook to our stakeholders in government, insurance industry, and the commercial property sector.	Published by Standards Australia. Commercial property owners and operators embrace this resource for informed decision-making, creating a higher quality risk in the insurance market.	Project manager appointed to represent ARPC, manage stakeholder relationships, research/draft content, work with editors to publish, and deliver resource to industry.	Expanded project due for completion financial year 2020-21.
Geoscience Australia Blast and Plume Catastrophe Model	Adds to ARPC's world class modelling for use in response to a Declared Terrorism Incident (DTI)	Successful collaboration with other government stakeholders including Geoscience Australia, the Bureau of Meteorology, Defence	Project Manager appointed to undertake collaboration and liaison with key stakeholders	Ongoing.

⁴ Cambridge Centre for Risk Studies at the University of Cambridge's Judge Business School

Project	Performance Criteria	Assessed as	Methodology	Timeline
	involving biological or chemical agents.	Science and Technology and the Australian Federal Police.	and subject matter experts	
Undertake initial assessment of available options for ARPC's core insurance system	Transition to a contemporary and forward-looking system and support solution	Candidate system selected, with system, support, and implementation risks mitigated.	Undertake a comprehensive environment scan and market research of potential options.	Assessment completed and decision made by June 2021.
ARPC Website Refresh	Website refresh to modernise and aid in accessibility to information	Contemporary website design and enhanced content accessibility	Stakeholder engagement to understand user journeys Engagement of website designer	For completion financial year 2020-21.
University Research Collaborations	To expand thought leadership in terrorism risk	A targeted and coherent university collaboration program to benefit the community, stakeholders and identify strategic forward-looking issues	Initial collaboration commenced with the University of Queensland. Identification of candidate universities ongoing	Ongoing
Redesign of risk management framework with a focus on risk culture	Develop a risk culture statement to define and support the desired risk culture. The desired culture to is to be built via employees embracing behaviours that reinforce ARPC's values and risk appetite.	Embedding the risk culture statement in all employees, measured by risk culture questions in the employee engagement survey.	A project with support from a risk culture consultant.	For completion financial year 2020-21.

FIVE: ENGAGE, UNDERSTAND AND COLLABORATE WITH STAKEHOLDERS

Measure 7: Stakeholder engagement activity

Record and report our stakeholder activity

ARPC will record our stakeholder engagement activity using the following categories and will report it to stakeholders in the Annual Report. ARPC will also use this information to inform future stakeholder engagement activities:

- Frequency of stakeholder contact (meetings)
- Events held
- Media references
- Electronic direct mail (eDM) engagement
- Website engagement
- Social media engagement

Measure 8: Stakeholder Survey

Develop and launch a baseline stakeholder survey and use the results to improve stakeholder outcomes.

An external consultant, ORIMA, has been appointed by ARPC to develop and implement a stakeholder engagement survey for our insurer customers. The survey research strategy and question design has been completed and the survey will be undertaken during financial year 2020-21. The results from the first survey will form a baseline measure to assess and report on the effectiveness of stakeholder engagement efforts.

The stakeholder survey is designed to provide a benchmark in relation to how ARPC is perceived in the areas of:

- Delivering to our vision
- Stakeholder sentiment towards ARPC
- Providing value for money
- Effectiveness of stakeholder engagement

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