ARPC

Annual Report
2009-10

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Australian Government

Australian Reinsurance Pool Corporation

20 September 2010

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

Dear Minister

I have pleasure in presenting to you the annual report of the Australian Reinsurance Pool Corporation for the year ended 30 June 2010. 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.

As provided in subsection 9(3) of the Act, 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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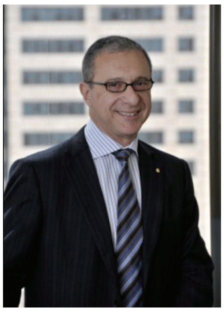


It gives me a great deal of pleasure to present ARPC's 2009-10 annual report.

I am very proud of ARPC's achievements over its seven year history as it continues to build on the solid financial, operational and organisational foundations it has established.

ARPC's 2009-10 operating result of $53.196 million reflects the fact that this is the first full year of the retrocession program ($80.098 million). The gross written premium for 2009-10 was $104.885 million, which represents a slight reduction on last year's gross written premium (1.3 per cent). ARPC's investment income was $28.351 million, despite the low interest rate environment experienced during the early part of the year. The retrocession commission income contributed $7.551 million towards the operating result. ARPC continues to transfer the operating result to the reserve for claims, which has increased to $604,460 million as at 30 June 2010.

ARPC's retrocession program was renewed on 31 December 2009. At renewal the capacity was increased to $2.6 billion (2008: $2.3 billion). The retrocession program is an important step in the process of achieving the Government's aim of encouraging the return of the commercial terrorism insurance market. It also has the effect of placing the Government further from the risk of the Commonwealth guarantee being called on in the event of a declared terrorist incident and lessens the likelihood that a reduction percentage will be required. The program is discussed in more detail in Chapter 2.

ARPC continues its commitment to enhancing its loss estimation capabilities. In addition to collecting and analysing the information provided by clients in the annual aggregate exposure reports, ARPC works with a number of public and private sector service providers. Risk Frontiers, Finity Consulting and the Australian Government Actuary partner ARPC in building and reviewing its exposure model. ARPC is also working cooperatively with the Attorney-General's Department and Geoscience Australia to further develop ARPC's capabilities in this area.

Mr Neil Weeks, ARPC's inaugural Chief Executive, retired on 8 July 2010. Mr Weeks made a significant contribution to ARPC over the seven years he was at the helm. His professionalism, experience and dedication have ensured that ARPC's reinsurance, administrative and governance practices are well developed and soundly based. I would like to take this opportunity to thank Mr Weeks personally for his support during the past seven years. My fellow Members and I extend our very best wishes to Mr Weeks for a long, happy and healthy retirement.

A rigorous selection process for Mr Weeks' replacement has been undertaken under the supervision of a sub-committee of the Board. Mr David Matcham has been selected to fill the vacancy and will take office on 5 October 2010.

Mr Matcham has over 30 years of experience in the insurance industry. He began his employment at Lumley in 1977 and worked in various positions across all business lines. He was appointed Managing Director in 1999 and Chief Executive Officer in 2003. He held that position until his retirement in 2009. I welcome Mr Matcham to ARPC and look forward to working with him.

I would like to thank Ms Marianne Cavanagh for acting in the role of Chief Executive for the period between Mr Weeks' retirement and the appointment of his successor.

As in past years, my fellow Members and I have benefited from the professional support provided by all the staff at ARPC. ARPC continues to enjoy the confidence of both government and industry. I look forward to working with my fellow Members, the CEO and the staff of ARPC to ensure that the regard in which ARPC is held is maintained and developed further. We will continue to work towards achieving the Government's aim of encouraging the return of the commercial terrorism insurance market.

The past year has been a very successful one for ARPC and I am looking forward to working with my fellow Members, the CEO and staff of ARPC to meet any challenges the coming year may bring.

J I Gersh
Chair
20 September 2010

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 2010. This report is made in accordance with a resolution of the Members.

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

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

J I Gersh Chair 20 September 2010	Ms Marian Micalizzi Member and Chair of the Audit and Compliance Committee 20 September 2010

Glossary

AASB	Australian Accounting Standards Board
AGD	Attorney General's Department
ANAO	Australian National Audit Office
ANZIIF	Australian and New Zealand Institute of Insurance and Finance
APRA	Australia Prudential Regulation Authority
ARPC	Australian Reinsurance Pool Corporation
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange
ATO	Australian Taxation Office
BCM	Business continuity management
CAC Act	*Commonwealth Authorities and Companies Act 1997*
CBD	Central business district
CEO	Chief Executive Officer
CIPMA	Critical Infrastructure Protection Modelling and Analysis program
DTI	Declared terrorist incident
FMOs	Finance Minister's Orders
GST	Goods and services tax
NABERS	National Australian built environment rating system
OH&S Act	*Occupational Health and Safety Act 1991*
OH&S	Occupational health and safety
RISe	Reinsurance information system, ARPC's client information management system
SES	Senior executive staff
TI Act	*Terrorism Insurance Act 2003*

2009-10 Highlights

Financial	Outcome
Operating results	$53.196 million
Gross written premiums	$104.885 million
Investment income	$28.351 million
Retrocession expense	$80.098 million
Retrocession program	Capacity increased to $2.6 billon
Loss estimation model	ARPC's loss estimation capabilities continue to be developed and refined
Corporate Governance	**Result**
Internal audit	No issues were identified which would have material impact on ARPC processes
Risk management	ARPC undertook a review of its risk management policy and strategy
Human resource management	**Result**
Employment agreements	New enterprise agreement for administrative employees and individual employment agreements for SES equivalent employees
Client satisfaction	**Result**
Cedant review program	A significant review program was undertaken in 2010-11. The program will remain active for the foreseeable future
Social/community	**Result**
Carbon footprint	ARPC implements strategies designed to minimise waste and conserve energy. The Canberra premises have a 5 star green rating

Chapter 1: Overview

Chapter 1: Overview

Role and functions

Background

The TI Act establishes a scheme for replacement terrorism insurance coverage for commercial property and business interruption. The Act also establishes ARPC as a statutory authority to administer the scheme. Both the scheme and ARPC began operations on 1 July 2003.

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

Before introducing the scheme, the Government considered the broad economic impacts 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 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.

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

Legislative function

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

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

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

Organisation 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 19 employees (including the Chief Executive). Eighteen employees work full-time and one works part-time.

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

An organisational chart illustrating functional responsibilities is attached (Diagram 2).

Mission

ARPC's mission is to ensure that:

(a) all issuers of eligible insurance contracts have the opportunity to reinsure with ARPC for eligible terrorism losses; and

(b) its commitments under the reinsurance agreements are met in a timely manner.

Objectives

Objective 1 — to provide reinsurance cover for eligible terrorism losses

To achieve this objective ARPC will:

(a) seek to ensure that all insurers writing eligible insurance contracts are aware of their exposure under the Act and the reinsurance product offered by ARPC;

(b) maintain contact with clients and potential clients both individually and through appropriate industry forums; and

(c) maintain a good working relationship with the Insurance Council of Australia and other appropriate industry bodies.

Objective 2 — to be in a position to advise of the likely costs to ARPC in the event of a declared terrorist incident

To achieve this objective ARPC will:

(a) continue to develop its loss estimation capabilities;

(b) foster relationships with clients to enable ARPC to collect the data required to populate its loss estimate model; and

(c) maintain good relationships with organisations involved in disaster modelling, for example the Insurance Council of Australia, the Attorney-General's Department and Geoscience Australia.

Objective 3 — to keep abreast of key international developments

To achieve this objective ARPC will:

(a) maintain a good working relationship with the Insurance Council of Australia and other appropriate industry bodies;

(b) monitor the terrorism insurance and reinsurance market in Australia;

(c) ensure that it is well informed on terrorism insurance and reinsurance products available in overseas markets including the availability and affordability of commercial terrorism insurance; and

(d) keep itself informed of the products and experience of similar schemes overseas.

Objective 4 — to keep the Government fully informed of its activities and alert the Government of any significant events related to ARPC's core business in a timely manner

To achieve this objective ARPC will:

(a) maintain a sound relationship with Treasury through regular liaison meetings;

(b) submit its annual report in accordance with the requirements of the *Commonwealth Authorities and Companies Act 1997*; and

(c) provide briefings as required to Treasury and the responsible Treasury Minister of any activities or events which relate to ARPC's core business.

Objective 5 — to maintain the highest standards of corporate governance

To achieve this objective ARPC will:

(a) continue to monitor developments in corporate governance practices;

(b) continue to benchmark itself against APRA's standards for general insurers;

(c) conduct an annual review on its key corporate governance documents (board charter, terms of reference of committees and delegations to the CEO); and

(d) conduct an annual review of Board performance.

Objective 6 — to be in a position to pay claims efficiently in the event of a DTI

To achieve this objective ARPC will:

(a) ensure that the duties of the claims manager can be performed at all times;

(b) continue to refine its claims procedures; and

(c) continue to educate clients and staff of the procedures to be followed in the event of a claim.

Objective 7 — secure improved efficiency in its operations and demonstrate value for money for the services it delivers

To achieve this objective ARPC will:

(a) continue to monitor financial results against budgets and forecasts;

(b) continue to develop its risk management framework and business continuity capabilities;

(c) maintain sound procurement and contract management policies and procedures;

(d) continue to utilise Recentre Services Pty Ltd for the management of inwards reinsurance records and monitor performance against agreed KPIs;

(e) continue to utilise Treasury for the provision of services such as accounts payable, payroll, IT and publications and monitor performance against agreed KPIs;

(f) maintain a prudent investment policy and investment monitoring system;

(g) continue to refine management information systems; and

(h) continue to improve work practices.

Objective 8 — to be an employer of choice

To achieve this objective ARPC will:

(a) maintain a flexible work environment which allows employees to balance work and family;

(b) encourage a supportive workplace;

(c) encourage staff to increase their skills by undertaking appropriate training; and

(d) encourage staff to develop both personally and professionally by attending relevant seminars, conferences and industry forums.

Objective 9 — to assist in community based activities which employ and develop the professional skills of its staff

To achieve this objective ARPC will:

(a) encourage staff to participate in community activities and provide flexible work arrangements to allow that participation; and

(b) support and encourage charitable fund raising activities within the workplace.

