ARPC

Australian Reinsurance Pool Corporation

Annual Report 2008-09

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Australian Government

Australian Reinsurance Pool Corporation

22 September 2009

The Hon Chris Bowen, MP
Minister for Financial Services,
Superannuation and Corporate Law
Parliament House
CANBERRA ACT 2600

Dear Minister

I have pleasure in presenting to you the Annual Report of the Australian Reinsurance Pool Corporation for the year ended 30 June 2009. The report has been prepared under section 9 of the *Commonwealth Authorities and Companies Act 1997* and in accordance with the Finance Minister's Orders made under that Act.

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

Yours sincerely

J I Gersh AM
Chair

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Report from the Chair

I am pleased to present ARPC's 2008-09 annual report.

During 2008-09 ARPC continued to build on the solid financial results achieved during past years. It is pleasing to note both the continued growth in gross written premium to $106.270 million and, notwithstanding the sharp decrease in interest rates, investment income increasing to $30.416 million. The reserve for claims grew by $94.545 million and, as at 30 June 2009, stood at $551.189 million. This result reflects the introduction of the retrocession program.

ARPC began its investigation into the purchase of retrocession for the scheme in 2005. At that time there was little indication of the reinsurance market returning to any degree. Following the 2006 review of the scheme, ARPC, in conjunction with its professional reinsurance consultants Guy Carpenter, undertook further extensive investigation into the availability and price of retrocession for the scheme. The results of that investigation were reported to the Minister in July 2008. The report sought the Minister's support for a proposed retrocession program. With that support forthcoming, ARPC entered into retrocession contracts for a total of $2.3 billion excess of $300 million. Cover commenced on 31 December 2008.

This is an extremely important initiative for ARPC. The introduction of a retrocession program is a positive step towards achieving the Government's objective of encouraging the return of the commercial terrorism insurance market. It also increases the point at which the Commonwealth guarantee will be called upon and it lessens the likelihood that a reduction percentage will be required.

Consistent with the Government's intention that the scheme should operate only while terrorism insurance cover is unavailable commercially on reasonable terms, the *Terrorism Insurance Act 2003* requires a review to be conducted, at least every three years, of the need for the Act to continue in operation. The first review was completed in June 2006. The second review was completed in June 2009. The review concludes that there is a need for the Act to continue in operation, subject to a further review in no more than three years. It also makes a number of recommendations in relation to examination of possible future refinements to the scheme. There is a comprehensive discussion of the review in Chapter 1.

ARPC benefits from the relationships the Chief Executive and I have established with both industry and government. Examples of these relationships are Mr Weeks' membership of the High Level Advisory Board to the OECD network on the financial management of large-scale catastrophes and my membership of the Business-Government Group on National Security.

Mr Lumsden's term of office expired on 30 June 2009. I wish to take this opportunity to extend my thanks to Mr Lumsden for his outstanding contribution to ARPC. Mr Lumsden was an inaugural Member and was instrumental in establishing ARPC's governance structures. My fellow Members and I wish Mr Lumsden every success in his future endeavours.

Mr Tom Karp was appointed as a Member on 29 August 2008. Mr Karp is a widely respected and experienced actuary. Before his retirement in June 2008, Mr Karp enjoyed a distinguished career in financial services regulation with the Australian Prudential Regulation Authority and its predecessor, the Insurance and Superannuation Commission.

Ms Jan Bowe was appointed as a Member on 1 July 2009. Ms Bowe has held a number of very senior roles in the financial services sector and ARPC will benefit from her wealth of experience in corporate strategy and planning.

Mr Geoff Vogt was re-appointed as a Member on 29 August 2008. Ms Marian Micalizzi was re-appointed as a Member and I was re-appointed as Chair on 1 July 2009.

The combination of the appointment of new members and the re-appointment of experienced members will strengthen ARPC's operational and strategic capabilities.

ARPC is a very professional organisation with firmly established and sound reinsurance, administrative and governance practices. I wish to acknowledge the professionalism and dedication of the Chief Executive, Mr Neil Weeks, and his team and express the Members' appreciation for the assistance they have provided in the development of ARPC. I look forward to working with my fellow Members, the CEO and staff of ARPC over the coming three years to further develop and enhance ARPC and the terrorism reinsurance scheme it administers.

J I Gersh AM
Chair
22 September 2009

Report from the Chief Executive

ARPC's 2008-09 annual report highlights its achievements during the year. Of particulate note are the successful placement of ARPC's retrocession program and its partnership with other government agencies in the development of its loss estimate capabilities. Both are discussed in Chapter 2. However, I would like to take this opportunity to acknowledge the support of the industry for both programs.

The overview contained in Chapter 1 of the annual report includes a discussion on ARPC's role and functions, the structure of the scheme and how premiums are calculated. It also reports on the results of the 2009 review of the need for the Terrorism Insurance Act 2003 to continue. In addition to the retrocession program and exposure modelling, Chapter 2 reports on financial and non-financial outcomes. ARPC's commitment to good corporate governance practice is documented in Chapter 3. The general information provided in Chapter 4 includes statutory reporting requirements not published elsewhere in the report.

One of the key expectations of the Minister is that ARPC should seek to be in a position to advise the Minister of the likely costs to ARPC in the event of a declared terrorist incident. ARPC is working on a number of fronts to enhance its loss estimation capabilities to meet this expectation.

In accordance with their obligations under the reinsurance agreement, clients submit information on their aggregate exposures to building, contents and business interruption risks at post code level. To supplement this aggregate information, ARPC sought the assistance of selected clients requesting the submission of more detailed street level risk information. This information allows ARPC to analyse the distribution of exposure risk across Australia.

Since 2006 ARPC has partnered with Risk Frontiers in developing ARPC's capability to use the information submitted by clients to estimate losses from conventional terrorist attacks in tier A locations; ie the CBDs of Sydney, Melbourne, Brisbane, Adelaide and Perth. In 2008-09 ARPC partnered with the Attorney-General's Department and Geoscience Australia in an exciting initiative to improve ARPC's loss estimation capabilities. The program spans three years and involves collaboration between a number of government agencies. This initiative is discussed further in Chapter 2. The work with Risk Frontiers in the area of loss estimation modelling will continue and will build on the outcomes of the new program. The results of both these programs will assist ARPC to ensure it can meet the Minister's expectations.

ARPC's capabilities in this area were instrumental in the successful placement of its retrocession program.

The results of the review of the need for the *Terrorism Insurance Act 2003* to continue in operation are discussed in Chapter 1. It is pleasing to note that the review recognises ARPC's achievements. The scheme is stable, efficient and widely accepted by industry and ARPC's role in the administration of the scheme is well regarded by stakeholders. ARPC continues to enjoy the confidence of both government and industry.

To maintain this level of confidence, ARPC will continue to work with insurance companies and industry associations to ensure that companies which write eligible insurance contracts are aware of the terrorism reinsurance scheme and ARPC's role in administering the scheme. ARPC's cedant review program and the publication of its quarterly newsletter are central to this awareness program. The program also includes personal visits to insurers, re-insurers, brokers and industry associations, both in Australia and overseas. In addition to contributing to ARPC's awareness program, the personal contact improved ARPC's effectiveness in placing its retrocession program.

No amendments were made to the standard reinsurance agreement in 2008-09. The only variations from the standard agreement are modifications required to suit the particular circumstances of foreign insurers, the dedicated insurance subsidiaries of corporate groups and Lloyd's syndicates.

My commitment to ARPC is mirrored by the commitment of my team. I thank each member of the team for the loyalty they have displayed, both to the organisation and to me personally. I also wish to acknowledge the professionalism of my team. This has made a significant contribution to the regard in which ARPC is held.

I am also indebted to the Chair and Members for their support over my six years with the organisation.

I am looking forward to the challenges and rewards which I am confident the coming year will bring.

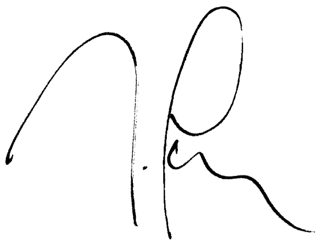
N E Weeks
Chief Executive
22 September 2009

Report of operations

The Members of the Australian Reinsurance Pool Corporation are pleased to present their annual report on the operations of the Corporation for the financial year ended 30 June 2009. This report is made in accordance with a resolution of the Members.

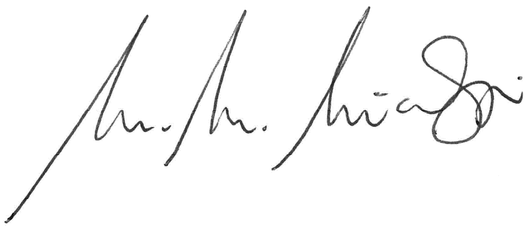
The Members are responsible under section 9 of the *Commonwealth Authorities and Companies Act 1997* for the preparation and content of the report of operations in accordance with the Finance Minister's Orders.

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



J I Gersh AM
Chair

22 September 2009



M M Micalizzi
Member and Chair of the Audit and Compliance Committee
22 September 2009

Chapter 1: Overview

Chapter 1: Overview

Role and functions

Background

The *Terrorism Insurance Act 2003* (TI Act) establishes a scheme for replacement terrorism insurance coverage for commercial property and business interruption. The scheme commenced on 1 July 2003.

The TI Act also establishes ARPC as a statutory authority to administer the scheme. ARPC began operations on 1 July 2003.

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

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

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

- maintain, to the greatest extent possible, private sector provision of insurance;
- ensure that risk transferred to the Commonwealth is appropriately priced to minimise the impact on the Commonwealth's financial position;

- ensure that the Commonwealth is being compensated by those benefiting from the assistance;
- allow the commercial insurance and reinsurance markets to re-enter the market when they are able (that is, ensuring an appropriate exit strategy for Government); and
- be compatible with global solutions.

To ensure that the scheme is still required and is meeting the needs of the insurance industry and commercial property owners, the scheme is reviewed every three years. The first review was completed in June 2006. The second review was completed in June 2009. A report on the 2009 review is included later in this chapter.

Legislative function

ARPC's function is to provide insurance cover for eligible terrorism losses (whether by entering into contracts or by other means).

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

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

Organisational structure

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

ARPC may also employ those people it considers necessary for the performance of its functions and the exercise of its powers. As at 30 June 2009, ARPC had fifteen employees (including the Chief Executive). Fourteen employees work full-time and one works part-time. An organisational chart is attached at Appendix A.

Twelve employees are located in ARPC's Canberra office. Three employees are located in Sydney where ARPC shares premises with the Inspector-General of Taxation.

Mission

ARPC's mission is to ensure that:

- all insurers of eligible insurance contracts have the opportunity to reinsure with ARPC for eligible terrorism losses; and
- the commitments under the reinsurance agreements are met in a timely manner.

Objectives

ARPC seeks to ensure that all issuers of eligible insurance contracts are aware of their exposure to eligible terrorism losses by virtue of the operation of the TI Act and that, if the exposure is not reinsured with ARPC, the insurer has made a conscious decision not to accept ARPC's offer of reinsurance.

A key objective is to ensure that ARPC is in a position to pay claims efficiently in the event of a declared terrorist incident.

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

ARPC's objectives are:

- to provide reinsurance cover for eligible terrorism losses;
- to be in a position to advise of the likely costs to ARPC in the event of a declared terrorist incident;
- to keep abreast of key international developments;
- to keep the Government fully informed of its activities and alert the government to any significant events related to ARPC's core business in a timely manner;
- to maintain the highest standards of corporate governance;
- to be in a position to pay claims efficiently in the event of a declared terrorist incident;
- to secure improved efficiency in its operations and demonstrate value for money for the services it delivers;

- to be an employer of choice; and
- to assist in community based activities which employ and develop the professional skills of its staff.

The scheme

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

As terrorism exclusion clauses are rendered ineffective by the TI Act, payouts available to holders of eligible insurance contracts for terrorism losses depend on the underlying coverage in the eligible insurance contract. For example, if a terrorist act caused a fire, then a policyholder would be able to claim for subsequent loss if their insurance policy would normally cover damage from fire. Conversely, if a terrorist act involved biological contamination and the underlying insurance policy does not include cover for biological contamination, then the reinsurance provided by the scheme would not respond.

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

Coverage

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

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

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

The scheme covers eligible terrorism losses for any declared terrorist incident covered by an eligible insurance contract where the insurer has a reinsurance agreement with ARPC. The TI Act excludes from the definition of eligible terrorism losses any loss or liability arising from the hazardous properties (including radioactive, toxic or explosive properties) of nuclear fuel, nuclear material or nuclear waste.

Coverage is available for Commonwealth and State business enterprises as well as Commonwealth-owned airports leased commercially. As a result of the 2006 review the scheme was extended to include all public authorities which have taken out commercial insurance. Farms benefit from cover for terrorism risk if they hold insurance against business interruption.

Private residential property is not included in the scheme. The Regulations also exclude certain other types of insurance coverage, including: marine insurance, aviation insurance, motor vehicle insurance, life insurance, health insurance, private mortgage insurance, medical indemnity insurance, and professional indemnity insurance.

The pool

Insurance companies which write eligible insurance contracts may reinsure through ARPC the risk of claims for eligible terrorism losses. Premium and investment income continue to build ARPC's first layer of funds available to cover claims from declared terrorist incidents. The pool is supplemented by a $2.3 billion retrocession program and a Commonwealth guarantee which is capped at $10 billion.

Reduction percentage

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

Retentions

Insurers who reinsure their terrorism risks through ARPC retain part of the risk of liability from a declared terrorist incident. Retentions are calculated at 4 per cent of fire and industrial special risk premiums collected by the insurer, with a minimum retention of $100,000 and a maximum retention during 2008-09 of $5 million. The maximum individual insurer retention increased to $10 million on 1 July 2009.

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

In addition to individual insurer retentions, the reinsurance agreement provides for a maximum industry retention. If the retentions of insurers in respect of all eligible terrorism losses caused by a single declared terrorist incident exceed the maximum industry retention, the individual insurer's retention is reduced proportionately. During 2008-09 the maximum industry retention was $50 million. This figure increased to $100 million on 1 July 2009.