The scheme

The TI Act effectively deems terrorism risk cover into eligible insurance contracts by rendering terrorism exclusion 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.

Review of the scheme

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

Minister must prepare a report that reviews the need for the Act to continue in operation.

The first review was completed in June 2006. The second review was completed in June 2009.

The 2006 review

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

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

The review recommended that:

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

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

The 2009 review

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

The review also found that the favourable market and underwriting conditions that had contributed to the improvement in market conditions deteriorated in the second half of 2008. This deterioration was a result of insurers and reinsurers responding to a decline in the value of investment portfolios due to the impact of the global financial crisis, and dealing with a series of significant weather related events.

While the Australian general insurance industry remains relatively financially stable despite the global economic environment and difficult underwriting conditions, it is nonetheless part of the international reinsurance market. Internationally, the underlying shortage of affordable reinsurance for terrorism risk is ongoing and the impact of the global financial crisis on the availability and affordability of reinsurance is as yet unknown.

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

While concluding that market conditions are not conducive to phasing out or ceasing Australia's terrorism insurance scheme, the review supported maintaining, to the greatest extent possible, private sector provision of terrorism insurance. It noted that permanent government subsidised reinsurance would remove any incentive for the private sector to develop alternative arrangements.

The review then considered refinements to the operation of the scheme. A summary of its recommendations follows.

- **Premiums and the pool** — ARPC continue to collect premiums at current rates and investigate the purchase of further retrocession with funds from the pool, and that 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** — industry retention levels remain at the levels that took effect on 1 July 2009, noting that the appropriateness of the current levels and structure of retentions should be re-examined in the course of the 2012 review.

- **Line of credit** — ARPC not be required to maintain a line of credit facility for the scheme, guaranteed by the Commonwealth, at the current time but 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. ARPC should also 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 (high rise buildings)** — 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 should report to the Minister with findings and recommendations by 30 September 2010.

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

- **Postcode allocation** — 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 part of this process, ARPC model the impact of any reallocation of postcodes to different tiers and advise the Government of its findings. Subject to the recommendation being accepted, there should be a sufficient transitional period to allow insurers and policyholders to adjust to any reallocation of postcodes.

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

The coverage

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

- loss of, or damage to, eligible property that is owned by the insured;

- business interruption and consequential loss arising from:

  - loss of, or damage to, eligible property that is owned or occupied by the insured; or

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

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

Eligible property is the following property that is located in Australia:

- buildings (including fixtures) or other structures or works on, in or under land;

- tangible property that is located in, or on, such property; and

- property prescribed by regulation.

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.

Cover is also available for all Commonwealth and State and Territory public authorities. Farms can also obtain cover if they hold insurance against business interruption.

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. Eligible terrorism losses do not include a loss or liability arising from the hazardous properties of nuclear fuel, material or waste. However, they do include loss or liability arising from incidents caused by biological and chemical agents.

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

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

The 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 $2.6 billion retrocession program and a Commonwealth guarantee which is capped at $10 billion.

Diagram 1 illustrates the scheme structure.

Diagram 1: Scheme structure

$10 billion
Government guarantee

$2.6 billion
Retrocession program

$300 million
Pool

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 of $10 million.

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. The maximum industry retention is $100 million.

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 are now in place.

Table 1: Layers of the scheme

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 one 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.

Table 2: Premium structure for reinsurance

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

ARPC's premium and investment income is used to fund its operations and build the pool available to meet future claims. 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

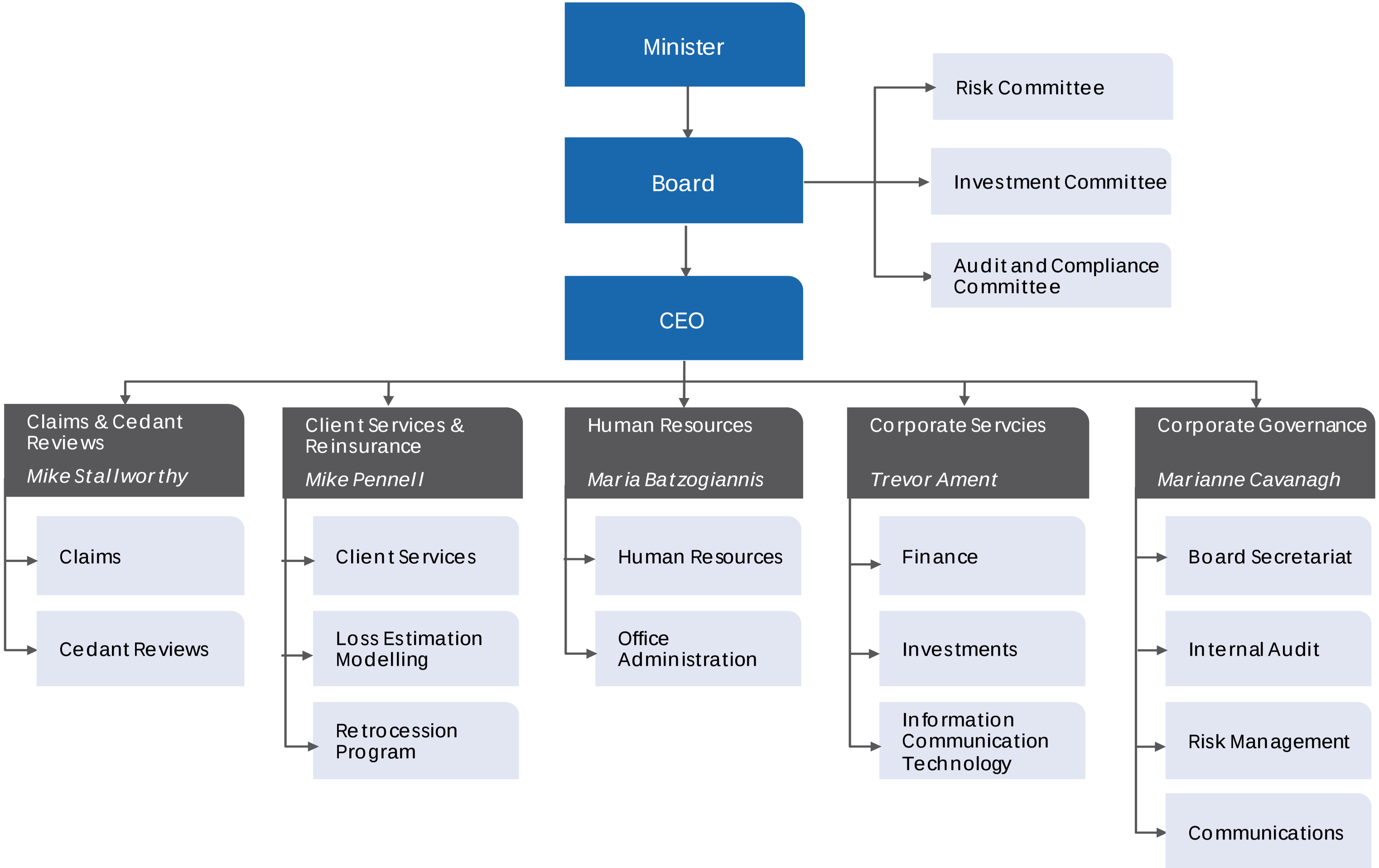
(d) contains covers that (if provided individually) would be an eligible insurance contract.

Reporting of premiums and aggregate risk data

ARPC continues to develop and improve its online reporting system RISe which 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 2009-10 ARPC continued to improve the functionality and usability of RISe and to enhance data collection and analysis. In July 2010, ARPC introduced a new feature whereby clients are now able to submit their gross written premium declarations using RISe. ARPC will continue to enhance RISe to ensure both ARPC and its clients obtain the maximum advantage from the technology.

Diagram 2: ARPC organisational chart



Chapter 2: Report on performance

Chapter 2: Report on performance

Financial review

Summary of financial information

Table 3: Financial highlights

	2010 $'000	2009 $'000	2008 $'000	2007 $'000	2006 $'000
Net premium revenue	**25,293**	66,931	99,944	96,890	102,537
Acquisition costs	**(603)**	(599)	(452)	(412)	(930)
Retrocession commission income	**7,551**	3,446	-	-	-
Investment income	**28,351**	30,416	29,495	18,803	10,833
Other income	**(596)**	(254)	-	5	15
Revenues from government	**-**	-	-	-	-
Other operating expenses	**(6,800)**	(5,395)	(4,353)	(3,973)	(3,034)
Operating result	**53,196**	94,545	124,634	111,313	109,421
Gross written premium	**104,885**	106,270	100,659	94,729	103,204
Outwards retrocession premium	**(80,098)**	(37,440)	-	-	-
Net expense ratio	**26.89%**	8.10%	-	-	-
Gross expense ratio	**6.45%**	5.19%	4.55%	4.53%	3.87%
Cash and cash equivalents	**41,668**	37,467	42,909	91,508	67,254
Investments	**576,334**	529,938	433,000	263,000	187,867
Reserve for claims	**604,460**	551,189	456,644	332,010	220,697

ARPCs financial performance for 2009-10 has continued to achieve its objectives and goals including strengthening ARPC's reserve for claims. In summary the year's achievements are:

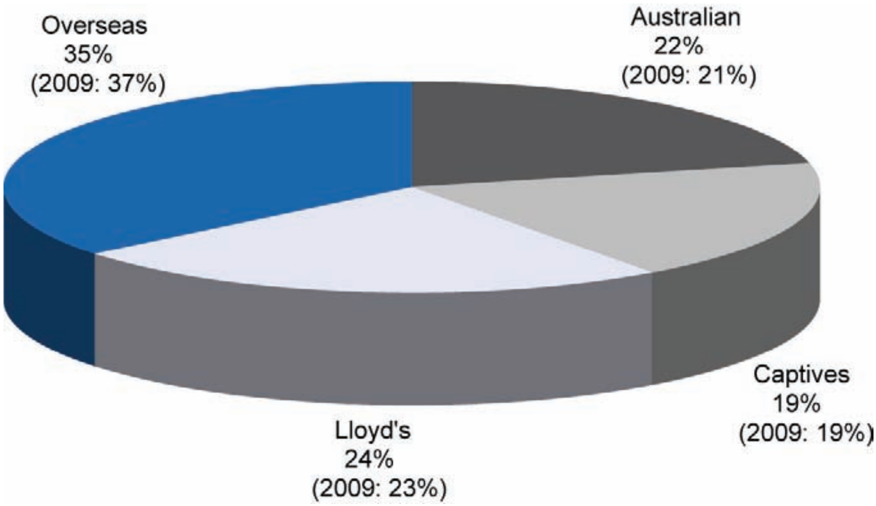
- the gross written premium result of $104.885 million is consistent with the results in prior years and with budget expectations for 2010;
- ARPC renewed its retrocession program in January 2010. The increase in the cost of the program to $80.098 million (2009: $37.440 million) reflects an entire year's program;
- ARPC's investments are managed in a conservative CAC Act compliant framework. ARPC's investment income has benefited from the interest rate increases during 2009-10. The active return achieved over the cash rate was 105 basis points (2009: 100 basis points); and

- the net expense ratio increased to 26.89 per cent (2009: 8.10 per cent) reflecting the full year's cost of the retrocession program. The gross expense ratio increased to 6.45 per cent (2009: 5.19 per cent).