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

Layers of the scheme

The scheme effectively provides a layered model that operates to spread the cost of any claims. The following illustrates the layers that were in place during 2008-09.

Layer	Element
First layer	Policyholder's liability for some risk through a possible excess or deductible
Second layer	Retention of some risk by insurers
Third layer	Pool of premiums paid to ARPC for reinsurance
Fourth layer	Retrocession program funded from premium income
Fifth layer	Commercial line of credit of $1 billion guaranteed by the Commonwealth
Sixth layer	Commonwealth guarantee of up to $9 billion
Seventh layer	Possible liability for some risk by policyholder, through the operation of the reduction percentage or policy limits

The following illustrates the layers that are now in place with the expiration of the line of credit on 30 June 2009.

Layer	Element
First layer	Policyholder's liability for some risk through a possible excess or deductible
Second layer	Retention of some risk by insurers
Third layer	Pool of premiums paid to ARPC for reinsurance
Fourth layer	Retrocession program funded from premium income
Fifth layer	Commonwealth guarantee of up to $10 billion
Sixth layer	Possible liability for some risk by policyholder, through the operation of the reduction percentage or policy limits

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

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

Premiums

The premium charged for reinsurance is determined by Ministerial direction. The premiums have been set having regard to the level of risk. There are three broad tiers based on geographic location and identified by postcode. Postcodes allocated to Tier A are those covering the CBD areas of Australian cities with a population of over 1 million (that is, Sydney, Melbourne, Brisbane, Perth and Adelaide). Postcodes allocated to Tier B are those covering the urban areas of all state capital cities and cities with a population of over 100,000 (that is, Sydney, Melbourne, Brisbane, Perth, Adelaide, Gold Coast, Canberra, Newcastle, Central Coast of New South Wales, Wollongong, Hobart, Geelong, Sunshine Coast of Queensland, Townsville and Darwin). Postcodes allocated to Tier C are those postcodes not allocated to either Tier A or B.

Any property not on the mainland of Australia or Tasmania, but within the coastal sea of Australia, is Tier C.

Reinsurance premiums are calculated as a percentage of the reinsured's gross base premium in accordance with the following table. At the introduction of the scheme it was acknowledged that reinsurance premiums would be increased in the event of a significant claim on the scheme. This will enable ARPC to finance its liabilities and rebuild the pool.

Premium structure for reinsurance

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

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

Premiums on bundled insurance policies

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

(a) is comprised of two or more distinct covers that have been packaged or bundled together; and

(b) was offered on the basis that the insured must take out one or more of a number of covers offered; and

(c) precisely quantifies the premiums attributable to each cover comprising that contract of insurance; and

(d) contains covers that (if provided individually) would be an eligible insurance contract.

Reporting of premiums and aggregate risk data

During 2007-08 ARPC developed and implemented a system to consolidate and better manage information key to ARPC's operations. The system called RISe enables secure electronic submission by clients of annual aggregate reports, premium returns, claims and contact details. It also allows clients to access basic market share information. The electronic submission of data enhances ARPC's ability to analyse that data. During 2008-09 RISe was upgraded to enhance ARPC's data collection and analysis capabilities and to improve functionality and usability for clients. ARPC will continue to enhance RISe to ensure both ARPC and its clients obtain the maximum advantage from the technology.

Review of the scheme

Consistent with the Government's intention that the scheme should operate only while terrorism insurance cover is unavailable commercially on reasonable terms, the TI Act includes a requirement for a review to be conducted, at least every three years, for the need for the TI Act to continue.

Treasury conducted the first review which was completed in June 2006. The review concluded that it appears unlikely that an adequate supply of terrorism risk insurance will return in the short to medium term in either the domestic or global markets at a reasonable price. Consequently, the Government accepted the recommendation that the TI Act continue in operation, subject to a further review in no more than three years.

Treasury completed the second review in June 2009. That review considered the need for the TI Act to continue in the context of developments in the domestic and international insurance and reinsurance markets over the period 2006 to 2009. The review examined international approaches to the withdrawal of terrorism insurance and the terrorism insurance schemes with government involvement which have been developed in both OECD and non-OECD countries. Treasury also consulted with stakeholders including insurers, reinsurers, brokers, industry associations and Territory, State and Commonwealth government agencies.

The review examined the position in the United States of America in some detail. This examination included the study undertaken in 2006 by the US President's Working Group on Financial Markets (PWG) and the report by the US Government Accountability Office (GAO) to Congressional Committees on the status of efforts of policyholders to obtain terrorism insurance coverage. It also considered the position of the Australian insurance industry, both in light of the global financial crisis and the 2008 weather related events which were estimated to cost the Australian community $2.5 billion in insured losses.

The review noted that stakeholders consistently expressed the view that there are no commercial providers with the appetite or capacity to cover the risks covered by the scheme. This view is consistent with the views conveyed to both the PWG and GAO in the studies noted above.

The review also noted that the general insurance industry in Australia is relatively well-positioned despite the global economic environment and difficult underwriting conditions. However, these conditions do affect the Australian market and increased demand for reinsurance is leading to an increase in reinsurance prices. The underlying shortage of reinsurance capacity for individual terrorism risk at affordable price has not changed since the 2006 review. Government schemes have been an important factor in addressing this shortage, encouraging market stability and protecting economies from the adverse effects of the withdrawal of terrorism insurance.

Taking into account the global economic environment and the impact this will have on the availability and affordability of reinsurance, the review concluded that there was a need for the Act to continue in operation for another three years. However, the review recognised that permanent government subsidised reinsurance would remove any incentive for the private sector to develop risk transfer mechanisms.

Recommendation

That the Act continues in operation, subject to a further review in no more than three years, at which time further examination of the availability of commercial reinsurance on reasonable terms be undertaken.

After reaching the conclusion that the Act should continue in operation, the review then considered refinements to the scheme in the following areas:

- premiums and the pool;
- retentions;
- line of credit facility;
- residential property; and
- postcode allocation.

Premiums and the pool

The review considered the need to protect taxpayers' interests in terms of the risk the government has assumed through its participation in the scheme in the form of the Commonwealth's $10 billion indemnity. The review also considered the need for the scheme to be structured in such a way as to avoid stifling the emergence of the commercial market and to encourage private sector involvement. The ongoing collection of premiums is central to achieving both these outcomes. ARPC provides a financial service and removing the price for that service would be artificial and highly anti-competitive. This would make it impossible for commercial reinsurers to complete with ARPC.

In accordance with a recommendation made in the 2006 review, and after extensive investigation, ARPC purchased retrocession for the scheme with cover commencing on 31 December 2008. The cover is $2.3 billion excess of $300 million. The purchase of retrocession gives the scheme additional capacity. The additional capacity lessens the likelihood of a reduction percentage being required, improves the financial stability and liquidity of the scheme, enhances its credibility, encourages commercial involvement in the scheme and the terrorism insurance market more generally, and reduces the Commonwealth's exposure to losses in excess of the reserve for claims.

A reduction in income through the cessation or reduction of premiums would adversely affect ARPC's ability to purchase retrocession. This would have a negative impact on the benefits outlined above as well as reducing commercial involvement in the terrorism insurance market.

For these reasons, the review recommended that ARPC continue to collect premiums at current rates.

Recommendation

That:

- ARPC continue to collect premiums at current rates;
- ARPC investigate using premium income to purchase further retrocession for the scheme; and
- the relationship between premiums and the pool, and the impact of retrocession on the pool and the scheme more generally, be further considered in the context of the 2012 review.

Retentions

The most recent increase to retentions came into effect on 1 July 2009. This increase has resulted in insurers now retaining $105.3 million of terrorism risk annually. The review noted that a small number of insurers have reinsured their retentions, particularly at the smaller end of the market. It appears there is very little appetite for reinsurers to reinsure retentions because this involves greater exposure to terrorism risk at a low attachment level. Current retention levels appear to reflect current market conditions.

Recommendation

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

Line of credit facility

The $1 billion line of credit was required on the establishment of the terrorism insurance scheme to provide liquidity to the scheme in the event of a declared terrorist incident in the early years of the scheme while the pool was relatively small. Without the line of credit the Commonwealth guarantee would have been called upon immediately in the event of a declared terrorist incident. The review acknowledged that the situation has changed markedly since 1 July 2003 with the reserve for claims significantly surpassing the initial $300 million target.

With the continued collection of premiums and substantial investment income, ARPC is not subject to the liquidity constraints it had when it was first established.

In addition, the purchase of retrocession for the scheme has increased the funding available to ARPC by $2.3 billion.

The combination of the size of the reserve for claims and the retrocession program means that ARPC is unlikely to call on the line of credit unless eligible claims exceed $2.6 billion. Thus ARPC has a significant buffer of liquid assets to draw upon in the event of a declared terrorist incident.

The availability or otherwise of the line of credit does not affect the quantum of the Commonwealth guarantee for the scheme. Under the TI Act the Commonwealth guarantees the due payment of the liabilities of ARPC up to $10 billion. The $10 billion guarantee included the Commonwealth's obligations as guarantor of ARPC's line of credit facility. Consequently, having a line of credit in place does not reduce the Commonwealth's total exposure to the scheme.

The report concluded that if maintenance of a line of credit facility is not required, ARPC could use the funds to obtain greater retrocession coverage for the scheme. This would increase the funding ARPC has available to pay claims prior to calling on the Commonwealth guarantee as well as further increase the involvement of the private sector in the provision of terrorism insurance.

Recommendation

That:

- ARPC not be required to maintain a line of credit facility for the scheme, guaranteed by the Commonwealth at the current time;
- ARPC should investigate purchasing additional retrocession capacity for the scheme with the funds that would otherwise have been used to pay the maintenance fee for the line of credit; and

ARPC should continue to monitor its overall liquidity position and the need for a line of credit or other liquidity source in light of market retrocession capacity and pricing and any other relevant factors.

Residential property

The review considered whether the scheme should be extended to include:

- high rise buildings that are predominantly or wholly for residential use; and
- defence force and student accommodation involving commercial property financing.

The scheme was established following the withdrawal of terrorism insurance in the wake of the terrorist attacks on 11 September 2001. The concern was that the lack of comprehensive insurance cover for commercial property or infrastructure would adversely affect financing and investment in the Australian property sector. The widespread withdrawal of terrorism insurance cover from commercial insurance policies was making it difficult for developers to obtain financing for large construction projects. This had the potential to cause a decline in construction which would eventually lead to a downturn in the property sector, with negative flow-on effects for the wider economy.

The review demonstrated that there continues to be no evidence that the withdrawal of terrorism insurance is having an adverse effect on the number or value of finance commitments for constructions of units in new residential buildings, or the number of dwelling unit commencements. The review noted that, with respect to high rise property that is solely for residential use, there is an emerging market for commercial terrorism insurance in Australia. The review did not support extending the scheme to include single use residential high rise buildings.

However, stakeholders voiced concerns that the scheme excludes mixed use high rise buildings for which there is little or no commercially available terrorism insurance. The review considered that the policy and financial impacts of extending the scheme to include mixed use high rise buildings were potentially significant and any such extension required a thorough investigation.

The review then considered a request that the scheme be extended to include commercially developed and operated defence force and student accommodation. These properties are purely for residential use and are intended to be excluded from the scheme.

Recommendation

That:

- ARPC examine the effects of extending the scheme to mixed use high rise buildings that are not predominantly for commercial use, having regard to the need to maintain, to the greatest extent possible, private sector provision of terrorism insurance, and allow the re-emergence of commercial markets for terrorism risk cover;
- ARPC consult with relevant stakeholders to examine the issues, collect data and assess the impact of extending the scheme in this way, and have regard to:
  - the availability of commercial terrorism insurance for mixed use high rise buildings that are not covered by an 'eligible insurance contract';
  - an appropriate ratio of commercial to residential use in mixed use high rise buildings where residential use is greater than 50 per cent, subject to the

availability and quality of data;

- appropriate measures to determine or assist in determining the ratio of commercial to residential use in mixed use high rise buildings, for example, asset valuations or contributions to strata title levies; and

- the risk profile of mixed use high rise buildings that are not predominantly for commercial use, including their location, concentration and proximity to buildings covered by an 'eligible insurance contract';

- in assessing the impact of extending the scheme to mixed use high rise buildings that are not predominantly for commercial use, the ARPC examine the likely impacts on policy holders' insurance premiums, the rate and structure of reinsurance premiums payable to the ARPC, insurers' retentions, the adequacy and structure of the reserve for claims, the ARPC's current and future retrocession purchases, the financial risk to the Commonwealth and consequently Australian taxpayers;
- ARPC consult with Treasury throughout the process of examining this issue; and
- ARPC report to the Minister with findings and recommendations by 30 September 2010.

Further, that defence force and student accommodation involving commercial property financing continue to be excluded from the scheme.

Postcode allocation

The reinsurance premiums charged by ARPC are determined by Ministerial direction. The premiums have been set having regard to the level of risk. There are three broad tiers based on geographic location and identified by postcode. The postcode list has not been comprehensively reviewed since the original allocation work was undertaken in 2003.

Recommendation

That:

- Treasury, with the assistance of an outside contractor, update the allocation of individual postcodes to particular tiers to ensure that all postcodes are allocated to the correct tier;
- as a part of this process, the ARPC model the impact of any reallocation of postcodes to different tiers and advise the Government of its findings; and
- there should be a sufficient transitional period to allow insurers and policyholders to adjust to any reallocation of postcodes.