Active treaties

ARPC's active treaties increased during 2009-10 to 252 (2009: 243). The increase in numbers has not altered significantly the percentage split between each of the categories as outlined in Chart 1.

Chart 1: Number of active treaties



Gross written premium

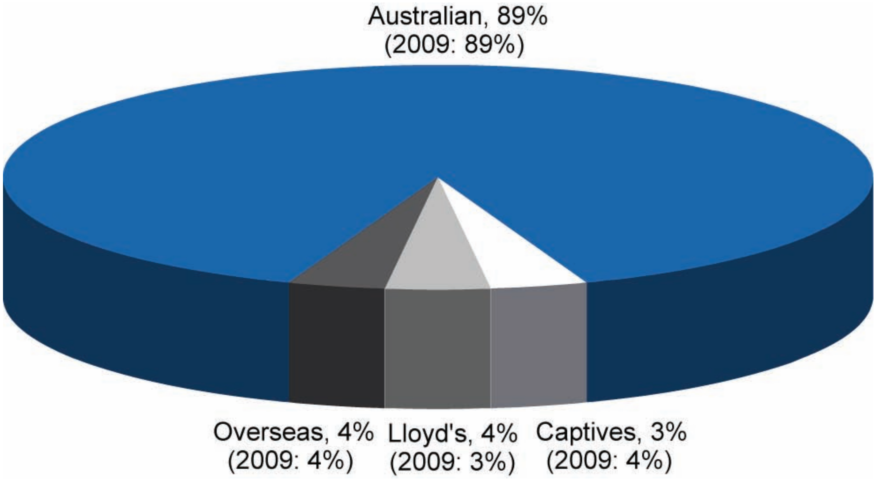
ARPC's gross written premium result for 2009-10 of $104.885 million is again a solid performance. This year's growth rate has dipped slightly by 1.3 per cent after registering two successive years of growth of 5.57 per cent for 2009 and 6.3 per cent for 2008.

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

The Australian clients represent 22 per cent of the total active treaties and yet continue to represent 89 per cent of the premium received. This has been a consistent outcome over the years of ARPC's operations.

Report on performance

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 4: Gross written premium by tier

	Actual				
	2010	2009	2008	2007	2006
	$'000	$'000	$'000	$'000	$'000
Tier A	**19%**	21%	21%	21%	24%
Tier B	**57%**	54%	56%	57%	55%
Tier C	**24%**	25%	23%	22%	21%
Total GWP	**104,885**	106,270	100,659	94,729	103,204

The premium split by tier highlights the trend over the last five years. The major movements for 2009-10 are the 2 per cent reduction in tier A and the 3 per cent increase in tier B. Tier C has recorded a slight reduction over the year to 24 per cent; however has been very stable for the last three years.

Table 5: Gross written premium by State

	Actual				
	2010	2009	2008	2007	2006
	$'000	$'000	$'000	$'000	$'000
NSW	**31%**	31%	34%	34%	36%
SA	**9%**	8%	8%	8%	8%
VIC	**22%**	22%	23%	24%	23%
TAS	**2%**	1%	2%	1%	1%
QLD	**21%**	22%	20%	19%	18%
NT	**1%**	1%	1%	1%	1%
WA	**13%**	13%	12%	11%	11%
ACT	**1%**	1%	1%	1%	1%
Total GWP	**104,885**	106,270	100,659	94,729	103,204

Table 5 reveals a very stable outcome across the States between 2009 and 2010. The growth experienced in Queensland and Western Australia from 2006 to 2009 appears to have plateaued for 2010.

Table 6: Gross written premium by business class

	Actual				
	2010	2009	2008	2007	2006
	$'000	$'000	$'000	$'000	$'000
Fire/ISR/BI	**81%**	78%	77%	77%	81%
Contract works	**7%**	10%	10%	10%	8%
Burglary	**5%**	5%	6%	6%	5%
Miscellaneous accident	**3%**	3%	3%	3%	3%
Mobile plant	**3%**	3%	2%	2%	2%
Glass	**1%**	1%	2%	2%	1%
Farm*	**0%**	0%	0%	0%	0%
Total GWP	**104,885**	106,270	100,659	94,729	103,204

* 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 highlights a movement of 3 per cent between the classes of contract works and fire, industrial special risk and business interruption. All other classes have remained stable between years.

Retrocession placement

ARPC's significant retrocession program was renewed at 12 midnight on 31 December 2009. The placement was for $2.6 billion in terrorism exposure cover and 59 reinsurers participate 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 12 months to 30 June 2010 totalling $80.098 million. The total retrocession commission income recognised by ARPC was $7.551 million.

Investment assets

ARPC continues to manage its investments within a conservative framework where its objectives are to ensure that:

(a) the investment strategy complies with the CAC Act 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 are predominately held with financial institutions with an S&P credit rating of either AAA (19.47 per cent) or AA (72.27 per cent).

The Board established an Investment Sub Committee to review ARPC's current investment policies. This process has been undertaken and the report has been considered by the Board.

The following table provides a breakdown of ARPC's cash and investment balances as at 30 June 2010.

Table 7: Cash and investment balances
as at 30 June 2010

	2010 $'000	2009 $'000
Internally managed		
Cash at bank	**35,120**	36,362
Fixed interest deposits	**288,975**	250,000
Total internally managed cash and investments	**324,095**	286,362
External fund managers		
Cash at bank	**6,548**	1,105
Fixed interest deposits	**267,000**	245,000
Government (guaranteed) securities	**20,359**	34,938
Total external fund manager cash and investments	**293,907**	281,043
Total cash and investments	**618,002**	567,405

Investment income

The investment income result for 2009-10 reflects the low interest rate environment experienced for most of the financial year. ARPC mitigates the interest rate risk through actively managing the duration of its portfolio; internally by management and externally by the fund managers. As at 30 June 2010 ARPC held 7 per cent of its funds at call (floating rates), 83 per cent of funds are maturing in one year or less and 10 per cent of funds are maturing between one and five years.

The maturity spreads contributed to ARPC achieving an active return over the official cash rate on the total portfolio of 105 basis points for 2009-10 (2008-09: 100 basis points). It should be noted the weighted average interest rate for 2009-10 has increased to 5.39 per cent (2008-09: 4.28 per cent).

The following table provides a breakdown between internally and externally generated investment income as at 30 June 2010.

Table 8: Investment income
for the period ended 30 June 2010

	2010 $'000	2009 $'000
Internally managed		
Cash at bank	**1,709**	2,260
Fixed interest deposits	**13,414**	13,946
Total internally managed income	**15,123**	16,206
External fund managers		
Cash at bank	**340**	510
Fixed interest deposits	**10,716**	13,522
Government (guaranteed) securities	**2,172**	178
Total external fund managers income	**13,228**	14,210
Total investment income	**28,351**	30,416

Expenses

ARPC's expense ratio for 2009-10 has increased to 26.89 per cent (2009: 8.10 per cent) due to incurring an entire year's expense on the retrocession program of $80.098 million (2009: $37.440 million). The impact of the retrocession program is the reduction in net premium revenue (that is denominator) to $25.293 million (2009: $66.931 million) causing a significant increase to the ratio.

ARPC's gross expense ratio (that is, excluding the retrocession program) is 6.45 per cent, a slight increase over the 2008-09 result of 5.19 per cent.

The movements in ARPC's expenses are mainly attributable to the following areas:

- an increase in investment management fees resulting from the continued growth in funds held with external fund managers through earned revenue;
- an increase in the number of cedant reviews undertaken;
- actuarial work undertaken relating to ARPC's exposure modelling and investment analysis;
- system support fees for RISe (ARPC's client management system) and the implementation and system support of a treasury investment management system; and
- an increase in the depreciation and amortisation expense associated with leasehold improvements and ARPC's intangible assets which include the exposure model and RISe.

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

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 to the financial statements a movement of 1.5 per cent in interest rates may, subject to timing of the movement, have an impact of up to $9.270 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 retrocession 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 global capacity at a reasonable price was starting to re-emerge, particularly for national, pooled arrangements. On 31 December 2008, ARPC entered into a $2.3 billion retrocession program with 59 reinsurers. This action was in accordance with ARPC's major objective to encourage the commercial insurance market to offer the terrorism cover within Australia.

The retrocession program was renewed and increased on 31 December 2009 by extending the program to $2.6 billion and increasing the number of participants. The program now has the support of 59 participants from the Australian, Lloyd's, European, Bermudan, USA and Asian markets.

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

- Layer 1: $50 million excess of $300 million;
- Layer 2: $450 million excess of $350 million;
- Layer 3: $1.7 billion excess of $800 million; and
- Layer 4: $400 million excess of $2.5 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 9.

Table 9: Structure of the scheme following 2010 retrocession placement

Layer	Element
Layer 1	Policyholders' 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: $50 million excess of $300 million Retrocession layer 2: $450 million excess of $350 million Retrocession layer 3: $1.7 billion excess of $800 million Retrocession layer 4: $400 million excess of $2.5 billion
Layer 5	Commonwealth guarantee 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 $12.9 billion

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 ARPC's retrocession counterparties and will advise 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. With the retrocession in place, the Commonwealth will be exposed only if losses under the scheme reach $2.9 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 insurance 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 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.

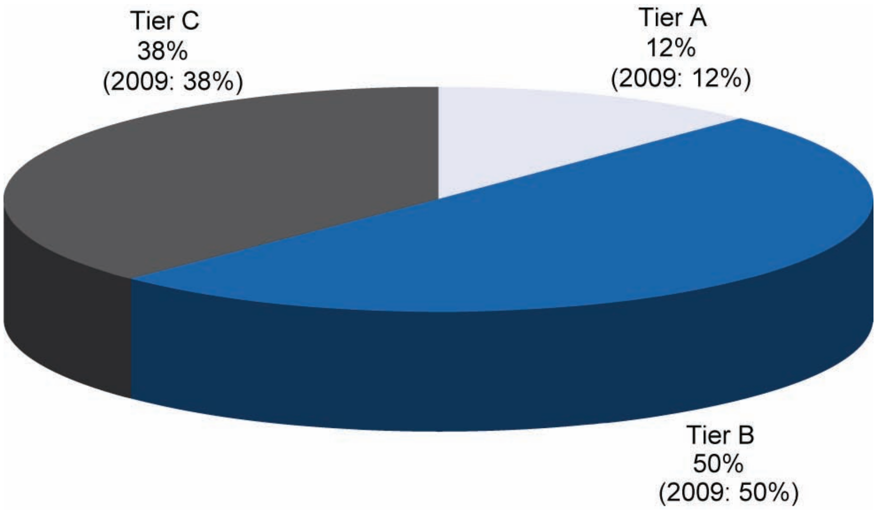
Aggregate exposure reports

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 allow 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.

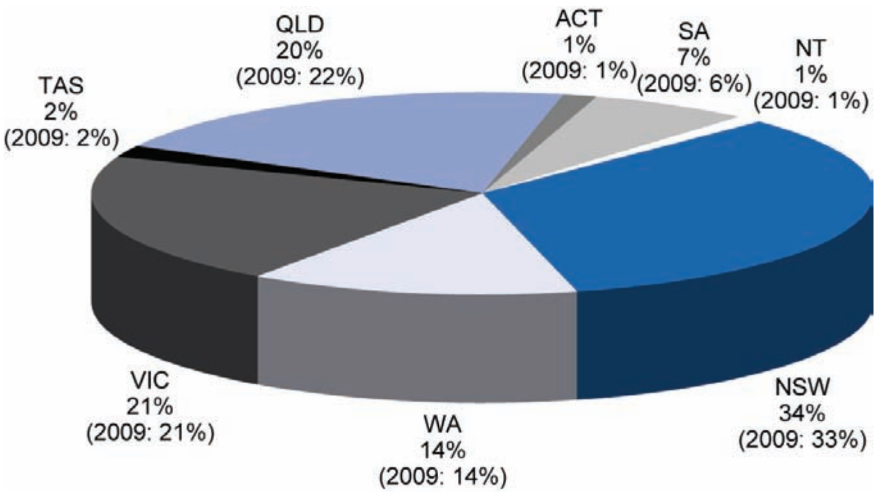
The following charts provide an overview of ARPC's total exposure for 2009 based on information provided by clients.

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 2010-11 to ensure that the information received from clients at both aggregate and street address 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

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.

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 and progress is summarised below.

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[*] The CIPMA program is a world-leading computer modelling program. It is a key component of the Australian 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.

Year 1 (completed June 2010)

The development centred on enhancing 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 (in progress 2010-2011)

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 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.

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

There have been no developments since the end of the 2009-10 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

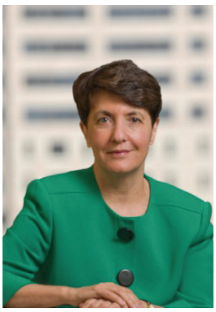
ARPC has a part-time non-executive Chair and six other part-time non-executive Members. All Members are appointed by the Minister.

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. He 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.



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.

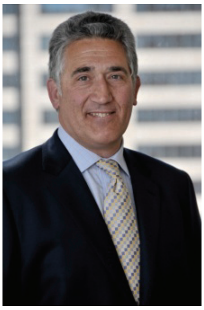
Ms Azarias is an economist with expertise in infrastructure planning and financing, financial management and corporate governance. Recent positions held by Ms Azarias include Regional General Manager, Business and Organisation Performance at the National Australia Bank and Director, Internal Audit Division,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

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

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. She 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 currently combines her role as a strategy consultant with a portfolio of Board appointments. 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 and was heavily involved in establishing APRA and its initial infrastructure. From 1999 to 2007 he was active as a senior member of the International Association of Insurance supervisors. Mr Karp is a member of the Institute of Actuaries of Australia's Professional Standards Committee and represents the Institute at the International Actuarial Association.

Mr Karp is the Chair of the Investment 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. She is a former partner of PricewaterhouseCoopers (until 2000) having been admitted as a partner of the predecessor firm in 1986. Ms Micalizzi is a member of the Queensland Treasury Corporation, Public Service Commission and the Corporations and Markets Advisory Committee. She sits on a number of boards, including the Independent Investment

Committee of Queensland Development Fund and SunSuper Audit Committee. She has also recently been appointed as a governor of WWF Australia.

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

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. He is the innaugural CEO of the Industry Leaders Fund, a private sector fully funded body which will provide up to $50,000 for traineeships for potential leaders of industry. He was previously 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, a Fellow of the Australian Institute of Company Directors and a Fellow of Chartered Secretaries Australia.

Mr Vogt is also a member of the Audit and Compliance Committee.

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 was appointed as Chief Executive on the establishment of ARPC on 1 July 2003. Mr Weeks retired from the position of Chief Executive on 8 July 2010.

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 holds the position of Deputy Chair of the High Level Advisory Board to the OECD network on the financial management of large-scale catastrophe.

APRC's Corporate Governance Manager, Ms Marianne Cavanagh, has been acting Chief Executive since Mr Weeks' retirement.

Mr David Matcham has been appointed to the position of Chief Executive of ARPC, effective on 5 October 2010.

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

Meetings of Members

There were seven meetings of Members held during 2009-10. The table below sets out the number of meetings attended by each Member.

Table 10: Number of meetings attended by each Member of the Board

Name	Number of meetings entitled to attend	Number of meetings attended
Mr Joseph Gersh AM	7	7
Ms Patricia Azarias	7	4
Ms Jan Bowe	7	7
Mr Tom Karp	7	6
Ms Marian Micalizzi	7	7
Mr James Murphy	7	6
Mr Geoffrey Vogt	7	7

Corporate governance practices

ARPC is committed to following corporate governance best practice. It monitors developments in corporate governance from a range of sources, including: APRA, ASIC, ASX and 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.

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 2009-10.
- 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 2009-10 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.

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 CAC Act.

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; and

  (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:

Ms Marian Micalizzi (Chair);

Ms Patricia Azarias;

Mr James Murphy; and

Mr Geoffrey Vogt.

There were five meetings of the committee held during 2009-10. The table below sets out the number of meetings attended by each committee member.

Table 11: Number of meetings attended by each member of the Audit and Compliance Committee

Name	Number of meetings entitled to attend	Number of meetings attended
Ms Patricia Azarias	5	4
Ms Marian Micalizzi	5	5
Mr James Murphy	5	5
Mr Geoffrey Vogt	4	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 2009-10. The table below sets out the number of meetings attended by each committee member.

Table 12: Number of meetings attended by each member of the Risk Committee

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

Investment Committee

During 2009-2010 the Board established an Investment Committee to review ARPC's investment policies and framework. The members of the committee are:

Mr Tom Karp (Chair);

Ms Jan Bowe; and

Mr Geoffrey Vogt.

Table 13: Number of meetings attended by each member of the Investment Committee

Name	Number of meetings entitled to attend	Number of meetings attended
Mr Tom Karp	2	2
Ms Jan Bowe	2	2
Mr Geoffrey Vogt	2	2

Promoting an ethical working environment

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

Code of conduct

All employees must abide by ARPC's code of conduct. The consequences of breaching the code are detailed in ARPC's fraud control plan.

Integrity

ARPC's people must:

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

Accountability

ARPC's people must:

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

Respect

ARPC's people must:

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

Teamwork

ARPC's people must:

- work collaboratively with their own team members and across teams;
- jointly strive to achieve ARPC's goals; and

- cooperate with other staff members by sharing their skills and knowledge.

Professionalism

ARPC's people must:

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

Staff development

ARPC's people must:

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

Internal audit

ARPC has an outsourced internal audit function. Ernst & Young has a contract to provide internal audit services from 1 July 2009 to 30 June 2012. An audit program for the three years, 2009-10 to 2011-12 was developed and approved by the Audit and Compliance Committee. From the three year program an annual plan is developed, again in consultation with management and approved by the Audit and Compliance Committee. The development of the annual plan takes into account any changes to ARPC's circumstances and any initiatives or new programs implemented during the previous year or contemplated in the coming year.

The following reviews were conducted in 2009-10:

(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 risks;

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

(f) a review of ARPC's investment assurance framework;

(g) a review of Littlewoods' ICT systems; and

(h) a review of Littlewoods' financial control structure.

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 reviewed at each committee meeting. The committee oversees follow-up action. Internal audit categorises issues into high, medium and low risk. No issues were identified which would have material impact on ARPC's processes.

In 2010-11 the following reviews are planned:

(a) mapping key processes, controls and the assurance framework;

(b) a review of the retrocession program;

(c) a review of business continuity management;

(d) a review of administrative functions;

(e) a review of procurement and contract management;

(f) a review of internal investment management; and

(g) a review of Littlewoods' financial control structure.

Risk management

During 2009-10 ARPC continued to improve its risk management capability through the:

- development of a risk management policy;
- upgrading ARPC's risk management system (Risk360™); and
- improved reporting of risks to the Risk Committee.

Two reviews were conducted of ARPC's risks by internal audit providers in 2009-10.

The first in late 2009 was a review of ARPC fraud risk exposure which is conducted biennially and formed the basis of ARPC Fraud Control Plan for 2009-11. This review made no specific recommendations in the management of fraud risks in the ARPC.

The second review, in June 2010, considered ARPC risk strategy and approach to risk management. This report will be reviewed by the Risk Committee at its November 2010 meeting.

ARPC's risk management framework has evolved in line with better practice since its inception in 2004. During 2010-11 a review of ARPC's risk management framework will be conducted by an independent risk management consultant. The review will consider ARPC's risk appetite and general approach to managing risk. It will also assess ARPC's alignment with the new international risk management standard AS/NZS ISO 31000:2009.