Chapter 2: Report on performance

Chapter 2: Report on performance

Financial Review

Summary of financial information

Financial highlights

	2009 $'000	2008 $'000	2007 $'000	2006 $'000	2005 $'000
Net premium revenue	**66,931**	99,944	96,890	102,537	91,321
Acquisition costs	**(599)**	(452)	(412)	(930)	(532)
Retrocession commission income	**3,446**	-	-	-	-
Investment income	**30,416**	29,495	18,803	10,833	4,790
Other income	**(254)**	-	5	15	-
Other operating expenses	**(5,395)**	(4,353)	(3,973)	(3,034)	(2,467)
Operating result	**94,545**	124,634	111,313	109,421	93,112
Gross written premium	**106,270**	100,659	94,729	103,204	102,188
Outwards retrocession premium	**(37,440)**	-	-	-	-
Expense ratio	**8.10%**	4.55%	4.53%	3.87%	3.28%
Cash and cash equivalents	**37,467**	42,909	91,508	67,254	34,511
Investments	**529,938**	433,000	263,000	187,867	100,000
Reserve for claims	**551,189**	456,644	332,010	220,697	111,276

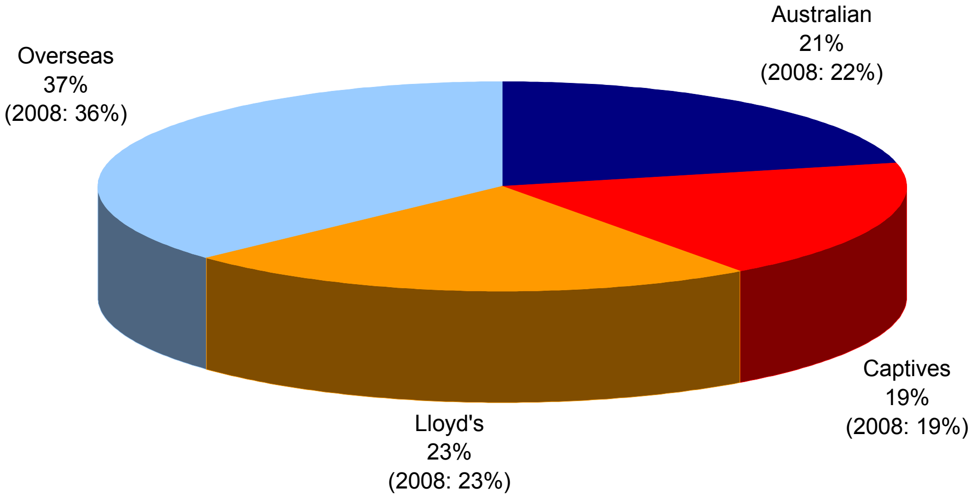
ARPC continued to meet its objectives and goals in spite of the difficult financial times encountered during 2008-09. In summary the current financial year's achievements are:

- ARPC's number of active treaties has increased slightly to 243;
- gross written premium recorded its second consecutive year of growth of 5.6 per cent to $106.270 million;
- ARPC placed a significant retrocession program costing $37.440 million to 30 June 2009;
- ARPC's investment assets withstood the impact of the global financial crisis due to its conservative investment mandate. The investment income result has reflected the low interest rate environment; and
- the expense ratio increased to 8.10 per cent reflecting the purchase of the retrocession program ($37.440 million).

Active treaties

As at 30 June 2009 ARPC had 243 (2008: 241) active treaties in place. There was a slight movement in the Australian and overseas clients allocation; however the numbers and percentages remain stable.

Chart 1: Number of active treaties



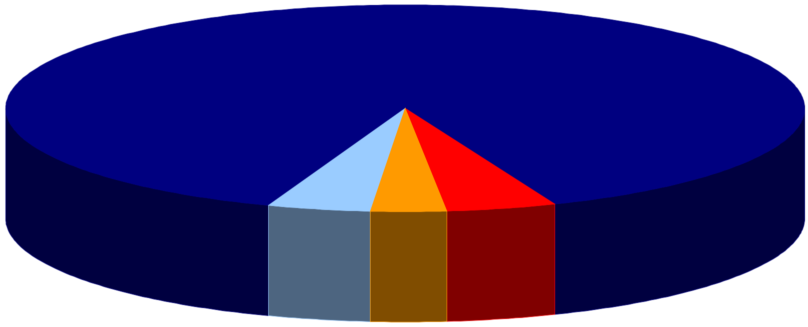
Gross written premium

ARPC has recorded positive premium growth for the second consecutive year. This year's actual growth rate of 5.57 per cent (2008: 6.3 per cent) has increased total gross written premium (GWP) to $106.270 million for 2008-09. The 2008-09 unclosed business estimate recorded a slight increase of 1.6 per cent to $23.414 million (2008: $23.042 million) for the June 2009 quarter.

ARPC actively monitors and analyses clients' quarterly premium returns to detect any underlying trends. It was noted the insurance cycle appeared to have firmed in mid 2008.

The gross written premium allocation attributable to Australian and other clients remained stable.

Chart 2: Gross written premium by cedant type



The following three tables provide information on the submitted premium by tier, state and business class.

Table 1: Gross written premium by tier

	Actual				
	2009	2008	2007	2006	2005
	$'000	$'000	$'000	$'000	$'000
Tier A	**21%**	21%	21%	24%	25%
Tier B	**54%**	56%	57%	55%	55%
Tier C	**25%**	23%	22%	21%	20%
Total GWP	**106,270**	100,659	94,729	103,204	102,188

The premium split by tier highlights the trend over the last five years of the movement from tier A to tier C. The movement in 2009 is a 2 per cent shift from tier B to tier C. These premium allocation movements may reflect the additional infrastructure activity undertaken in tier C areas.

Table 2: Gross written premium by state

	Actual				
	2009	2008	2007	2006	2005
	$'000	$'000	$'000	$'000	$'000
NSW	**32%**	34%	34%	36%	38%
SA	**8%**	8%	8%	8%	8%
VIC	**22%**	23%	24%	24%	23%
TAS	**1%**	2%	1%	1%	2%
QLD	**22%**	20%	19%	18%	16%
NT	**1%**	1%	1%	1%	1%
WA	**13%**	12%	11%	11%	10%
ACT	**1%**	1%	2%	1%	2%
Total GWP	**106,270**	100,659	94,729	103,204	102,188
Cumulative Total	**562,851**	456,581	355,922	261,193	157,989

The table reveals the following major trends:

- Queensland's percentage share has increased by 6 per cent in five years to now compare with Victoria's stable 22 per cent;
- Western Australia over the last five years has grown by 3 per cent to 13 per cent; and
- New South Wales premium share has decreased 2 per cent during 2008-09 and a total of 7 per cent over the last five years.

It appears both Queensland and Western Australia have benefited from the increased exposure to infrastructure development associated with the resources boom.

The remaining states have been stable since inception.

Table 3: Gross written premium by business class

	Actual				
	2009	2008	2007	2006	2005
	$'000	$'000	$'000	$'000	$'000
Fire/ISR/BI	**78%**	77%	77%	81%	81%
Contract Works	**10%**	10%	10%	8%	8%
Burglary	**5%**	6%	6%	5%	5%
Miscellaneous Accident	**3%**	3%	3%	3%	3%
Mobile Plant	**3%**	2%	2%	2%	2%
Glass	**1%**	2%	2%	1%	1%
Farm*	**0%**	0%	0%	0%	0%
Total GWP	**106,270**	100,659	94,729	103,204	102,188

1 Farm cover accounts for 0.02 per cent of gross written premium. This figure has been rounded down for the purposes of this table.

The premium split by business class has remained stable during 2008-09.

Retrocession placement

On 31 December 2008 ARPC placed a significant retrocession program with the market. The placement was for $2.3 billion in terrorism exposure cover and included over 40 participants in the program. A significant percentage of the participants have a credit rating between AA- and A+. Detailed information regarding the retrocession placement is provided later in this chapter.

The retrocession expense is recognised using the 365th method with the expense incurred for the six months to 30 June 2009 totalling $37.440 million. The total retrocession commission income recognised by ARPC was $3.446 million.

Investment assets

ARPC's investment asset values were not adversely affected by the global financial crisis due to its conservative investment mandate. ARPC manages its investments within a conservative framework where its objectives are to ensure that:

(a) the investment strategy complies with the *Commonwealth Authorities and Companies Act 1997* in relation to investing ARPC's surplus funds, including all investments being held in ARPC's name;

(b) capital stability of the funds is maintained;

(c) funds are available at short notice; and

(d) the fund is returning a rate of return acceptable to the Members. The benchmark return for ARPC is the official cash rate.

ARPC's investments as at 30 June 2009 are predominately held with financial institutions with an S&P credit rating of either AAA or AA.

The Board modified ARPC's investment policy in 2008-09 to permit:

(a) the allocation of $100 million to an additional external fund, manager Colonial First State Global Asset Management; and

(b) the management of allocations internally with AA (S&P) rated commercial banks as and when it is deemed prudent.

The following table provides a breakdown of ARPC's cash and investment balances as at 30 June 2009.

Cash and investment balances
As at 30 June 2009

	2009 $'000	2008 $'000
Internally managed		
Cash at bank	**36,362**	34,698
Fixed interest deposits	**250,000**	275,000
Total internally managed cash and investments	**286,362**	309,698
External fund managers		
Cash at bank	**1,105**	8,211
Fixed interest deposits	**245,000**	158,000
Government (guaranteed) securities	**34,938**	-
Total external fund manager cash and investments	**281,043**	166,211
Total cash and investments	**567,405**	475,909

Investment income

ARPC's investment income has been impacted by the rapid reduction in interest rates. The impact of the interest rate reductions was mitigated with the investment maturity profiles adopted by ARPC management and the external fund managers. As at 30 June 2009 ARPC held 7 per cent of its funds at call (floating rates), 68 per cent of funds are maturing in one year or less and 25 percent of funds are maturing between 1-5 years.

The maturity spreads contributed to ARPC achieving an active return over the official cash rate on the total portfolio of 100 basis points for 2008-09. It should be noted the weighted average interest rate for 2008-09 has reduced to 4.28% (2007-08: 7.50%).

The following table provides a breakdown between internally and externally generated investment income as at 30 June 2009.

Investment income
For the period ended 30 June 2009

	2009 $'000	2008 $'000
Internally managed		
Cash at bank	**2,260**	2,943
Fixed interest deposits	**13,946**	14,916
Total internally managed income	**16,206**	17,859
External fund managers		
Cash at bank	**510**	1,735
Fixed interest deposits	**13,522**	9,901
Government (guaranteed) securities	**178**	-
Total external fund managers income	**14,210**	11,636
Total investment income	**30,416**	29,495

Expenses

ARPC's expense ratio for 2008-09 increased to 8.10 per cent (2008: 4.55 per cent). The predominant reason for this increase relates to the retrocession purchase of $37.440 million. This effectively reduced the net premium revenue (ie denominator) from $104.371 million to $66.931 million thus causing a significant increase to the ratio.

The increase in ARPC's expenses coincides with the anticipated growth in ARPC's operating activities. These increases are mainly attributable to the following areas:

- an increase in investment management fees resulting from:
  - the additional allocation of $100 million to Colonial First State;
  - the continued growth in funds held with external fund managers through earned revenue; and
  - the higher performance returns generated in 2008-09.
- The broker's fee increased in 2008-09. The increase reflects a full year of incurring the fee together with a fee paid on the successful placement of the retrocession program.
- ARPC incurred system support fees for RISe (ARPC's successful client management system) and the implementation and system support of a treasury investment management system.
- There was an increase in the amortisation expense associated with ARPC's intangible assets which include the exposure model and RISe.

ARPC has and will continue to tightly control its expenses, ensuring it receives value for money from all its service providers and that it is in a position to meet its statutory obligations.

Influences on future performance

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

ARPC relies on its cedants to return the correct amount in reinsurance premiums. The incorrect calculation of premiums could have a negative effect on ARPC's premium income. ARPC's cedant review program addresses, inter alia, the identification of eligible insurance contracts for the purpose of ceding terrorism reinsurance premium to ARPC and premium calculation and remittance.

As reported in Note 4 of the Financial Statements a movement of 0.75 per cent in interest rates may, subject to timing of the movement, have an impact of up to $4.256 million on ARPC's investment income.

Retrocession

The 2006 review gave the ARPC the discretion, once the pool had reached $300 million, to determine whether to use premiums to build the pool further, purchase reinsurance for the scheme or undertake a combination of the two. In 2008, ARPC engaged the services of Guy Carpenter Ltd to investigate the availability of retrocession coverage for the pool, and to determine capacity and pricing. ARPC found that that global capacity at a reasonable price was starting to re-emerge, particularly for national, pooled arrangements.

As a result of these investigations, and with the support of the Minister, ARPC entered into a $2.3 billion retrocession program with over 40 reinsurers from the Australian, European, Lloyd's and Bermudan markets, with coverage commencing on 31 December 2008. The Minister announced the successful placement on 11 February 2009.

The retrocession was placed in excess of $300 million in three layers:

- layer 1: $300 million excess of $300 million;
- layer 2: $1.6 billion excess of $600 million; and
- layer 3: $400 million excess of $2.2 billion.

This structure optimised market capacity and therefore participation in the program.

The revised structure of the scheme, as augmented by the retrocession coverage, is detailed in table 4.1.

Table 4.1: Structure of the scheme following 2009 retrocession placement

Layer	Element
Layer 1	Policyholder's liability for some risk through a possible excess or deductible
Layer 2	Retention of some risk by insurers, up to a maximum industry retention per incident of $100 million as of 1 July 2009
Layer 3	ARPC pool, deemed at $300 million
Layer 4	Retrocession layer 1: $300 million excess of $300 million
	Retrocession layer 2: $1.6 billion excess of $600 million
	Retrocession layer 3: $400 million excess of $2.2 billion
Layer 5*	Commonwealth Government indemnity for up to $10 billion
Layer 6	Possible liability for some risk by policyholders through the operation of the reduction percentage or policy limits, for losses excess of $12.6 billion

* The line of credit facility formerly sat above the retrocession coverage and below the Commonwealth indemnity ($1 billion of which guaranteed the line of credit). The line of credit facility expired on 30 June 2009 and has not been replaced.

The retrocession purchased mirrors the coverage mandated by the scheme; that is, it includes biological and chemical risk.

The wide spread of participants in the program reduces the risk to ARPC in the event of default by any one of the participants. Additionally, program participants must have a Standard & Poor's rating of A- (or equivalent) or better. A downgrade clause in the retrocession contract gives the ARPC the right to reassess its position if a retrocessionaire suffers a ratings downgrade.

Guy Carpenter actively monitors the financial stability of the ARPC's retrocession counterparties and will advise the ARPC of any concerns. Together, these measures assist in protecting the financial stability of the retrocession program, and therefore of the terrorism scheme overall.