Business continuity

Business continuity management (BCM) in the ARPC now forms an integral part of ARPC's approach to risk management. BCM reviews and testing are activities documented within ARPC's risk management system. This facilitates ongoing management and scheduling of reviews and exercises by aligning these activities with the responsible owners of the risk.

During 2009-10 ARPC improved the accountability and operational effectiveness of its BCM by:

- developing a business continuity management policy, which clearly establishes responsibility for ongoing management and review of business continuity management; and

- ensuring that the business continuity plan testing focuses on critical business activities.

A business impact analysis was untaken by risk owners in 2009-10 as part of the annual process required by the BCM policy and documented in the risk management system.

Fraud prevention and control

With assistance from Ernst & Young, and in accordance with the *Commonwealth Fraud Control Guidelines* (2002) ARPC developed a fraud control plan in 2005-06. 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 protections.

The plan is reviewed biannually. Reviews have been conducted in 2007-08 and 2009-10. As a result of the review the fraud control was updated and will be effective for the period 2009-11.

Ethics and fraud awareness training was conducted for all staff in August 2009.

ARPC's management is satisfied 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 increase 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 cooperative. In addition to ensuring that the obligations imposed by the reinsurance agreement are met, the program has enhanced the collegiate relationship between ARPC and its clients.

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

- clients require advice on many issues to enable them to comply with the terms of the reinsurance agreement;
- it contributes greatly to maintaining good relationships with clients; and

- it enables clients to provide feedback on various issues which, in turn, will form part of ARPC's input into the review process.

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 until 14 September 2010 was the then Minster of Financial Services, Superannuation and Corporate Law, the Hon Chris Bowen, MP. The Minister currently responsible for ARPC is the Assistant Treasurer, Minister for Financial Services and Superannuation, the Hon Bill Shorten, MP. The Minister appoints ARPC's Members.

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

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 2010.

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 DTIs 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 2009 to 30 June 2010 was $10 million.

The minimum retention is set at $100,000.

The maximum industry retention for the period 1 July 2009 to 30 June 2010 was $100 million.

- 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 CAC Act.

Chapter 4: General information

Chapter 4: General information

Communication

The communication strategy aims to be proactive and strategic in its approach in managing who, why, how, what and when we communicate.

Communication objectives

ARPC's communication objectives are as follows:

- ensure everyone at ARPC conveys a clear and consistent message to all stakeholders;
- improve industry awareness of the terrorism insurance scheme and what ARPC can offer the insurance industry; and
- educate current clients of their obligations under their contracts and ensure they understand how ARPC's systems work.

Principles of communication

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

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

External communications

During 2009-10 the following external communications have been used to engage stakeholders:

- revised brochure incorporating the new branding;
- an improved look quarterly newsletter; and
- reduced its carbon footprint by sending out electronic Christmas cards for the first time in 2009.

The ICT team along with the Communications area are currently working on the new look ARPC website. It is scheduled for release in the last quarter of 2010.

Internal communications

ARPC maintains a high level of communication amongst staff and encourages an inclusive workplace. Management meetings are held regularly along with teleconferences between Canberra and Sydney staff. Staff are consulted on projects which are being undertaken in other areas, to encourage staff involvement and the generation of new ideas.

'Lunch and Learn' is an information session held every two months where a particular ARPC related subject is covered. Staff from both the Sydney and Canberra offices are involved in the sessions and they have the opportunity to learn about important projects and ask questions. This has proven to be an effective way to discuss projects and engage other teams within ARPC.

'We've got it covered' is a monthly internal newsletter which communicates information relevant to ARPC, its activities in the workplace and upcoming training events. The August issue sent to all ARPC staff included information such as: updates from the library, ergonomic exercises and news from the ICT team.

Branding

ARPC's need for a revised corporate brand and style guide was to ensure communications are consistent and professional. The new corporate branding was developed in conjunction with a graphic design firm.

A style guide was developed and includes:

- how to use the logo, its positioning and its unacceptable use;

- using supportive graphics, and contains options, colour, positioning and unacceptable usage;
- corporate fonts;
- colour palette; and
- how to apply the style guide to different communication formats and media, and internal documents.

Human resource management

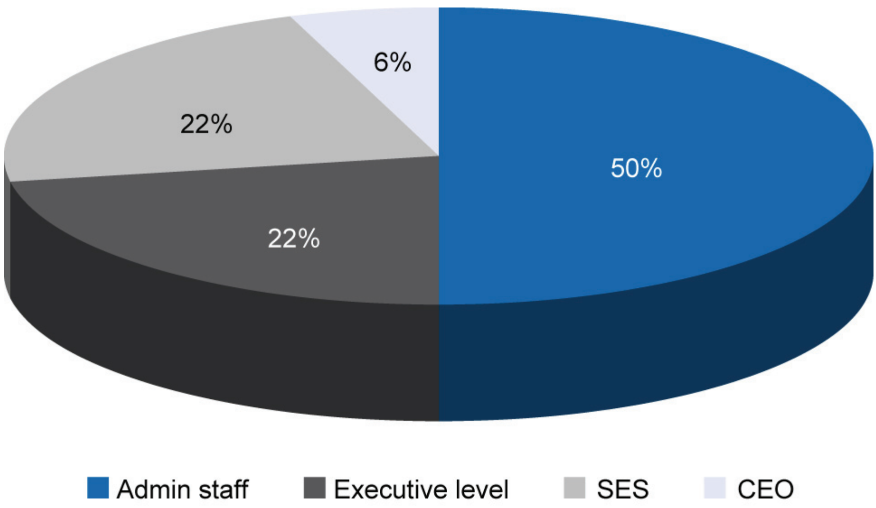
ARPC's payroll, occupational health and safety (OH&S) and recruitment functions are managed by Treasury through a service level agreement. We are committed to these tasks and actively manage and monitor their functions.

Staff classifications

As at 30 June 2010, ARPC had 17 full-time permanent employees (one of whom is on maternity leave) and 1 part-time permanent employee. The budget factors in three additional employees to be recruited for the investment management area.

Below is the breakdown of staff employed by ARPC and their general classifications.

Chart 5: Breakdown of staff classifications



Performance management system

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

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

Learning 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. Staff are required to develop a learning and development plan as part of the performance system management each year. Employees agree on their plan with their manager, who encourages them to engage in continuous learning and to periodically assess their development.

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

ARPC supports employee attendance at relevant industry conferences, seminars and external courses. These programs achieved high participation rates and consistent positive feedback from participants.

During 2009-10, employees attended development programs such as:

- general insurance intermediate course;
- annual report workshop;
- essentials for finance;
- managing and leading teams; and
- governance and risk management.

ARPC's employees have access to the training and development programs offered by Treasury and actively participate in those programs. Staff have attended security and information technology training and the previous Chief Executive had participated in a program designed to offer support for newly appointed SES officers.

ARPC has an agreement with the ANZIIF to provide employees with an online learning facility InSite. The InSite system has been developed specifically to address the ongoing education and training requirements in the insurance and financial services reform environment. ARPC encourages all employees to use the InSite learning facility to further develop their knowledge in the insurance and finance industry.

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 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. ARPC has supported employees undertaking education programs such as an MBA, CPA and leadership courses.

Employment agreements

During 2008-09 ARPC consulted with the AGS, Treasury and DEEWR to negotiate a new enterprise agreement with its non-SES employees. ARPC continued to work with those organisations during 2009-10 to ensure ARPCs employment policies and documents comply with the Government's employment framework.

The enterprise agreement is a two-year agreement which contains provisions to enhance the working conditions of ARPC's employees covering areas including consultation, representation and dispute resolution; salary and classification structure; allowances; parental leave; and measures to assist staff to balance the demands of work and family life.

The framework required a genuine bargaining process to be undertaken between the employer and non-SES employees to negotiate an enterprise agreement.

A total of 14 employees are covered under ARPC's Enterprise Agreement 2010-12.

ARPC conducted a ballot over three days from 1-3 February 2010 and all eligible employees were invited to vote in the ballot. The outcome of the vote was all staff voted in favour of the proposed Enterprise Agreement. The agreement came into operation in accordance with the Fair Work Act on 1 March 2010, and will nominally expire on 30 June 2012.

ARPC consulted with its SES equivalents to determine whether their employment would be governed by individual employment agreements or an SES enterprise agreement. Agreement was reached that the terms and conditions of SES equivalent employees would be governed by individual employment agreements.

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

Occupational health and safety

A Health and Safety Committee has been established by Treasury to address health and safety issues, such as OH&S issues and policies, employee wellbeing, health and safety performance reporting, accommodation issues and accident and incident reports. The committee is made up of representatives from each group and service level agreement, the Workplace Relations Committee and key corporate services staff. ARPC has a representative on the committee, as part of our service level agreement with Treasury.

Treasury's OH&S policy is designed to foster and maintain a safe and healthy working environment in accordance with the OH&S Act.

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

In recognising the importance of providing and maintaining healthy and safe 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.

Incidents

No serious personal injuries, prescribed incapacities or dangerous occurrences were reported during 2009-10 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.

Workplace inspections are also conducted four times a year to minimise the risk of injuries to staff.

During 2009-10, no directions were given under section 45 and no notices were given under sections 29, 46 or 47 of the OH&S Act.

Commitment to OH&S

ARPC has been committed to establishing and monitoring health and safety management arrangements including:

- electing/selecting a health and safety representative;
- providing training for the representative;
- outlining the roles and responsibilities in relation to OH&S; and
- implementing mechanisms to ensure the application of OH&S related matters.

To actively promote a healthy workforce, ARPC:

- developed and reviewed internal policies and procedures and addressed any new or emerging hazards;
- offered influenza vaccinations to all employees;
- placed posters received from Treasury on reducing the spread of coughs and colds in the workplace;
- promoted the use of the employee assistance program; and
- attended training sessions relating to bullying and harassment within the workplace.

These procedures have been developed in consultation with staff and consist of a framework and support network designed to foster a healthy and safe workplace. They reinforce the responsibilities that ARPC has in actively promoting these strategies for the wellbeing of all employees, contractors and visitors to our workplaces.