ARPC's purchase of retrocession has moved the Commonwealth further from the risk of losses under the scheme. Previously, ARPC's $1 billion line of credit facility, guaranteed by the Commonwealth, attached once the reserve for claims ($551.189 million as at 30 June 2009) was exhausted. The $9 billion Commonwealth guarantee sat above the line of credit. With the retrocession in place, the Commonwealth will be exposed only if losses under the scheme reach much higher levels. For 2009, the Commonwealth is only exposed to losses above $2.6 billion. ARPC's retrocession placement also reduced the likelihood that a reduction percentage will be required in the event of a declared terrorist incident.

The retrocession program has the benefit of encouraging the return of the commercial market for terrorism reinsurance for Australian risks. ARPC intends to continue to encourage this trend through the continued purchase of retrocession for the scheme, subject to market capacity and pricing. The amount of retrocession purchased may vary from year to year, which will subsequently impact on the point at which the Commonwealth, through the guarantee, is exposed to losses under the scheme.

Exposure risk management

ARPC objective

A key expectation of Government is that ARPC should seek to be in a position to advise the responsible Minister of the likely costs to ARPC in the event of a declared terrorist incident (DTI). This estimate will, in turn, inform the calculation of an appropriate reduction percentage.

Background

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

Details of the work undertaken by ARPC to meet its objective and fulfil the Government's expectations follow.

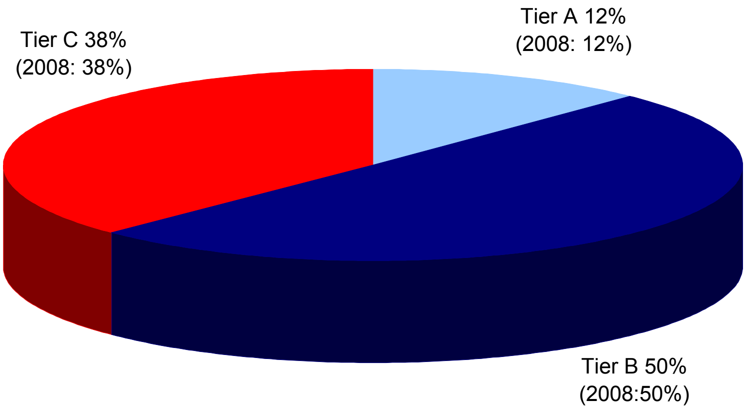
Aggregate exposure reports

ARPC's reinsurance agreement requires each cedant to provide an annual aggregate report. The report summarises the cedant's aggregate exposure amounts at a postcode level by buildings, contents and business interruptions risks. This exposure information enables ARPC to analyse the distribution of exposure risk across Australia.

ARPC utilises RISe to facilitate the submission of aggregate reports by clients and allows ARPC to quickly obtain various reports based on the large volume of data provided by clients. These reports form the basis of information provided to participants on ARPC's retrocession program.

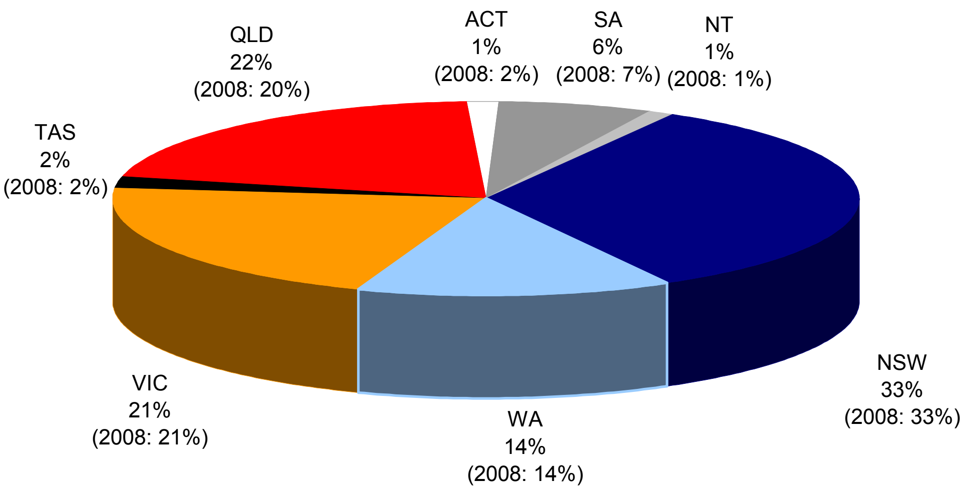
The following charts provide an overview of ARPC's total exposure for 2009 based on information provided by clients.

Chart 3: Aggregate exposure by tier as at 30 June 2009



There is a general correlation between the aggregate exposure by State and the premium collection by State. Victoria cedes 22 per cent of premium and represents 21 per cent of aggregate exposure, while NSW cedes 32 per cent of premium and represents 33 per cent of aggregate exposure.

Chart 4: Aggregate exposure by State as at 30 June 2009



Loss estimation modelling

Development of ARPC's loss estimation capabilities

Building on work undertaken by ARPC between 2003 and 2006, Risk Frontiers of Macquarie University commenced work on enhancing ARPC's loss estimation capabilities in 2006-07.

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

Management will continue to work with Risk Frontiers during 2009-10.to ensure that the information received from clients at both aggregate and street level is incorporated into the model. This increased data will provide added assurance to the output from the model.

The work undertaken by Risk Frontiers was verified for reasonableness by Finity Consulting and reviewed by the Australian Government Actuary.

Attorney General's Department (AGD)

In 2008, ARPC requested AGD to undertake a major review of ARPC's loss estimation model. This review was undertaken through AGD's Critical Infrastructure Protection Modelling and Analysis (CIPMA) Program[*], with Geoscience Australia as the technical provider.

The scope of the review was to provide an assessment of:

- whether ARPC's loss model approach is reasonable;
- whether ARPC's loss figures produced by the model are reasonable; and
- recommendations for improving the model.

[*] The CIPMA program is a world-leading computer modelling program. It is a key component of the Austrlaian Government's efforts to enhance critical instrastructure protection and is a major national security initiative. It also supports the work of the Trusted Information Sharing Network for Critical Infrastructure Protection. Source: CIPMA Fact Sheet at Trusted Information Sharing Network website http://www.tisn.gov.au.

AGD recommended a three year development program be undertaken to continue to improve ARPC's loss estimation capabilities. The development program is designed to enhance both the current model and develop a more rigorous underpinning model capacity. The program also includes modelling for losses arising from chemical and biological incidents.

A contract was entered into between ARPC and AGD in mid 2009. The three year program is summarised below:

Year 1

The development will centre on the enhancement of the ARPC's current loss estimation model through a range of measures including further integration and categorisation of data, development of blast damage outcomes to loss translations and development of partial damage cost modules.

Year 2

The development will focus on building the tools required to make operational the current CIPMA approach to inform ARPC of probable losses immediately after an event. The program will also develop the framework for integrating research work by the Bureau of Meteorology and the Defence Science and Technology Organisation to model the spread of a chemical or biological plume following a CBD release.

Year 3

Development will centre on making the CIPMA loss model capability operational for blast as well as chemical and biological incidents. The work will include provisional resources for the establishment of a dedicated capability utilising the fastest high end PC parallel processing capability.

General information

Outcomes and outputs

ARPC measures itself against the objectives (both financial and non-financial) identified in its business plan. The business planning process is conducted towards the end of each financial year and measures the outcomes from the current financial year and sets targets for the coming financial year. The business plan is presented to the Members for discussion and endorsement at their last meeting in the current financial year, which is usually scheduled for the last week in June.

ARPC has developed a balanced scorecard as a means of measuring its financial and non-financial performance. The components of the balanced scorecard are:

(a) financial;

(b) corporate governance;

(c) growth;

(d) monitoring service level agreements;

(e) human resource management;

(f) client satisfaction; and

(g) social/community.

Within each component, key performance indicators measure ARPC's performance against set targets.

The balanced scorecard is produced and issued monthly. It is included in the Chief Executive's report to the Board.

Awareness campaign

Since its inception ARPC has undertaken, and will continue, an extensive industry awareness campaign to ensure that all insurers are aware of the scheme and their obligations under it and to offer reinsurance contracts to all those insurers which write eligible insurance contracts. The awareness campaign includes initiating and maintaining contact with industry bodies, delivering presentations and addresses to industry bodies and individual insurers and conducting an advertising campaign both in Australia and overseas. The cedant review program is a vital tool in ARPC's awareness campaign as it allows for direct discussions between ARPC and its clients.

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

ARPC will work closely with industry and clients in the implementation of the recommendations made as a result of the 2009 review of the need for the TI Act to continue.

Market coverage

Through the feedback received from the awareness campaign and the cedant review program, ARPC is confident that all insurers which write eligible insurance contracts have had the opportunity to reinsure their terrorism risk with ARPC.

A number of companies have entered into reinsurance agreements with ARPC but do not remit premium. This is due to an element of retrospectivity in ARPC's standard reinsurance agreement. If a company has a contract of reinsurance with ARPC and incurs a liability solely because of section 8 of the TI Act, it is entitled to cover under the reinsurance agreement provided it complies with the terms of the agreement and pays the relevant premium (whether or not it was obvious or apparent that the contract under which it incurs a liability was an eligible insurance contract under the TI Act).

Significant events

The availability period of ARPC's $1 billion line of credit facility expired on 30 June 2009. During 2008-09 ARPC investigated the feasibility of reinstating the line of credit facility, including requesting proposals from the four major Australian banks. This consideration led ARPC to conclude that the line of credit did not provide value for money to ARPC. ARPC also considered that, because of the size of the reserve for claims and the liquidity provided by the retrocession program, the scheme no longer required the liquidity provided by line of credit.

Allowing the line of credit facility to lapse represents the cessation of a significant business activity and, consequently, requires notification under section 15(1)(e) of the *Commonwealth Authorities and Companies Act 1997*. The Minister was formally advised on 9 September 2009.

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

There have been no developments since the end of the 2008-09 financial year which have significantly affected or may significantly affect:

(a) ARPC's operations in future financial years;

(b) the results of those operations in future financial years; or

(c) ARPC's state of affairs in future financial years.

Chapter 3: Management and accountability

Chapter 3: Management and accountability

Corporate governance

Members

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

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

Mr Joseph Gersh AM, Chair

Mr Gersh was appointed to the position of part-time Chair on 1 July 2003. He was re-appointed on 1 July 2006 and 1 July 2009. His current term expires on 30 June 2012.

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

Ms Patricia Azarias

Ms Azarias was appointed to the position of part-time Member on 22 April 2008. Her current term expires on 24 April 2011.

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

Ms Jan Bowe

Ms Bowe was appointed to the position of part-time Member on 1 July 2009. Her current term expires on 30 June 2012.

Ms Bowe has held senior positions in the financial services sector in both insurance and banking. Ms Bowe joined NRMA Motoring Services in 2007 and held the position of Executive General Manager, Strategy and Capability on her retirement from NRMA in 2008. Ms Bowe has a strong background in general management and has held a number of senior roles in Suncorp-Metway, the Commonwealth Bank and Rio Tinto. Ms Bowe holds an MBA from the Melbourne Business School.

Mr Tom Karp

Mr Karp was appointed to the position of part-time Member on 29 August 2008. His current term expires on 28 August 2011.

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

Mr Andrew Lumsden

Mr Lumsden was appointed to the position of part-time Member on 1 July 2003. He was re-appointed on 1 July 2006. His term expired 30 June 2009.

Mr Lumsden is a Partner at Corrs Chambers Westgarth. He specialises in corporate and securities law and mergers and acquisitions. Mr Lumsden is an acknowledged expert in the field of corporate governance issues. From 1998 until 2001 he was

Chief of Staff to the Minister for Financial Services & Regulation, the Hon Joe Hockey, MP. Prior to 1998 Mr Lumsden was a partner of Corrs Chambers Westgarth. Mr Lumsden is a member of the Takeovers Panel and a member of the Corporations Committee of both the Law Council of Australia and the Australian Institute of Company Directors. Mr Lumsden was also the Chair of the Audit and Compliance Committee.

Ms Marian Micalizzi

Ms Micalizzi was appointed to the position of part-time Member on 1 July 2003. She was re-appointed on 1 July 2006 and 1 July 2009. Her current term expires on 30 June 2012.

Ms Micalizzi is a chartered accountant with over 20 years experience, a company director and a consultant in both the public and private sector. Ms Micalizzi is a former partner of PricewaterhouseCoopers (until 2000) having been admitted as a partner of the predecessor firm in 1986. Ms Micalizzi sits on a number of boards, including the Queensland Investment Corporation and the Queensland Treasury Corporation. She is a member of the Corporations and Markets Advisory Committee and the Takeovers Panel and is a councillor of the Australian Institute of Company Directors (Qld Division). Ms Micalizzi was appointed as chair of the Audit and Compliance Committee on 25 August 2009.

Mr James Murphy

Mr Murphy was -appointed to the position of part-time Member on 1 July 2003. He was re-appointed on 5 February 2004, 25 April 2004, 25 April 2005 and 25 April 2008. His current term expires on 24 April 2011.

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

Mr Geoffrey Vogt

Mr Vogt was appointed to the position of part-time Member on 29 August 2005. He was re-appointed on 29 August 2008. His current term expires on 28 August 2011.

Mr Vogt has extensive experience in the financial services and insurance industries. Until recently, he was Chief Executive Officer of the Motor Accident Commission in South Australia, a statutory authority which has responsibility for the monopoly compulsory third party insurance scheme in that State. Mr Vogt is a member of CPA Australia, an Associate of the Australian and New Zealand Institute of Insurance and Finance and a Fellow of the Australian Institute of Company Directors.

Chief Executive

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

Mr Neil Weeks has been ARPC's Chief Executive since the scheme was established on 1 July 2003. His current term of office expires on 31 March 2011.

Mr Weeks has more than 30 years experience in the commercial insurance industry, having held senior positions both in Australia and overseas. He was the Chief Executive Officer of the Territory Insurance Office of the Northern Territory from 1993-2003. Mr Weeks has a degree in economics and a Master of Business Administration from Monash University and is a Fellow of CPA Australia, the Australian Institute of Company Directors and the Australian Institute of Management. He also holds the position of Deputy Chair of the High Level Advisory Board to the OECD network on the financial management of large-scale catastrophes.

Meetings of Members

There were five meetings of Members held during 2008-09. The table below sets out the number of meetings attended by each Member.

Name	Number of meetings entitled to attend	Number of meetings attended
Mr Joseph Gersh AM	5	5
Ms Patricia Azarias	5	5
Mr Tom Karp	5	5
Mr Andrew Lumsden	5	5
Ms Marian Micalizzi	5	5
Mr James Murphy	5	4
Mr Geoff Vogt	5	5

Corporate governance practices

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

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

ARPC uses the ASX's corporate governance principles as benchmarks against which to evaluate its corporate governance practices. The principles below are those contained in the ASX's *Corporate Governance Principles and Recommendations* released on 2 August 2007.

Principle 1 – Lay solid foundations for management and oversight

- The roles and responsibilities of Members have been documented in a board charter.

- The delegation of powers and functions to the Chief Executive has been documented in a delegations authority.

- Certain matters are reserved for Members.

- The board charter and delegations document were reviewed by Members in 2008-09.

- The Chief Executive has designed and implemented objective measures against which the performance of senior executives is evaluated. The Board has designed and implemented objective measures against which the performance of the Chief Executive is evaluated. Performance evaluations of all executives are conducted annually.

Principle 2 – Structure the board to add value

- All Members are independent.
- The Chair is an independent Member.
- Different individuals exercise the roles of Chair and Chief Executive.
- A nominations committee is not appropriate because the TI Act provides that Members are appointed by the responsible Minister.
- The performance of Members is reviewed annually against measures developed by the board in consultation with a corporate governance expert.
- During 2008-09 the Members conducted an internal evaluation of their performance. The evaluation addressed such issues as strategy and planning, board structure and role, meeting effectiveness, quality of information and performance monitoring.
- The results of that review were discussed at the board meeting held on 25 August 2009.

Principle 3 – Promote ethical and responsible decision-making

- The Members have adopted a code of conduct which is documented in the board charter.
- Employees are bound by ARPC's code of conduct and values which have been formally documented.
- ARPC's fraud control plan gives guidance on the responsibility and accountability of employees for reporting and investigating allegations of unethical practices.

Principle 4 – Safeguard integrity in financial reporting

- The Chief Executive and Chief Financial Officer state in writing to the Members that the financial reports present a true and fair view, in all material respects, of ARPC's financial condition and operational results and are in accordance with relevant accounting standards.
- An audit and compliance committee has been established.

- The members of the audit and compliance committee are all independent Members.

- The chair of the audit and compliance committee is an independent Member who is not the chair of the board.

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

Principle 5 – Make timely and balanced disclosure

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

- ARPC's annual report is given to the responsible Minister and tabled in both Houses of Parliament in accordance with the provisions of the *Commonwealth Authorities and Companies Act 1997*.

Principle 6 – Respect the rights of shareholders

- ARPC does not have shareholders. However, it maintains good working relationships with its stakeholders (clients, industry associations and government).

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

Principle 7 – Recognise and manage risk

- ARPC has documented its risk management policy and strategy.

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

- A risk committee has been established.

- The Chief Executive and the Chief Financial Officer state to the Members in writing that:

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

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

Principle 8 – Remunerate fairly and responsibly

- Members' remuneration is determined by the Remuneration Tribunal.

- Remuneration packages for employees are determined having regard to salaries payable for similar positions within the public and private sectors.

Right to legal advice

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

Committees

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

Audit and Compliance Committee

The purpose of the Committee is to:

(a) assist the Board to:

  (i) fulfil its responsibilities in relation to ARPC's accounting and financial reporting obligations;

  (ii) comply with ARPC's statutory obligations;

  (iii) oversee the work of the internal auditors; and

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

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

Mr Andrew Lumsden, (term expired 30 June 2009)

Ms Patricia Azarias (appointed 25 November 2008)

Ms Marian Micalizzi (appointed Chair on 25 August 2009)

Mr James Murphy, and

Mr Geoff Vogt (appointed 25 August 2009).

There were five meetings of the Committee held during 2008-09. The table below sets out the number of meetings attended by each Committee member.

Name	Number of meetings entitled to attend	Number of meetings attended
Ms Patricia Azarias	3	3
Mr Andrew Lumsden	5	4
Ms Marian Micalizzi	5	5
Mr James Murphy	5	4

Risk Committee

The purpose of the Committee is to:

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

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

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

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

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

There were two meetings of the Committee held during 2008-09. The table below sets out the number of meetings attended by each Committee member.

Name	Number of meetings entitled to attend	Number of meetings attended
Mr Joseph Gersh AM	2	2
Ms Patricia Azarias	2	2
Mr Andrew Lumsden	2	2
Mr Tom Karp	2	2
Ms Marian Micalizzi	2	2
Mr James Murphy	2	2
Mr Geoff Vogt	2	2

Code of conduct

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

(a) exercise the powers and discharge the duties of office:

  (i) with due care and diligence;

  (ii) in good faith in the best interests of ARPC; and

  (iii) for a proper purpose;

(b) not improperly use their position;

(c) not improperly use information gained as a result of holding the position;

(d) act honestly and ethically;

(e) not allow personal interests, or the interests of any other person or organisation, to influence their conduct;

(f) bring an independent judgment to bear on all matters considered by the board;

(g) not engage in conduct likely to discredit ARPC;

(h) treat fellow Members and ARPC's employees with courtesy and respect; and

(i) comply with the spirit, as well as the letter, of the law.

Internal audit

ARPC has outsourced the conduct of the internal audit function to Ernst & Young. In consultation with the Audit and Compliance Committee and management, Ernst & Young developed an internal audit program for the three year period 2006-2009. The following audit reviews were conducted during 2008-09:

(a) a post implementation review of ARPC's new client information system;

(b) a review of the cedant review program;

(c) a review of ARPC's business continuity planning

(d) a review of ARPC's investment strategy and controls;

(e) a review of administrative functions; and

(f) the premium collection process.

The Board re-appointed Ernst & Young for the three year period from 1 July 2009 to 30 June 2012. After reviewing ARPC's risk assessments, and in consultation with the Audit and Compliance Committee and management, Ernst & Young developed an internal audit program for the three years 2009-10 to 2011-12.

The detailed internal audit plan for 2009-10 provides for the following reviews to be undertaken:

(a) a review of claims procedures;

(b) a review of premium refund procedures;

(c) a review of ARPC's fraud control plan (including a review of fraud risk);

(d) a review of ARPC's business risk assessments and mitigation strategies;

(e) a post-implementation review of ARPC's investment treasury management system; and

(f) the premium collection process, including IT security.

The Audit and Compliance Committee follows ANAO better practice guidelines by actively reviewing recommendations made in audit reports. A log of recommendations raised in audit reports is maintained and the Committee oversees follow-up actions.

Risk management

ARPC is committed to continuous improvement in the management of its business risks and promotes a culture of risk awareness in day to day decision making.

ARPC's risk management system is aligned to the AS/NZ 4360 standard. During 2008-09 ARPC's risk management system was upgraded which resulted in a significant improvement in functionality. The upgrade also brings ARPC's risk management system into alignment with the global risk management standard, ISO 31000.

The upgrade will allow ARPC to separately identify those risks which are strategic from those which are purely operational. This approach will improve the enterprise wide focus of risk management in ARPC and provide greater clarity and transparency in the management of ARPC's strategic risks. It will also allow for greater accountability in management's reporting on strategic risks to the Risk Committee.

The internal audit plan for 2009-10 includes a review of ARPC's fraud risks and of its business risk assessments and mitigation strategies.

Business continuity

During 2008-09 ARPC's business continuity management plan was reviewed by Ernst & Young as part of ARPC's internal audit program. ARPC continues to develop and test its business continuity plans to ensure that business critical activities can continue during an interruption to its business.

Several initiatives are proposed for business continuity management over 2009-10 to improve accountability and operational effectiveness. They include:

- the development of a business continuity management policy that clearly establishes responsibility for ongoing management and review of business continuity management;
- ensuring that business continuity plan testing focuses on critical business activities.

These initiatives are consistent with the findings and recommendations of the internal audit review.

Promoting an ethical working environment

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

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

- strive for excellence;
- value teamwork, consultation and sharing ideas;
- value diversity among its people;
- treat everyone with respect;
- exhibit honesty in all their dealings; and
- treat colleagues with fairness.

Fraud prevention and control

With assistance from Ernst & Young, and in accordance with the *Commonwealth Fraud Control Guidelines (2002)*, during 2005-06 ARPC developed a fraud control plan. The plan includes policies, procedures and guidelines to advise staff of the steps to be taken if a fraud is suspected or a breach of ARPC's code of conduct is alleged. The policies include whistleblower protection.

The plan is reviewed every two years. The review is undertaken as part of the internal audit program. The first review was conducted in 2007-08. The next review is scheduled for 2009-10. Fraud awareness training is conducted bi-annually.

Consequently, it is certified that ARPC has appropriate fraud control, prevention, detection, investigation and reporting standards in place.

Cedant review program

ARPC's cedant review program was introduced with the intention of assisting clients to meet their obligations under the reinsurance agreement. The philosophy behind the program is to further strengthen the relationship between ARPC and its clients. This is achieved by assisting clients to raise their awareness of the processes involved in the identification of eligible insurance contracts, premium calculation, premium remittance, aggregate reporting and claims procedures. ARPC has found all clients to be extremely receptive, helpful and co-operative. In addition to ensuring that the obligations imposed by the reinsurance agreement are met, the program has enhanced the collegiate relationship between ARPC and its clients.

The program was reviewed by Ernst & Young as part of the internal audit program for 2008-09. This review will form the basis of the design of the program in future years.

Members' appointment and remuneration

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

(a) has suitable qualifications and experience; and

(b) is of good character.

Members' remuneration is set by the Remuneration Tribunal.

Role of the responsible Minister

The Minister responsible for ARPC is the Minister for Financial Services, Superannuation and Corporate Law, the Hon Chris Bowen, MP. The Minister appoints ARPC's members.

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

The TI Act permits the Minister to give written directions to ARPC in relation to the performance of its functions and the exercise of its powers. The Minister has given no directions to ARPC during the year ended 30 June 2009.

The two written directions given by the responsible Minister during 2006-07, which were effective from 1 July 2007, remain in force. Those directions are in respect of retained risk and premiums.

The directions and their effect are set out below.

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

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

  The *default figure* for the period 1 July 2008 to 30 June 2009 was $5 million. The *default figure* increased to $10 million on 1 July 2009.

  The *minimum retention* is set at $100,000.

  The *maximum industry retention* for the period 1 July 2008 to 30 June 2009 was $50 million. The *maximum industry retention* increased to $100 million on 1 July 2009.

- A direction in respect of premiums.

  The effect of this direction is to set the premium rates to be charged by ARPC under its reinsurance contracts. The rates are set as a percentage of the gross base premium written by a reinsured in respect of eligible insurance contracts according to the postcode tier in which the eligible property is situated. The direction also instructs ARPC to charge reinsurance premiums on only those sections of a bundled insurance policy that exclude terrorism risks.

ARPC has not been notified of any General Policy Orders that are to apply to ARPC by virtue of section 28 of the *Commonwealth Authorities and Companies Act 1997*.

Chapter 4: General information

Chapter 4: General information

Human resource management

All staff employed before February 2008, other than the CEO, are covered by AWAs which have nominal expiry dates of 30 June 2009. Under the Fair Work Act 2009 and in line with Government policy, AWAs cannot be replaced with new individual statutory arrangements. However, existing AWAs continue to operate until they are replaced or terminated in accordance with the *Fair Work Act 2009* or the *Fair Work (Transitional Provisions and Consequential Amendments) Act 2009*.

The employment conditions of staff members employed after February 2008 are governed by an agency determination made under subsection 32(2) of the TI Act. Any determinations made under the TI Act will continue in force until replaced by an enterprise agreement which applies to the employee.

The Australian Government Employment Bargaining Framework provides that non-APS Commonwealth authorities (such as ARPC) should apply the framework as directed by their Minister or, if not so directed, should voluntarily apply the framework. ARPC intends to apply the framework voluntarily.

During 2009-10 ARPC will negotiate an enterprise agreement with its non-SES employees. It is intended that individual common law contracts will be negotiated with SES equivalent employees. During 2008-09 ARPC consulted with the Australian Government Solicitor, the Treasury and the Department of Education, Employment and Workplace Relations. ARPC will continue to work with those organisations during 2009-10 to ensure that all ARPC's employment policies and documents comply with the Government's employment framework.

The Chief Executive is employed on an individual common law fixed term contract. His term of office is due to expire on 31 March 2011.

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

ARPC's performance management system is a tool to assist ARPC to improve its organisation capability. It provides a mechanism for performance review and feedback, coaching, skills development, reward and recognition. There is one formal appraisal in each year. An informal discussion is conducted between formal appraisals. The purpose of this discussion is to consider how the employee is performing against the benchmarks agreed at the formal appraisal, to identify any impediments to performance and means to overcome those impediments.

In additional to the formal and informal appraisals, managers assist employees by providing regular feedback and coaching and by identifying and encouraging appropriate career development opportunities.

Training and development

ARPC recognises the value of investing in employees and career development to maximise the performance of ARPC and its attractiveness as an employer.

ARPC is committed to employee training and development such as leadership development and relevant technical skills training and support. It also supports employee attendance at industry conferences, seminars and external courses.

ARPC provides support, in the form of leave and financial assistance, to employees undertaking part time courses of study that will enhance their contribution to ARPC's mission. Studies assistance is an integral part of ARPC's HR strategy, as it responds to the employee development needs identified through such means as corporate planning, performance management and career development processes.

ARPC has an agreement with the Australian and New Zealand Institute of Insurance and Finance, a leading provider of insurance education, training and professional services, to provide employees with an online learning facility *InSite*. The InSite Continuing Education and Learning Management System has been developed specifically to address the ongoing education and training requirements in the financial services reform environment. ARPC encourages employees to use the InSite learning facility to further develop knowledge in insurance and finance.