ARPC has an obligation under the OH&S Act to provide a first aid service to staff. The Canberra office has one senior First Aid Officer and two qualified First Aid Officers; and the Sydney office has one qualified First Aid Officer. All employees will retain their qualifications by undertaking refresher courses each year.

ARPC is committed to providing a safe and healthy workplace for all employees and visitors.

Workplace diversity

Workplace diversity program

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

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

ARPC is committed to providing a safe and healthy workplace for all employees and visitors.

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 CAC Act 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 $60,715.28 (2009: $64,201.35).

Judicial and administrative decisions and reviews

During the year ended 30 June 2010, 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, conserve energy and minimise its environmental footprint by striving to implement the following:

- shutting down computers outside of work hours;
- utilising double sided printing to reduce the volume of paper used (printers that have this capability are set to print double sided as a default);
- turning off non-essential lights and computers; and
- recycling of paper, cardboard, printer cartridges, plastics, glass and fluorescent tubes.

ARPC's new premises in Canberra have a 4.5 star rating from NABERS and have a 5 star green rating. Some of the systems used in the building to decrease our carbon footprint are:

- grey water harvesting and re-use system. This system captures waste water from wash basins and reuses it for toilet flushing;
- high efficiency magnetic chillers. The chillers used to generate the building cooling are an innovate design that has magnetic bearings rather than the conventional setup. This eliminates friction resulting in higher efficiency chillers;
- air-conditioning system uses high efficiency pump and fan motors;

- high performance double glazing;
- low energy LED lighting; and
- high efficiency hydraulic fixtures. Water conservation within the building has been optimised via the use of highly efficient taps, shower heads and toilets.

Freedom of information

There were no freedom of information requests during the year ended 30 June 2010. 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 along with an organisation chart.

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 2009-10 included:

- 2008-09 annual report;
- *What is 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 3
14 Childers Street
CANBERRA ACT 2600

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

Freedom of information procedures and initial contact point

A request for 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: +61 2 6279 2100
Fax: +61 2 6279 2111
Email: enquiries@arpc.gov.au

Chapter 5: Financial statements

Chapter 5: Financial statements

Statement by Members, Chief Executive and Chief Financial Officer

In our opinion, the attached financial statements for the year ended 30 June 2010 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, as amended.

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

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

J I Gersh	M Cavanagh	T R Ament
Chair	Acting Chief Executive	Chief Financial Officer
20 September 2010	20 September 2010	20 September 2010

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Financial Services and Superannuation

Scope

I have audited the accompanying financial statements of the Australian Reinsurance Pool Corporation for the year ended 30 June 2010, which comprise: the Statement by Members, Chief Executive and Chief Financial Officer; Statement of comprehensive income; Balance sheet; Statement of changes in equity; Cash flow statement; Schedule of commitments; and Notes to and forming part of the financial statements, including a Summary of significant accounting policies.

The Members' Responsibility for the Financial Statements

The Members 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 have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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

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evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Members, as well as evaluating the overall presentation of the financial statements.

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

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 2010 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
21 September 2010

Financial statements

Statement of comprehensive income
for the year ended 30 June 2010

	Notes	2010 $'000	2009 $'000
Premium revenue		**105,391**	104,371
Outwards retrocession premium expense		**(80,098)**	(37,440)
Net premium revenue	5(a)	**25,293**	66,931
Claims expense		**-**	-
Retrocession and other recoveries revenue		**-**	-
Net claims incurred		**-**	-
Acquisition costs	6(b)	**(603)**	(599)
Underwriting result		**24,690**	66,332
Retrocession commision revenue	5(b)	**7,551**	3,446
Investment income	5(c)	**28,351**	30,416
Other income	5(d)	**(596)**	(254)
Other operating expenses	6(b)	**(6,800)**	(5,395)
Operating result		**53,196**	94,545

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

Balance sheet
as at 30 June 2010

	Notes	2010 $'000	2009 $'000
Assets			
Current assets			
Cash and cash equivalents	7	**41,668**	37,467
Receivables	8	**38,002**	36,576
Investments	9	**576,334**	529,938
Deferred insurance assets	10(a)	**43,249**	38,569
Other non-financial assets	11	**39**	23
Total current assets		**699,292**	642,573
Non-current assets			
Property, plant and equipment	12(c)	**901**	209
Intangibles	12(d)	**799**	365
Total non-current assets		**1,700**	574
Total assets		**700,992**	643,147
Liabilities			
Current liabilities			
Unearned liability	13(a)	**52,411**	52,307
Payables	14	**43,274**	39,106
Other interest bearing liabilities	15	**292**	-
Employee provisions	16(a)	**298**	219
Total current liabilities		**96,275**	91,632
Non-current liabilities			
Employee provisions	16(a)	**257**	202
Other provisions	16(b)	**-**	49
Total non-current liabilities		**257**	251
Total liabilities		**96,532**	91,883
Net assets		**604,460**	551,264
Equity			
Accumulated reserves		**-**	-
Asset revaluation reserve		**-**	75
Reserve for claims		**604,460**	551,189
Total equity		**604,460**	551,264

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

Financial statements

Statement of changes in equity

as at 30 June 2010

	Notes	Accumulated reserves		Asset revaluation reserve		Reserve for claims		Total equity	
		2010 $'000	2009 $'000	**2010 $'000**	2009 $'000	**2010 $'000**	2009 $'000	**2010 $'000**	2009 $'000
Opening balance		-	-	**75**	75	**551,189**	456,644	**551,264**	456,719
Income and expenses									
Net operating result		**53,196**	94,545	-	-	-	-	**53,196**	94,545
Total income and expenses		**53,196**	94,545	-	-	-	-	**53,196**	94,545
Transfers between equity components									
Write back asset revaluation reserve		**-**	-	**(75)**	-	**75**	-	**-**	-
Transfer to reserve for claims	1(m)	**(53,196)**	(94,545)	-	-	-	-	**(53,196)**	(94,545)
Transfer to reserve for claims from accumulated reserves				-	-	**53,196**	94,545	**53,196**	94,545
Closing balance at 30 June		-	-	-	75	**604,460**	551,189	**604,460**	551,264

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

Cash flow statement
for the year ended 30 June 2010

	Notes	2010 $'000	2009 $'000
Operating activities			
Cash received			
Premiums received		**114,680**	114,442
Comission received		**8,311**	3,822
Interest received		**26,546**	25,788
Total cash received		**149,537**	144,052
Cash used			
Retrocession payments		**83,205**	39,224
Creditors and employees		**7,708**	5,030
Interest and other costs of finance paid		**-**	250
Net goods and services tax paid to ATO		**6,538**	7,970
Total cash used		**97,451**	52,474
Net cash from or (used by) operating activities	17	**52,086**	91,578
Investing activities			
Cash used			
Purchase of property, plant and equipment		**892**	2
Purchase of intangibles		**597**	80
Purchase of investments		**46,396**	96,938
Total cash used		**47,885**	97,020
Net cash from or (used by) investing activities		**(47,885)**	(97,020)
Net increase or (decrease) in cash held		**4,202**	(5,442)
Cash and cash equivalents at the beginning of the reporting period		**37,467**	42,909
Cash and cash equivalents at the end of the reporting period	7	**41,668**	37,467

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

Financial statements

Schedule of commitments
as at 30 June 2010

	2010 $'000	2009 $'000
By type		
Other commitments		
Service level agreements*	**1,095**	545
Software license agreement**	**115**	178
Software development agreement***	**1,636**	2,274
Operating leases****	**4,193**	419
Total other commitments	**7,039**	3,416
Commitments receivable	**640**	310
Net commitments by type	**6,399**	3,106
By maturity		
Service level agreements commitments		
One year or less	**765**	319
From one to five years	**330**	226
Total service level agreements commitments	**1,095**	545
Software licence agreement commitments		
One year or less	**63**	63
From one to five years	**52**	115
Total software licence agreement commitments	**115**	178
Software support and development agreement commitments		
One year or less	**948**	880
From one to five years	**688**	1,394
Total software support and development agreement commitments	**1,636**	2,274
Operating lease commitments		
One year or less	**580**	279
From one to five years	**2,550**	140
More than five years	**1,063**	-
Total operating lease commitments	**4,193**	419
Commitments receivable		
One year or less	**214**	140
From one to five years	**329**	170
More than five years	**97**	-
Total commitments receivable	**640**	310
Net commitments by maturity	**6,399**	3,106

NB: Commitments are GST inclusive where relevant.

* Outstanding contractual payments for service level agreements.

** Outstanding contractual payments for software licence agreement.

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

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

Nature of lease	General description of leasing agreement
Lease for office accommodation	Lease payments are subject to annual increases in accordance with the lease contract of 3.85 per cent per annum commencing from 1 Jan 2012. The initial periods of office accommodation leases are still current and may be renewed for up to five years at ARPC's options.

Notes to and forming part of the financial statements for the year ended 30 June 2010

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 2009; 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 Statement of Comprehensive Income when and only when the flow, consumption or loss of economic benefits has occurred and can be reliably measured.

(b) Going concern

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

(c) Significant accounting judgements and estimates

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

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

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

(d) New accounting standards

Adoption of new Australian Accounting Standard requirements

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

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

- AASB 116 Property, Plant and Equipment;
- AASB 117 Leases;
- AASB 118 Revenue;
- AASB 132 Financial Instruments: Presentation;
- AASB 134 Interim Financial Reporting;
- AASB 136 Impairment of assets;
- AASB 138 Intangible assets;
- AASB 1048 Interpretation of standards; and
- 2010-3 Amendments to Australian accounting standards arising from the Annual Improvements Project.

Future Australian Accounting Standard requirements

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

(e) Revenue

Premium revenue

Premium revenue comprises amounts charged to insurers excluding taxes collected on behalf of third parties. The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue in the statement of comprehensive income. Premiums are recognised as earned based on time from the date of attachment of risk. Premiums not received at reporting date and for the quarter ended 30 June 2010 are recognised as premiums receivable in the balance sheet.

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

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

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

Retrocession commission revenue

Retrocession commission revenue is recognised in the statement of comprehensive income in accordance with the pattern of revenue earned.

Investment revenue

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

(f) Retrocession premium expense

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

(g) Unexpired risk liability

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

There is no deficiency noted or recorded in these financial statements (2009: $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 (2009: $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 Minister 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 statement of comprehensive income. Initial recognition is at cost in the balance sheet and subsequent measurement is at fair value with any resultant unrealised profits and losses recognised in the Statement of Comprehensive Income.