Employees of ARPC have access to the training and development programs offered by Treasury and actively participate in those programs. The Chief Executive has participated in a program designed to offer support for newly appointed SES officers.

Occupational health and safety

ARPC is committed to providing a safe and healthy workplace for all its employees. It will take all reasonable and practical steps to do so.

ARPC's occupational health and safety (OH&S) function has been outsourced to Treasury through a service level agreement. Treasury's OH&S policy is designed to foster and maintain a safe and healthy working environment in accordance with the *Occupational Health & Safety (Commonwealth Employment) Act 1991* (OH&S Act).

Workplace inspections are conducted four times a year. An ARPC employee is a member of Treasury's OH&S Committee. The OH&S Committee deals with occupational health and safety issues and policies, employee wellbeing, health and safety performance reporting, accommodation issues and accident and incident reports.

In recognising the importance of providing and maintaining healthy and safe workplaces, the importance of monitoring performance in health and safety, reflecting best practice in its policies and guidelines and complying with the OH&S Act, ARPC has implemented health and safety management arrangements. These arrangements have been developed in consultation with staff and consist of a framework and support networks designed to foster a healthy and safe workplace. The arrangements reinforce the responsibilities of all employees in actively promoting these strategies for the wellbeing of employees, contractors and visitors to our workplaces.

ARPC's health and safety management arrangements are used in conjunction with the OH&S Act, Regulations and approved codes of practice and are integrated into the daily management of the office.

During 2008-09, ARPC received no accident or incident reports which resulted in a compensation claim. ARPC's policy is to thoroughly investigate all reported incidents and to take action to ensure employee health and safety is not compromised.

During 2008-09, no directions were given under section 45 and no notices were given under sections 29, 46 or 47 of the OH&S Act.

ARPC employees have access to Treasury's employee assistance program. This program provides confidential counselling on work-related and personal matters to employees and their families. Six-monthly reports allow Treasury's OH&S Committee to monitor use and identify workplace issues that need addressing. The employee assistance program also provides a consultative resource for employee management issues including advice on people management.

Free flu vaccinations were offered to employees during 2008-09.

Workplace diversity

Workplace diversity program

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

ARPC is committed to implementing workplace diversity. As part of this commitment, ARPC has implemented the strategies and initiatives of Treasury's

Workplace Diversity Program which seeks to foster an environment that attracts, develops, values and retains people from varying cultural backgrounds as well as those of different ages, gender, talents, experiences, perspectives and backgrounds.

By implementing the workplace diversity program ARPC seeks to:

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

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

Disability action plan

ARPC provides reinsurance to insurers writing eligible insurance contracts. Its role requires limited contact with the general public and it does not formulate policy. However, ARPC recognises the necessity of ensuring that people with disabilities have an equal opportunity to access information regarding its activities and to have access to its premises as appropriate.

As an equal employment opportunity employer, ARPC recognises the importance of ensuring that people with disabilities are able to access information about employment opportunities with ARPC, and are able to compete for such opportunities on an equal basis through the merit selection process.

ARPC has adopted and applies the principles contained in Treasury's Disability Action Plan.

Indemnities and insurance premiums for officers

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

During the year, ARPC maintained and paid premiums for insurance covering Members and certain employees. The premium paid for the insurance, which includes liability for legal costs, was $64,201.35 (2008: $64,206.60).

Judicial and administrative decisions and reviews

During the year ended 30 June 2009, there were no judicial decisions or reviews by outside bodies (other than ANAO's report on the financial statements) affecting ARPC of which it is aware.

Ecologically sustainable development

ARPC implements strategies designed to minimise waste and conserve energy.

ARPC recycles paper products, cardboard products and used toner cartridges.

Freedom of information

There were no freedom of information requests during the year ended 30 June 2009. The following statements are made as required by section 8 of the *Freedom of Information Act 1982*.

Functions, organisation and powers

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

Arrangements for outside participation

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

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

ARPC documents and publications

ARPC produces a number of publications aimed at informing clients and others of ARPC and its functions. Key publications in 2008-09 included:

- 2007-08 Annual Report;
- *What is the ARPC?* — a brochure explaining the scheme; and
- *Under the Cover* — a quarterly electronic newsletter distributed to clients and other stakeholders.

Facilities for access

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

Level 2 London Court
13 London Circuit
CANBERRA ACT 2600

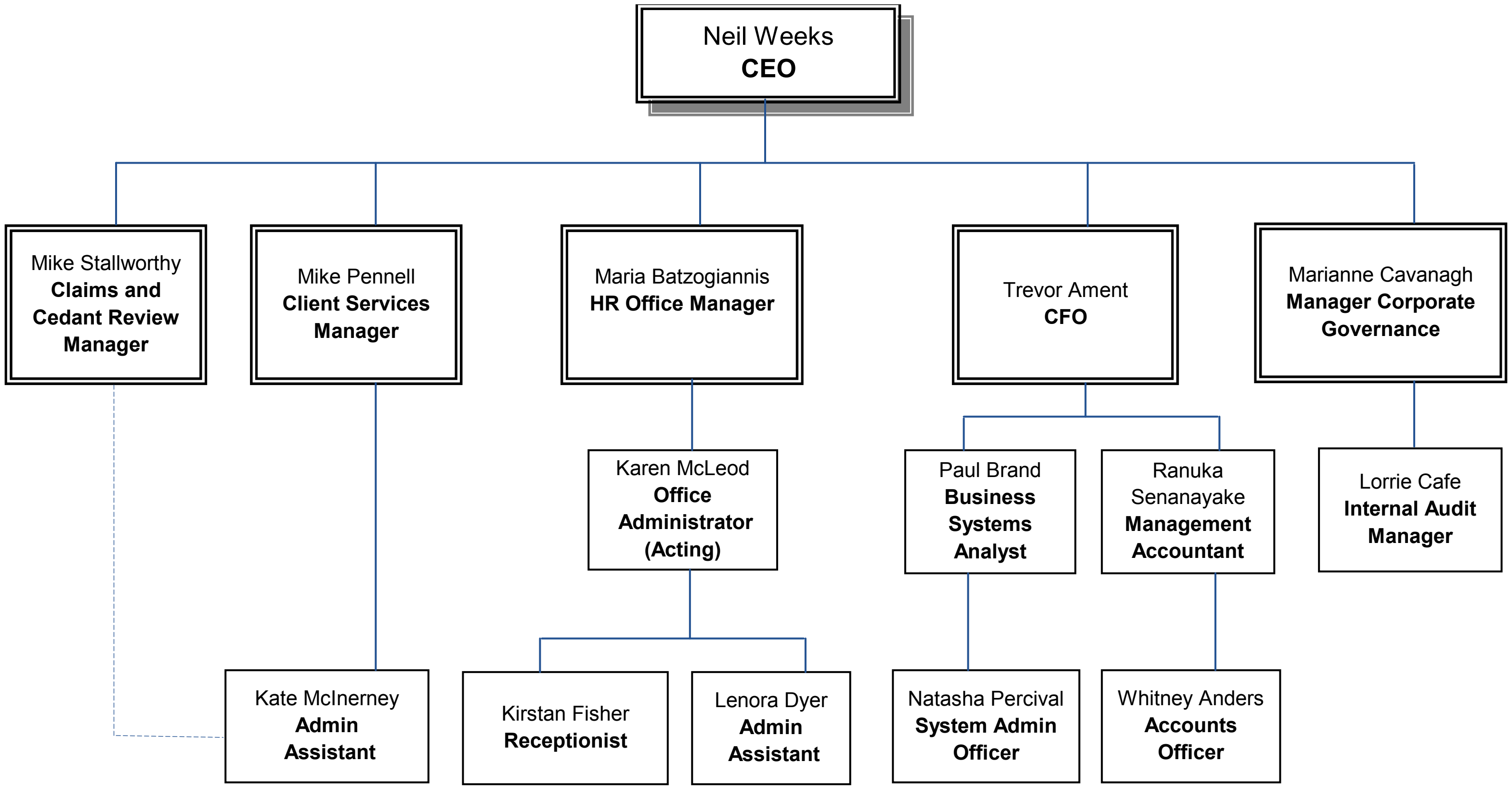
Access may also be given at our Sydney office by prior arrangement.

Freedom of information procedures and initial contact point

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

Chief Executive
Australian Reinsurance Pool Corporation
GPO Box 3024
CANBERRA ACT 2601
Tel: 02 6279 2100
Fax: 02 6279 2111

Appendix A: **Organisational Chart**



Chapter 5: Financial statements

Chapter 5: Financial statements

Statement by Members and Chief Executive

In our opinion, the attached financial statements for the year ended 30 June 2009 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders, subject to the exemption noted below, made under the *Commonwealth Authorities and Companies Act 1997*.

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

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

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

J I Gersh	N E Weeks	T R Ament
Chair	Chief Executive	Chief Financial Officer
22 September 2009	22 September 2009	22 September 2009

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

<u>Scope</u>

I have audited the accompanying financial statements of the Australian Reinsurance Pool Corporation for the year ended 30 June 2009, which comprise: a Statement by Members and Chief Executive; Income statement; Balance sheet; Statement of changes in equity; Cash flow statement; Schedule of commitments; and Notes to and forming part of the financial statements, including a Summary of significant accounting policies.

The Members Responsibility for the Financial Statements

The members are responsible for the preparation and fair presentation of the financial statements in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997,* including the Australian Accounting Standards (which include the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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accounting estimates made by the members, as well as evaluating the overall presentation of the financial statements.

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

Independence

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

Auditor's Opinion

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

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

(b) give a true and fair view of the matters required by the Finance Minister's Orders including the Australian Reinsurance Pool Corporation's financial position as at 30 June 2009 and its financial performance and cash flows for the year then ended.

Australian National Audit Office

John Jones
Executive Director

Delegate of the Auditor-General

Canberra
23 September 2009

Income statement
for the year ended 30 June 2009

	Notes	2009 $'000	2008 $'000
Premium revenue		**104,371**	99,944
Outwards retrocession premium expense		**(37,440)**	-
Net premium revenue	5(a)	**66,931**	99,944
Claims expense		**-**	-
Retrocession and other recoveries revenue		**-**	-
Net claims incurred		**-**	-
Acquisition costs	6(b)	**(599)**	(452)
Underwriting result		**66,332**	99,492
Retrocession commision revenue	5(b)	**3,446**	-
Investment income	5(c)	**30,416**	29,495
Other income	5(d)	**(254)**	-
Other operating expenses	6(b)	**(5,395)**	(4,353)
Operating result		**94,545**	124,634

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

Balance sheet
as at 30 June 2009

	Notes	2009 $'000	2008 $'000
Assets			
Current assets			
Cash and cash equivalents	7	**37,467**	42,909
Receivables	8	**36,576**	27,484
Investments	9	**529,938**	433,000
Deferred insurance assets	10(a)	**38,569**	394
Other non-financial assets	11	**23**	33
Total current assets		**642,573**	503,820
Non-current assets			
Property, plant and equipment	12(c)	**209**	304
Intangibles	12(d)	**365**	430
Total non-current assets		**574**	734
Total assets		**643,147**	504,554
Liabilities			
Current liabilities			
Unearned liability	13(a)	**52,307**	46,904
Payables	14	**39,106**	541
Employee provisions	15(a)	**219**	183
Total current liabilities		**91,632**	47,628
Non-current liabilities			
Employee provisions	15(a)	**202**	158
Other provisions	15(b)	**49**	49
Total non-current liabilities		**251**	207
Total liabilities		**91,883**	47,835
Net assets		**551,264**	456,719
Equity			
Accumulated reserves		**-**	-
Asset revaluation reserve		**75**	75
Reserve for claims		**551,189**	456,644
Total equity		**551,264**	456,719

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

Statement of changes in equity
as at 30 June 2009

	Notes	Accumulated reserves		Asset revaluation reserve		Reserve for claims		Total equity	
		2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
		$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Opening balance		**-**	-	**75**	-	**456,644**	332,010	**456,719**	332,010
Income and expenses									
Net operating result		**94,545**	124,634	**-**	75	-	-	**94,545**	124,709
Total income and expenses		**94,545**	124,634	**-**	75	**-**	-	**94,545**	124,709
Transfers between equity components									
Transfer to reserve for claims	1(m)	**(94,545)**	(124,634)	**-**	-	**-**	-	**(94,545)**	(124,634)
Transfer to reserve for claims from accumulated reserves		**-**	-	**-**	-	**94,545**	124,634	**94,545**	124,634
Closing balance at 30 June		**-**	**-**	**75**	75	**551,189**	456,644	**551,264**	456,719

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

Cash flow statement
for the year ended 30 June 2009

	Notes	2009 $'000	2008 $'000
Operating activities			
Cash received			
Premiums received		**114,442**	109,136
Comission received		**3,822**	-
Interest received		**25,788**	26,062
Total cash received		**144,052**	135,198
Cash used			
Retrocession payments		**39,224**	-
Creditors and employees		**5,030**	4,395
Interest and other costs of finance paid		**250**	251
Net goods and services tax paid to ATO		**7,970**	8,780
Total cash used		**52,474**	13,426
Net cash from or (used by) operating activities	16	**91,578**	121,772
Investing activities			
Cash used			
Purchase of property, plant and equipment		**2**	6
Purchase of intangibles		**80**	365
Purchase of investments		**96,938**	170,000
Total cash used		**97,020**	170,371
Net cash from or (used by) investing activities		**(97,020)**	(170,371)
Net increase or (decrease) in cash held		**(5,443)**	(48,599)
Cash and cash equivalents at the beginning of the reporting period		**42,909**	91,508
Cash and cash equivalents at the end of the reporting period	7	**37,467**	42,909

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

Schedule of commitments
as at 30 June 2009

	2009 $'000	2008 $'000
By type		
Other commitments		
Service level agreements *	**545**	99
Software license agreement**	**178**	-
Software development agreement***	**2,274**	110
Operating leases ****	**419**	698
Total other commitments	**3,416**	907
Commitments receivable	**310**	82
Net commitments by type	**3,106**	825
By maturity		
Service level agreements commitments		
One year or less	**319**	99
From one to five years	**226**	-
Total service level agreements commitments	**545**	99
Software licence agreement commitments		
One year or less	**63**	-
From one to five years	**115**	-
Total software licence agreement commitments	**178**	-
Software support and development agreement commitments		
One year or less	**880**	55
From one to five years	**1,394**	55
Total software support and development agreement commitments	**2,274**	110
Operating lease commitments		
One year or less	**279**	279
From one to five years	**140**	419
Total operating lease commitments	**419**	698
Commitments receivable		
One year or less	**140**	39
From one to five years	**170**	43
Total commitments receivable	**310**	82
Net commitments by maturity	**3,106**	825

NB: Commitments are GST inclusive where relevant.

* Outstanding contractual payments for service level agreements.

** Outstanding contractual payments for software licence agreement.

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

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

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

Notes to and forming part of the financial statements for the year ended 30 June 2009

Note 1: Summary of significant accounting policies

ARPC is a statutory authority that was established as an independent entity wholly owned by the Commonwealth of Australia (Commonwealth) on 1 July 2003 by the *Terrorism Insurance Act 2003* (TI Act).

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

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

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

(a) Basis of preparation of the financial statements

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

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

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

- Finance Minister's Orders (FMOs) for reporting periods ending on or after 1 July 2008; and
- Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

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

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

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

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

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

(b) Going concern

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

(c) Significant accounting judgements and estimates

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

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

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

(d) New accounting standards

Adoption of new Australian Accounting Standard requirements

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

The new standards, amendments to standards and interpretations issued by the Australian Accounting Standards Board for the current financial year are not expected to have a material financial impact on ARPC.

- 2007-3 amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 7, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]; and

- 2009-2 amendments to Australian Accounting Standards — Improving disclosures about financial instruments [AASB 4, AASB 7, AASB 1023 & AASB 1038].

Future Australian Accounting Standard requirements

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

(e) Revenue

Premium revenue

Premium revenue comprises amounts charged to insurers excluding taxes collected on behalf of third parties. The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue in the Income Statement. 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 2009 are recognised as premiums receivable in the Balance Sheet.

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

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

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

Retrocession commission revenue

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

Investment revenue

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

(f) Retrocession premium expense

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

(g) Unexpired risk liability

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

There is no deficiency noted or recorded in these financial statements (2008: $0). Accordingly, there has been no write down in ARPC's deferred acquisition costs.

(h) Outstanding claims liability

The financial statements have not included a provision for outstanding claims (2008: $0). ARPC has not engaged an actuarial assessment to independently assess this balance as:

- a declared terrorist incident has not been announced since the inception of ARPC; and
- any such declaration must be announced by the Treasurer after consultation with the Attorney-General.

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

(i) Net claims incurred

A declared terrorist incident has not been announced since the inception of ARPC.

(j) Assets backing general insurance liabilities

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

Financial assets

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

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

Cash

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

Investments

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

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

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

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

Receivables

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

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

(k) Deferred insurance assets

Deferred acquisition costs

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

A portion of acquisition costs relating to unearned premium revenue is deferred in recognition that it represents future benefits to the organisation where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the Income Statement in subsequent reporting periods. Deferred acquisition costs are measured at the lower of cost and recoverable amount. These costs are amortised on the same basis as the earning pattern of the corresponding premium revenue.

Deferred retrocession premium

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

(l) Dividends

Pursuant to section 38(3)(b) of the TI Act, the Minister may give written direction to require ARPC to make payments to the Commonwealth in the nature of dividends. No direction has been received for these financial statements (2008: $0).

(m) Reserves

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

(n) Employee benefits

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

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

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

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

Leave

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

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

The liability for long service leave has been determined by reference to the work of an actuary as at 30 June 2006. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Superannuation

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

The Australian Workplace Agreements between ARPC and its employees allow for choice of superannuation fund. The default superannuation scheme is the Australian Government Employees Superannuation Trust.

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

(o) Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and rewards incidental to ownership of leased non-current assets. An operating lease is a lease that is not a finance lease. In operating leases, the lessor effectively retains substantially all such risks and benefits.

ARPC entered into an operating lease agreement for office accommodation. Operating lease payments are expensed on a straight line basis which is representative of the pattern of benefits derived from the leased assets.

(p) Derecognition of financial assets and liabilities

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

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

No financial assets or liabilities were derecognised in these financial statements (2008: $0).

(q) Trade creditors

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

All payables are unsecured and are paid within credit terms.

(r) Contingent liabilities and contingent assets

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

There are no contingent liabilities or assets noted in these financial statements (2008: $0).

(s) Acquisition of assets

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

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

(t) Property, plant and equipment

Asset recognition and threshold

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

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

Revaluations

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

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

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

ARPC engaged an independent valuer, Preston Rowe Patterson NSW Pty Limited, to conduct a valuation to determine the fair value of the property, plant and equipment as at 30 November 2007.

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

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

Depreciation

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

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

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

	2009	**2008**
Leasehold improvements	**Lease term**	Lease term
Plant and equipment	**3 to 7 years**	3 to 7 years

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

Impairment

All assets were assessed for impairment at 30 June 2009. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

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

There has been no impairment adjustment recognised in these financial statements (2008: $0).

(u) Intangibles

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

Software is amortised on a straight-line basis over its anticipated useful life. The useful life of ARPC's externally purchased and internally developed software is 4 years (2008: 4 years).

All software assets were assessed for indications of impairment as at 30 June 2009. There has been no impairment write-off recognised in these financial statements (2008: $30,953).

(v) Taxation

Income tax

ARPC is exempt from income tax by virtue of section 36 of the TI Act. ARPC is subject to fringe benefits tax and the 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); and
- except for receivables and payables.

(w) Rounding of amounts

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

Note 2: Events after the Balance Sheet date

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

The availability period for the line of credit facility (mentioned under the heading "Capital Risk" in Note 3) expired on 30 June 2009. With the introduction of ARPC's retrocession program, and the resulting availability of $2.3 billion of capital, a decision was taken not to renew the line of credit. This will have no material effect on ARPC's financial position.

Note 3: Risk management

ARPC's approach to managing risk is consistent with the Australian/New Zealand Standard for Risk Management (AS/NZS 4360:2004) and the Australian Prudential Regulation Authority's Prudential Standard GPS 220. 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.

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

The broad risk categories discussed below are:

- insurance risk;
- operational risk; and
- capital risk.

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

Insurance risk

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

Underwriting risks

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

Key aspects of the process established to mitigate risks include:

- ARPC's underwriting risk is limited to eligible terrorism losses arising in respect of eligible insurance contracts;
- ARPC developed a standard reinsurance agreement for underwriting and accepting insurance risks;
- ARPC undertakes a Cedant review program to verify the premium levels; and
- ARPC's exposure to concentrations of insurance risk is mitigated by the fact the TI Act applies to all eligible insurance contracts. The wording of the TI Act was designed to ensure that ARPC's concentration risk was diversified both geographically and by type of risk.

Claims risk

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

- the capping of ARPC's liabilities at $10 billion plus the amount of the reserve for claims as a result of the effect of section 6(7) of the TI Act (specification of a reduction percentage if the Minister considers that, in the absence of a reduction percentage, the total amounts paid or payable by the Commonwealth would be more than $10 billion);

- the appointment of a claims manager and the development of claims procedures to ensure that all claims advices are captured and updated on a timely basis;

- an agreement is in place with an actuarial firm;

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

- the mix of assets in which ARPC invests is regulated by section 18 of the *Commonwealth Authorities and Companies Act 1997*. The management of investments is closely monitored to ensure the liquidity of funds match the potential liabilities.

Retrocession counterparty risk

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

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

- retrocession arrangements are regularly reassessed based on current exposure information; and

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

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

The following table provides information about the quality of ARPC's credit risk exposure in respect of its retrocession program. The analysis classifies the counterparty risk according to Standard and Poor's counterparty credit rating.

		Retrocession program counter party credit rating							
		AAA		**AA**		**AA-**		**A+**	
	Notes	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
		$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
ARPC									
Total exposure		**22,500**	-	**176,000**	-	**754,449**	-	**726,506**	-
		A		**A-**		**Not rated**		**Total**	
		A		**A-**		**Not rated**		**Total**	
		2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
		$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
ARPC									
Total exposure		**214,000**	-	**129,970**	-	**276,575**	-	2,300,000	-

Operational risk

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

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

- effective staff recruitment and retention policies;
- the segregation of duties including access controls, delegated authorisation levels and accounting reconciliations controls;
- maintenance and use of sophisticated information systems which provide up to date and reliable data to assist in managing the risk to which the business is exposed to at any point in time; and
- implementation and ongoing management of ARPC's business continuity plan.

Capital risk

The following details ARPC's capital structure to cover claims from declared terrorist incidents:

- ARPC has access to its cash and investments of $570 million. In the event of a declared terrorist incident ARPC would be required to pay $300 million before claiming on its retrocession program;
- ARPC has access to a $2.3 billion retrocession program excess of $300 million;

- ARPC has unrestricted access to the following line of credit until 30 June 2009:

	Note	2009 $'000	2008 $'000
Bank standby facility	2	**1,000,000**	1,000,000
Amount of facility used as at 30 June		**-**	-
Facility available:		**1,000,000**	1,000,000

- ARPC has unrestricted access to the following Commonwealth indemnity:

	2009 $'000	2008 $'000
Commonwealth indemnity	**9,000,000**	9,000,000
Amount of facility used as at 30 June	**-**	-
Facility available:	**9,000,000**	9,000,000

Note 4: Financial risk management

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

Market risk

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

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

1) Foreign currency risk

All foreign transactions are converted to Australian dollars at the exchange rate at the date of the transaction. There are no foreign currency transactions recognised in the financial statements (2008: $0).

2) Interest rate risk

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

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

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

(a) on deposit with a bank; or

(b) in securities of the Commonwealth or of a State or Territory; or

(c) in securities guaranteed by the Commonwealth, a State or a Territory; or

(d) in any other manner approved by the Finance Minister.

ARPC actively manages the duration of the portfolio.

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

		Floating interest rate		**Fixed interest rate maturing in**				**Total**	
		1 year or less		**1 year or less**		**1-5 years**			
	Notes	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'000
Interest bearing financial assets									
Cash and equivalents	7	**37,467**	42,909	**-**	-	**-**	-	**37,467**	42,909
Fixed term deposits	9	**-**	-	**375,000**	433,000	**120,000**	-	**495,000**	433,000
Government securities	9	**-**	-	**15,405**	-	**19,533**	-	**34,938**	-
Total		**37,467**	42,909	**390,405**	433,000	**139,533**	-	**567,405**	475,909
Weighted average interest rate		**2.90%**	7.16%	**3.85%**	7.54%	**5.81%**	0.00%	**4.28%**	7.50%

The table below details the interest rate sensitivity analysis of ARPC at the reporting date, holding all other variables constant. A 75 basis point change is deemed to be a possible change and is used when reporting interest rate risk.

	Movement in variable		**Financial Impact**			
			Profit / (Loss)		Equity	
	2009 %	2008 %	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'000
Interest rate movement - interest bearing Financial assets	**+0.75**	+0.50	**4,256**	2,380	**4,256**	2,380
	-0.75	-0.50	**(4,256)**	(2,380)	**(4,256)**	(2,380)

The method used to arrive at the possible change of 75 basis points was based on both statistical and non-statistical analysis. The statistical analysis has been based on the cash rate for the past five years issued by the RBA as the underlying dataset. This information is then revised and adjusted for reasonableness under the current economic circumstances.

75 basis points is considered reasonable because it is reasonably possible that there will be greater volatility compared to that which has been experienced in recent years, however, not to the extent of the volatility experience in 2008-09.

3) Price risk

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

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

Credit risk

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

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

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

		Credit rating									
		AAA		**AA**		**AA-**		**A+**		**Total**	
	Notes	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'000
ARPC											
Cash and cash equivalents	7	**36,362**	34,698	**1,053**	629	**0**	2,038	**52**	5,544	**37,467**	42,909
Fixed term	9	**75,000**	######	**366,000**	0	**0**	53,000	**54,000**	105,000	**495,000**	######
Government securities	9	**34,938**	0	0	0	0	0	0	0	**34,938**	0
Total		**146,300**	######	**367,053**	629	**0**	55,038	**54,052**	110,544	**567,405**	######

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

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

		Neither past due nor impaired		Past due but not impaired: 0 to 30 days		Past due but not impaired: Total	
	Notes	2009 $'000	2008 $'000	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Financial assets							
Premium receivables	8	**-**	-	**24,315**	23,062	**24,315**	23,062
Commission receivables	8	**-**	-	**3,475**	-	**3,475**	-
Interest receivable	8	**8,778**	4,403	**-**	-	**8,778**	4,403
Total		**8,778**	4,403	**27,790**	23,062	**36,568**	27,465

Liquidity risk

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

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

	Notes	1 year or less		Total	
		2009 $'000	2008 $'000	2009 $'000	2008 $'000
Financial liabilities					
Payables	14	**39,106**	541	**39,106**	541
Total		**39,106**	541	**39,106**	541

Note 5: Revenue

		2009 $'000	2008 $'000
(a)	**Net premium revenue**		
	Gross written premium	**106,270**	100,659
	Movement in unearned premium reserve	**(1,899)**	(715)
	Total premium revenue	**104,371**	99,944
	Outwards retrocession premium	**(37,440)**	-
	Net premium revenue	**66,931**	99,944
(b)	**Retrocession commision income**		
	Total retrocession commision income	**3,446**	-
(c)	**Investment income**		
	Cash at bank	**2,770**	4,678
	Term deposits	**27,468**	24,817
	Government securities	**178**	-
	Total investment income	**30,416**	29,495
(d)	**Other income**		
	Realised gain/(losses) recognised through the income statement	**-**	-
	Unrealised gain/(losses) recognised through the income statement	**(254)**	-
	Total other income	**(254)**	-
(e)	**Total revenue**	**100,539**	129,439

The investment income classification includes cash at bank, term deposits and Government securities in these finanical statements. The 2007-08 comparative split has been amended from what was published last year to reflect this.