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

Cash

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

Investments

- Fixed interest deposits are carried at face value of the amounts deposited. The carrying amounts are approximate to their fair value.
- Government (guaranteed) securities are initially recognised at cost and the subsequent fair value is taken as the quoted 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 Statement of Comprehensive Income.

(k) Deferred insurance assets

Deferred acquisition costs

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

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

Deferred retrocession premium

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

(l) Dividends

Pursuant to section 38(3)(b) of the TI Act, the Minister may give written direction to require ARPC to make payments to the Commonwealth in the nature of dividends. No direction has been received for these financial statements (2009: $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 'short-term employee benefits' (as defined in AASB 119) and termination benefits due within 12 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 2009. 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 (2009: $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 (2009: $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 and 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 re-valued amount with the exception of leasehold improvements which are re-valued using the gross method.

Depreciation

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

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

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

	2010	2009
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 2010. 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 (2009: $0).

(u) Intangibles

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

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

Software is amortised on a straight-line basis over its anticipated useful life. The useful life of ARPC's externally purchased and internally developed software is four years (2009: 4 years).

All software assets were assessed for indications of impairment as at 30 June 2010. There has been no impairment write-off recognised in these financial statements (2009: $0).

(v) Taxation

Income tax

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

Note 3: Risk management

ARPC's approach to managing risk is consistent with the Australian/New Zealand Standard for Risk Management (AS/NZS 150 31000) 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 Risk Committee reviews the RMS at least annually and confirms there are systems in place to ensure compliance with legislative and prudential requirements.

The broad risk categories discussed below are:

- insurance risk;
- operational risk; 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 is designed to ensure that ARPC's concentration risk is diversified both geographically and by type of risk.

Claims risk

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

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

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

- an agreement is in place with an actuarial firm;

- the collection of annual aggregate exposure data from clients and the development of a loss estimation model to support advice given regarding a reduction percentage and the ultimate claims cost; 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 declared terrorist incident (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 tables provide information about the quality of ARPC's credit risk exposure in respect of its retrocession program. The analysis classifies the counterparty risk according to counterparty credit ratings.

	Retrocession program counter party credit rating			
	AAA	**AA+**	**AA**	**AA-**
	2010	**2010**	**2010**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
ARPC				
Total exposure	**22,650**	**72,500**	**127,875**	**407,375**
	A+	**A**	**A-**	**Total**
	2010	**2010**	**2010**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
ARPC				
Total exposure	**1,334,915**	**239,400**	**395,285**	**2,600,000**

	Retrocession program counter party credit rating			
	AAA	AA+	AA	AA-
	2009	2009	2009	2009
	$'000	$'000	$'000	$'000
ARPC				
Total exposure	22,500	-	176,000	754,449
	A+	A	A-	Total
	2009	2009	2009	2009
	$'000	$'000	$'000	$'000
ARPC				
Total exposure	726,506	214,000	406,545	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 $618 million. In the event of a DTI ARPC would be required to pay $300 million before claiming on its retrocession program;

- ARPC has access to a $2.6 billion retrocession program excess of $300 million;

- ARPC no longer has unrestricted access to the following line of credit:

	2010 $'000	2009 $'000
Bank standby facility	**-**	1,000,000
Amount of facility used as at 30 June	**-**	-
Facility available	**-**	1,000,000

- ARPC has unrestricted access to the following Commonwealth guarantee:

	2010 $'000	2009 $'000
Commonwealth guarantee	**10,000,000**	9,000,000
Amount of facility used as at 30 June	**-**	-
Facility available	**10,000,000**	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 (2009: $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 its 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	2010 $'000	2010 $'000	2010 $'000	2010 $'000
Interest bearing financial assets					
Cash and cash equivalents	7	**41,668**	**-**	**-**	**41,668**
Fixed term Deposits	9	**-**	**500,975**	**55,000**	**555,975**
Government securities	9	**-**	**10,093**	**10,266**	**20,359**
Total		**41,668**	**511,068**	**65,266**	**618,002**
Weighted average interest rate		**4.40%**	**5.39%**	**6.00%**	**5.39%**

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

The table below details the interest rate sensitivity analysis of ARPC at the reporting date, holding all other variables constant. The Department of Finance and Deregulation deemed a 150 basis point change to be possible and this was adopted by ARPC when reporting interest rate risk.

	Movement in variable		Financial impact			
			Profit/(loss)		Equity	
	2010 %	2009 %	**2010 $'000**	2009 $'000	**2010 $'000**	2009 $'000
Interest rate						
- interest bearing	**1.50**	.75	**9,270**	4,256	**9,270**	4,256
Financial assets	**-1.50**	-.75	**(9,270)**	(4,256)	**(9,270)**	(4,256)

The method used to arrive at the possible change of 150 basis points was based on both statistical and non-statistical analysis. The statistical analysis has been based on the cash rate for the past five years issued by the RBA as the underlying dataset. This information is then revised and adjusted for reasonableness under the current economic circumstances.

The Department of Finance and Deregulation considers 150 basis points is reasonable because it is reasonably possible that there will be greater volatility compared to that which has been experienced in recent years, however, not to the extent of the volatility experience in 2009-10.

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 tables provide information regarding the aggregate credit risk exposure to APRC in respect of financial assets. The tables classify the assets according to Standard and Poor's counterparty credit ratings.

				Credit rating		
		AAA	**AA+**	**AA**	**A+**	**Total**
		2010	**2010**	**2010**	**2010**	**2010**
	Notes	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
ARPC						
Cash and cash equivalents	7	**35,120**	**-**	**4,671**	**1,877**	**41,668**
Fixed term deposits	9	**70,000**	**-**	**441,975**	**44,000**	**555,975**
Government securities	9	**15,204**	**5,155**	**-**		**20,359**
Total		**120,324**	**5,155**	**446,646**	**45,877**	**618,002**

				Credit rating		
		AAA	AA+	AA	A+	Total
		2009	2009	2009	2009	2009
	Notes	$'000	$'000	$'000	$'000	$'000
ARPC						
Cash and cash equivalents	7	36,362	-	1,053	52	37,467
Fixed term deposits	9	75,000	-	366,000	54,000	495,000
Government securities	9	34,938	-	-	-	34,938
Total		146,300	-	367,053	54,052	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 3 months		Total	
		2010	2009	**2010**	2009	**2010**	2009
	Notes	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Financial assets							
Premium receivables	8	**-**	-	**23,935**	24,315	**23,935**	24,315
Commission receivables	8	**-**	-	**4,081**	3,475	**4,081**	3,475
Interest receivable	8	**9,987**	8,778	**-**	-	**9,987**	8,778
Total		**9,987**	8,778	**28,016**	27,790	**38,003**	36,568

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

		1 year or less		Total	
		2010	2009	**2010**	2009
	Notes	**$'000**	$'000	**$'000**	$'000
Financial liabilities					
Payables	14	**43,274**	39,106	**43,274**	39,106
Other interest bearing liabilities	15	**292**	-	**292**	-
Total		**43,566**	39,106	**43,566**	39,106

Note 5: Revenue

		2010 $'000	2009 $'000
(a)	**Net premium revenue**		
	Gross written premium	**104,885**	106,270
	Movement in unearned premium reserve	**506**	(1,899)
	Total premium revenue	**105,391**	104,371
	Outwards retrocession premium	**(80,098)**	(37,440)
	Net premium revenue	**25,293**	66,931
(b)	**Retrocession commision income**		
	Total retrocession commision income	**7,551**	3,446
(c)	**Investment income**		
	Cash at bank	**2,049**	2,770
	Term deposits	**24,130**	27,468
	Government securities	**2,172**	178
	Total investment income	**28,351**	30,416
(d)	**Other income**		
	Realised gain/(losses) recognised through the income statement	**(223)**	-
	Unrealised gain/(losses) recognised through the income statement	**(373)**	(254)
	Total other income	**(596)**	(254)
(e)	**Total revenue**	**60,599**	100,539

Note 6: Other operating expenses

			2010 $'000	2009 $'000
The presentation of general and administration expenses in the Statement of Comprehensive Income is by function. This note presents expenses according to their nature:				
(a)	**Expenses by nature**			
	Employee expenses	6(c)	**2,336**	1,973
	Services from related entities		**197**	200
	Goods from external entities		**45**	30
	Services from external entities		**3,739**	3,013
	Operating lease rentals		**696**	263
	Depreciation and amortisation	12	**311**	242
	Asset write-off		**52**	-
	Bank fees and charges		**27**	273
	Total expenses by nature		**7,403**	5,994
(b)	**Expenses by function**			
	Acquisition costs		**603**	599
	General and administration expenses		**6,197**	4,823
	Investment expense		**603**	572
	Total expenses by function		**7,403**	5,994
(c)	**Employee expenses**			
	Wages and salaries		**1,866**	1,636
	Superannuation		**184**	145
	Leave and other entitlements		**219**	181
	Workers compensation premiums		**10**	11
	Other employee expenses		**57**	-
	Total employee expenses		**2,336**	1,973

Note 7: Cash and cash equivalents

Cash at bank	**41,668**	37,467
Total cash and cash equivalents	**41,668**	37,467

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. (2009: Reserve Bank of Australia, Australian and New Zealand Bank, Commonwealth Bank of Australia, National Australia Bank and Suncorp Metway Ltd.)

Note 8: Receivables

	2010	2009
	$'000	$'000
Premium receivable	**23,935**	24,315
Commission receivable	**4,081**	3,475
Interest receivable	**9,987**	8,778
GST receivable from the Australian Taxation Office	**(1)**	8
Total receivables	**38,002**	36,576

All receivables are with entities external to ARPC. Credit terms are net 30 days (2009: 30 days). Trade debtors are non-interest bearing.

Receivables (gross) are aged as follows:

	2010	2009
Not overdue	**9,987**	8,778
Overdue by:		
Less than 30 days	**28,015**	27,798
30 to 60 days	**-**	-
60 to 90 days	**-**	-
More than 90 days	**-**	-
	38,002	36,576

Interest receivable

The interest rate ranges from 3.88 per cent to 7.60 per cent (2009: 2.40 per cent to 7.80 per cent) and the frequency of payment is monthly for cash accounts and on maturity for term deposits.