Note 6: Other operating expenses

			2009 $'000	2008 $'000
The presentation of general and administration expenses in the Income Statement is by function. This note presents expenses according to their nature:				
(a)	**Expenses by nature**			
	Employee expenses	6(c)	**1,973**	1,745
	Services from related entities		**200**	175
	Goods from external entities		**30**	40
	Services from external entities		**3,013**	2,158
	Operating lease rentals		**263**	203
	Depreciation and amortisation	12	**242**	190
	Impairment write-off		**-**	31
	Bank fees and charges		**273**	263
	Total expenses by nature		**5,994**	4,805
(b)	**Expenses by function**			
	Acquisition costs		**599**	452
	General and administration expenses		**4,823**	4,114
	Investment expense		**572**	239
	Total expenses by function		**5,994**	4,805
(c)	**Employee expenses**			
	Wages and salaries		**1,636**	1,418
	Superannuation		**145**	128
	Leave and other entitlements		**181**	188
	Workers compensation premiums		**11**	11
	Other employee expenses		**-**	-
	Total employee expenses		**1,973**	1,745

Note 7: Cash and cash equivalents

Cash at bank	**37,467**	42,909
Total cash and cash equivalents	**37,467**	42,909

Cash and cash equivalents consist of at call deposits held with the Reserve Bank of Australia, Australian and New Zealand Bank, Commonwealth Bank of Australia, National Australia Bank and Suncorp Metway Ltd. (2008: Reserve Bank of Australia, Suncorp Metway Ltd, Comonwealth Bank of Australia, St George Bank and Bank of Western Australia).

Note 8: Receivables

	2009	2008
	$'000	$'000
Premium receivable	**24,315**	23,062
Commission receivable	**3,475**	-
Interest receivable	**8,778**	4,403
GST receivable from the Australian Taxation Office	**8**	19
Total receivables	**36,576**	27,484

All receivables are with entities external to ARPC. Credit terms are net 30 days (2008: 30 days). Trade debtors are non-interest bearing.

Receivables (gross) are aged as follows:		
Not overdue	**8,778**	4,403
Overdue by:		
Less than 30 days	**27,798**	23,081
30 to 60 days	**-**	-
60 to 90 days	**-**	-
More than 90 days	**-**	-
	36,576	27,484

Interest receivable
The interest rate ranges from 2.40% to 7.80% (2008: 6.65% to 8.08%) and the frequency of payment is monthly for cash accounts and on maturity for term deposits.

Note 9: Investments under s18 of the CAC Act

Term deposits	**495,000**	433,000
Government Securities	**34,938**	-
Total investments	**529,938**	433,000

Term Deposits
Term deposits are held with the Reserve Bank of Australia, Australian and New Zealand Bank, Commonwealth Bank of Australia, National Australia Bank, Westpac Banking Corporation and Suncorp Metway Ltd and earn an effective rate of interest of 4.25% (2008: 7.54%). Interest is payable on maturity or 12 months from inception. Terms are between 33 and 730 days (2008:15 and 180 days).

Government (Guaranteed) Securities
Securities have terms of up to 10 years. They are issued or guaranteed by the Commonwealth, a State or a Territory Government and are traded in active markets. The effective interest rate is 6.12% (2008: 0.00%).

Note 10: Deferred insurance assets

			2009 $'000	2008 $'000
(a)	**Deferred insurance assets as at 1 July**			
	Deferred retrocession premium	10(b)	**38,060**	-
	Deferred acquisition costs	10(c)	**509**	394
	Total deferred insurance assets as at 30 June		**38,569**	394
(b)	**Deferred retrocession premium as at 1 July**			
	Deferred retrocession premium as at 1 July		**-**	-
	Retrocession premium deferred		**38,060**	-
	Amortisation charged to income		**-**	-
	Deferred retrocession premium as at 30 June		**38,060**	-
(c)	**Deferred acquisition costs as at 1 July**			
	Deferred acquisition costs as at 1 July		**394**	392
	Acquisition costs deferred		**509**	394
	Amortisation charged to income		**(394)**	(392)
	Deferred acquisition costs as at 30 June		**509**	394

Note 11: Other non-financial assets

Prepayments	**23**	**33**
Total other non-financial assets	**23**	**33**

All other non-financial assets are current assets.

Note 12: Property, plant and equipment and intangibles

		2009 $'000	2008 $'000
(a)	**Buildings**		
	Leasehold improvements		
	- at cost	**49**	49
	- at valuation (fair value)	**408**	408
	- accumulated depreciation	**(293)**	(217)
	Total leasehold improvements	**164**	240
	Total buildings	**164**	240
(b)	**Plant and equipment**		
	- at cost	**2**	-
	- at valuation (fair value)	**83**	85
	- accumulated depreciation	**(40)**	(21)
	Total plant and equipment	**45**	64
(c)	**Total property plant and equipment**	**209**	304
(d)	**Intangibles - computer software**		
	- purchased	**41**	41
	- internally developed - in progress	**80**	-
	- internally developed - in use	**477**	537
	- impairment writedown	**-**	(60)
	- accumulated amortisation	**(233)**	(88)
	Total computer software	**365**	430
	Total intangibles	**365**	430

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

A revaluation was undertaken by an independent valuer, Preston Rowe Paterson NSW Pty Limited on 30 November 2007.

No revaluation adjustments were made in these financial statements (2008:$74,598).

No indications of impairment were found for leasehold improvements or plant and equipment in 2009 (2008: Nil)

Table A: Reconciliation of the opening and closing balances of property, plant and equipment and intangibles (2008-09)

Item	Buildings leasehold improvements $'000	Plant & equipment $'000	Intangibles $'000	Total $'000
As at 1 July 2008				
Gross book value	457	85	518	1,060
Accumulated depreciation/amortisation	(217)	(21)	(88)	(326)
Net book value 1 July 2008	240	64	430	734
Additions				
- by purchase	-	2	-	2
- internally developed	-	-	80	80
Depreciation/amortisation expense	(76)	(21)	(145)	(242)
Net book value 30 June 2009	164	45	365	574
Net book value as of 30 June 2009 represented by:				
Gross book value	457	87	598	1,142
Accumulated depreciation/amortisation	(293)	(42)	(233)	(568)
Net book value 30 June 2008	164	45	365	574

Table A: Reconciliation of the opening and closing balances of property, plant and equipment and intangibles (2007-08)

Item	Buildings leasehold improvements $'000	Plant & equipment $'000	Intangibles $'000	Total $'000
As at 1 July 2007				
Gross book value	353	185	214	752
Accumulated depreciation/amortisation	(107)	(93)	(42)	(242)
Net book value 1 July 2007	246	92	172	510
Additions				
- by purchase	-	5	-	5
- internally developed	-	-	365	365
Impairment write-off	-	-	(31)	(31)
Accumulated depreciation write back			-	-
Depreciation 1 July 2007 to 30 Nov 2007	(28)	(16)	(19)	(63)
Revaluation increment/(decrement)	71	4	-	75
Depreciation 1 Dec 2007 to 30 Jun 2008	(49)	(21)	(57)	(127)
Net book value 30 June 2008	240	64	430	734
Net book value as of 30 June 2008 represented by:				
Gross book value	457	85	518	1,060
Accumulated depreciation/amortisation	(217)	(21)	(88)	(326)
Net book value 30 June 2008	240	64	430	734

Note 13: Unearned liability

			2009 $'000	2008 $'000
(a)	**Unearned liability**			
	Unearned premium liability	13(b)	**48,803**	46,904
	Unearned commission liability	13(c)	**3,504**	-
	Total unearned liability		**52,307**	46,904
(b)	**Unearned premium liability as at 1 July**		**46,904**	46,189
	Deferral of premiums on contracts written in the period		**48,803**	46,904
	Earning of premiums written in the previous periods		**(46,904)**	(46,189)
	Unearned premium liability as at 30 June		**48,803**	46,904
(c)	**Unearned commission liability as at 1 July**		**-**	-
	Deferral of commissions on contracts written in the period		**3,504**	-
	Earning of commissions written in the previous periods		**-**	-
	Unearned commission liability as at 30 June		**3,504**	-

Note 14: Payables

Retrocessionaire creditors	**37,750**	-
Trade creditors	**71**	41
Accruals	**1,285**	500
Total payables	**39,106**	541

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

Trade creditors:
Settlement is usually made net 30 days.

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

Note 15: Provisions

		2009 $'000	2008 $'000
(a)	**Employee provisions**		
	Salaries and wages	**24**	17
	Leave	**395**	324
	Other	**2**	-
	Total employee provisions	**421**	341
	Current	**219**	183
	Non-current	**202**	158
	Total employee provisions	**421**	341
(b)	**Other provisions**		
	Make good provision	**49**	49
	Total other provisions	**49**	49

	Provision for make good $'000	Total $'000
Carrying amount at beginning of period	**49**	49
Additional provisions made	**-**	-
Present value adjustment	**-**	-
Amount owing at end of period	**49**	49

ARPC currently has an agreement for the leasing of premises which has a provision requiring ARPC to restore the premises to its original condition at the conclusion of the lease. ARPC has made provision to reflect the present value of this obligation.

All other provisions are non-current liabilities.

Note 16: Cash flow reconciliation

	2009 $'000	2008 $'000
Reconciliation of cash and cash equivalents as per Balance Sheet to Cash Flow Statement		
Report cash and cash equivalents as per:		
Cash Flow Statement	**37,467**	42,909
Balance Sheet	**37,467**	42,909
Difference	**-**	-
Reconciliation of operating result to net cash from operating activities:		
Operating result	**94,545**	124,634
Depreciation/amortisation expense	**242**	190
Impairment write-off	**-**	31
(Increase)/decrease in receivables	**(9,092)**	(3,992)
(Increase)/decrease in other non-financial assets	**10**	(5)
(Increase)/decrease in deferred insurance assets	**(38,175)**	(2)
Increase/(decrease) in unearned liability	**5,403**	714
Increase/(decrease) in payables	**38,565**	107
Increase/(decrease) in other interest bearing liabilities	**-**	(6)
Increase/(decrease) in provisions	**80**	101
Net cash from / (used by) operating activities	**91,578**	121,772

Note 17: Average staffing levels

	2009	2008
The average staffing levels for ARPC during the year were:	**15**	15

Note 18: Executive remuneration

	2009 $	2008 $
The aggregate amount of total remuneration of executives shown below.	**1,227,437**	1,116,635

	2009	2008
The number of senior executives who received or were due to receive total remuneration of $130,000 or more:		
$145,000 - $159,999	**-**	1
$160,000 - $174,999	**-**	1
$175,000 - $189,999	**1**	-
$190,000 - $204,999	**-**	1
$205,000 - $219,999	**1**	1
$220,000 - $234,999	**2**	-
$370,000 - $384,999	**1**	1
Total number of executives of ARPC	**5**	5

Note 19: Members' remuneration

	2009	2008
	$	$
Total remuneration received or due and receivable by Members of ARPC	**52,706**	23,498
The number of Members of ARPC included in these figures are shown below in the relevant remuneration bands:		
$ Nil - $14,999	**6**	6
$ 15,000 - $29,999	**-**	-
$ 30,000 - $44,999	**1**	-
Total number of Members of ARPC	**7**	6

Note 20: Auditor's remuneration

	2009	2008
	$	$
The cost of financial statement audit services provided to ARPC was:	**112,000**	110,000

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

Note 21: Related party disclosures

Members

The names of persons who were Members of ARPC during the financial year were:
Mr J Gersh, Ms P Azarias, Mr T Karp, Mr A Lumsden, Ms M Micalizzi, Mr J Murphy and Mr G Vogt.

Changes in membership during the year:

Mr T Karp was appointed for a three year term on 29 August 2008.
Mr Lumsden's term expired on 30 June 2009.
Mr Gersh and Ms Micalizzi were reappointed for a further three year term on 1 July 2009.
Ms J Bowe was appointed for a three year term from 1 July 2009.

Information on remuneration of Members is disclosed in Note 19.

Transactions with Members and Member related entities

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

Transactions with related entities

The service level agreement with the Department of the Treasury is considered a related party transaction. This agreement is for the provision of corporate support services to ARPC at a cost of $200,000 (2008: $174,556).

Controlling entity

ARPC was established by section 9 of the TI Act.

The ultimate controlling entity is the Australian Government. ARPC is only authorised to transact business and carry out functions as provided in the TI Act or as approved or directed by the Minister. ARPC's liabilities are guaranteed by the Commonwealth by virtue of section 35 of the TI Act.

Note 22: Financial Instruments

			2009	2008
			$'000	$'000
(a)	**Categories of financial instruments**			
	Financial assets			
	Cash and cash equivalents	7	**37,467**	42,909
	Loans and receivables financial assets			
	Receivables (gross)	8	**36,568**	27,465
	Fair value through profit and loss (held to maturity)			
	Fixed term deposits	9	**495,000**	433,000
	Government securities	9	**34,938**	-
	Carrying amount of financial assets		**603,973**	503,374
	Financial liabilities			
	At amortised cost			
	Payables	14	**39,106**	541
	Carrying amount of financial liabilities		**39,106**	541
(b)	**Net income and expense from financial assets / liabilities**			
	Investment income	5(c)	**30,416**	29,495
	Net gain/(loss) from financial assets		**30,416**	29,495

(c) **Fair value of financial instruments**

		Carrying amount	**Fair value**	Carrying amount	Fair value
		2009	**2009**	2008	2008
		$'000	**$'000**	$'000	$'000
Financial assets					
Cash and cash equivalents	7	**37,467**	**37,467**	42,909	42,909
Receivables (gross)	8	**36,568**	**36,568**	27,465	27,465
Fixed term deposits	9	**495,000**	**495,000**	433,000	433,000
Government securities	9	**34,938**	**34,938**	-	-
Total financial assets		**603,973**	**603,973**	503,374	503,374
Financial liabilities					
Payables	14	**39,106**	**39,106**	541	541
Total financial liabilities		**39,106**	**39,106**	541	541