Note 9: Investments under section 18 of the CAC Act

Term deposits	**555,975**	495,000
Government securities	**20,359**	34,938
Total investments	**576,334**	529,938

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, Bank of Western Australia and Suncorp Metway Ltd and earn an effective rate of interest of 5.42 per cent (2009: 4.25 per cent). Interest is payable on maturity or 12 months from inception. Terms are between 12 and 730 days (2009: 33 and 730 days).

Government (guaranteed) securities

Securities have terms of up to three 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 6.62 per cent (2009: 6.12 per cent).

Note 10: Deferred insurance assets

			2010 $'000	2009 $'000
(a)	**Deferred insurance assets as at 1 July**			
	Deferred retrocession premium	10(b)	**42,734**	38,060
	Deferred acquisition costs	10(c)	**515**	509
	Total deferred insurance assets		**43,249**	38,569
(b)	**Deferred retrocession premium as at 1 July**			
	Deferred retrocession premium as at 1 July		**38,060**	-
	Retrocession premium deferred		**42,734**	38,060
	Amortisation charged to income		**(38,060)**	-
	Deferred retrocession premium as at 30 June		**42,734**	38,060
(c)	**Deferred acquisition costs as at 1 July**			
	Deferred acquisition costs as at 1 July		**509**	394
	Acquisition costs deferred		**515**	509
	Amortisation charged to income		**(509)**	(394)
	Deferred acquisition costs as at 30 June		**515**	509

Note 11: Other non-financial assets

Prepayments	**39**	23
Total other non-financial assets	**39**	23

All other non-financial assets are current assets.

Financial statements

Note 12: Property, plant and equipment and intangibles

		2010 $'000	2009 $'000
(a)	**Buildings leasehold improvements**		
	Acquired		
	- at cost	**850**	49
	- at valuation (fair value)	**-**	408
	- accumulated depreciation	**(60)**	(293)
	Total leasehold improvements	**790**	164
	Total buildings leasehold improvements	**790**	164
(b)	**Plant and equipment**		
	- at cost	**94**	2
	- at valuation (fair value)	**77**	83
	- accumulated depreciation	**(60)**	(40)
	Total plant and equipment	**111**	45
(c)	**Total property, plant and equipment**	**901**	209
(d)	**Intangibles - computer software**		
	Acquired		
	- purchased	**-**	41
	- internally developed - in progress	**493**	80
	- internally developed - in use	**662**	477
	- accumulated amortisation	**(356)**	(233)
	Total computer software	**799**	365
	Total intangibles	**799**	365

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

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

The revaluation surplus of $74,598 has been derecognised in these financial statements. The revaluation related to leasehold improvements which have been written off due to the short terming of the lease for the previous premises (2009: $0).

No indications of impairment were found for leasehold improvements or plant and equipment in 2010 (2009: Nil).

Table A: Reconciliation of the opening and closing balances of property, plant and equipment and intangibles (2009-10)

Item	**Buildings leasehold improvements $'000**	**Plant and equipment $'000**	**Intangibles $'000**	**Total $'000**
As at 1 July 2009				
Gross book value	**457**	**87**	**598**	**1,142**
Accumulated depreciation/amortisation	**(293)**	**(41)**	**(233)**	**(567)**
Net book value 1 July 2009	**164**	**46**	**365**	**575**
Additions				
- by purchase	**850**	**92**	**-**	**942**
- internally developed - in progress	**-**	**-**	**493**	**493**
- internally developed	**-**	**-**	**105**	**105**
Asset write-off	**(457)**	**(7)**	**(42)**	**(506)**
Accumulated depreciation write back	**357**	**4**	**41**	**402**
Depreciation/amortisation expense	**(124)**	**(24)**	**(163)**	**(311)**
Net book value 30 June 2010	**790**	**111**	**799**	**1,700**
Net book value as of 30 June 2010 represented by:				
Gross book value	**850**	**171**	**1,155**	**2,176**
Accumulated depreciation/amortisation	**(60)**	**(60)**	**(356)**	**(476)**
Net book value 30 June 2010	**790**	**111**	**799**	**1,700**

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

Item	Buildings leasehold improvements $'000	Plant and 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 2009	164	45	365	574

Note 13: Unearned liability

			2010 $'000	2009 $'000
(a)	**Unearned liability**			
	Unearned premium liability	13(b)	**48,297**	48,803
	Unearned commission liability	13(c)	**4,114**	3,504
	Total unearned liability		**52,411**	52,307
(b)	**Unearned premium liability as at 1 July**		**48,803**	46,904
	Deferral of premiums on contracts written in the period		**48,297**	48,803
	Earning of premiums written in the previous periods		**(48,803)**	(46,904)
	Unearned premium liability as at 30 June		**48,297**	48,803
(c)	**Unearned commission liability as at 1 July**		**3,504**	-
	Deferral of commissions on contracts written in the period		**4,114**	3,504
	Earning of commissions written in the previous periods		**(3,504)**	-
	Unearned commission liability as at 30 June		**4,114**	3,504

Note 14: Payables

Retrocessionaire creditors	**42,386**	37,750
Trade creditors	**92**	71
Accruals	**796**	1,285
Total payables	**43,274**	39,106

Retrocessionaire creditors:

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

Trade creditors:

Settlement is usually made net 30 days.

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

Note 15: Other interest bearing liabilities

Lease incentive	**292**	-
Other interest bearing liabilities are represented by:		
Current	**45**	-
Non-current	**247**	-
Total other interest bearing liabilities	**292**	-

Lease incentive:

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

Note 16: Provisions

	2010 $'000	2009 $'000
(a) Employee provisions		
Salaries and wages	**86**	24
Leave	**466**	395
Other	**3**	2
Total employee provisions	**555**	421
Current	**298**	219
Non-current	**257**	202
Total employee provisions	**555**	421
(b) Other provisions		
Make good provision	**-**	49
Total other provisions	**-**	49

	Provision for make good $'000	Total $'000
Carrying amount at beginning of period	**49**	49
Additional provisions made	**-**	-
Write back of provision	**(49)**	-
Amount owing at end of period	**-**	49

All other provisions are non-current liabilities.

Note 17: Cash flow reconciliation

Reconciliation of cash and cash equivalents as per balance sheet to cash flow statement		
Report cash and cash equivalents as per:		
Cash flow statement	**41,668**	37,467
Balance sheet	**41,668**	37,467
Difference	**-**	-
Reconciliation of operating result to net cash from operating activities:		
Operating result	**53,196**	94,545
Depreciation/amortisation expense	**311**	242
Asset write-off	**52**	-
(Increase)/decrease in receivables	**(1,426)**	(9,092)
(Increase)/decrease in other non-financial assets	**(16)**	10
(Increase)/decrease in deferred insurance assets	**(4,680)**	(38,175)
Increase/(decrease) in unearned liability	**104**	5,403
Increase/(decrease) in payables	**4,168**	38,565
Increase/(decrease) in other interest bearing liabilities	**292**	-
Increase/(decrease) in provisions	**85**	80
Net cash from/(used by) operating activities	**52,086**	91,578

Note 18: Average staffing levels

	2010	2009
The average staffing levels for ARPC during the year were:	**18**	15

Note 19: Executive remuneration

(a) Actual remuneration paid to senior executives

Executive remuneration	**2010**	2009
The number of senior executives who received:		
$175,000 - $189,999	**1**	1
$190,000 - $204,999	**1**	-
$205,000 - $219,999	**-**	1
$220,000 - $234,999	**1**	2
$250,000 - $264,999	**1**	-
$355,000 - $369,999	**1**	-
$370,000 - $384,999	**-**	1
Total	**5**	5

Total expense recognised in relation to senior executive employment	**2010 $**	2009 $
Short-term employee benefits:		
Salary (including annual leave taken)	**1,054,971**	1,022,060
Changes in annual leave provisions	**12,904**	47,109
Performance bonus	**65,159**	41,692
Other	**15,771**	36,358
Total short term employee benefits	**1,148,805**	1,147,218
Superannuation (post employment benefits)	**86,410**	80,219
Total	**1,235,215**	1,227,437

Note 19: Executive remuneration (continued)

(b) Salary packages for senior executives
Average annualised remuneration packages for substantive senior executives

	As a 30 June 2010		
	No. SES	**Base salary (including annual leave)**	**Total remuneration package**
Total remuneration:			
$175,000 - $189,999	**1**	**164,800**	**180,295**
$190,000 - $204,999	**1**	**185,400**	**194,608**
$220,000 - $234,999	**2**	**209,650**	**229,603**
$355,000 - $369,999	**1**	**296,921**	**311,268**
	6		

	As a 30 June 2009		
	No. SES	Base salary (including annual leave)	Total remuneration package
Total remuneration:			
$175,000 - $189,999	1	160,000	177,150
$205,000 - $219,999	1	180,000	207,270
$220,000 - $234,999	2	203,544	212,758
$325,000 - $339,999	1	286,880	326,123
	5		

Notes:

1 Non-salary elements available to senior executives include:
  (a) Superannuation
  (b) Performance bonus.

2 Long service leave is excluded as entitlement to this is not certain until 10 years of service is reached.

3 Potential performance bonus is excluded.

Note 20: Members' remuneration

	2010 $	2,009 $
Total remuneration received or due and receivable by Members of ARPC	**50,906**	52,706
The number of Members of ARPC included in these figures are shown below in the relevant remuneration bands:		
$ Nil - $14,999	**6**	6
$ 15,000 - $29,999	**1**	-
$ 30,000 - $44,999	**-**	1
Total number of Members of ARPC	**7**	7

Note 21: Auditor's remuneration

	2010 $	2,009 $
The cost of financial statement audit services provided to ARPC was:	**114,500**	112,000

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

Note 22: Related party disclosures

Members

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

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

Changes in membership during the year

Mr 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 20.

Transactions with Members and Member related entities

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

Transactions with related entities

The service level agreement with the Department of the Treasury is considered a related party transaction. This agreement is for the provision of corporate support services to ARPC at a cost of $196,747 (2009: $200,000). These transactions were made on terms equivalent to those that prevail on arms length transactions.

Controlling entity

ARPC was established by section 9 of the TI Act.

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

Note 23: Financial instruments

		2010 $'000	2009 $'000
(a) Categories of financial instruments			
Financial assets			
Cash and cash equivalents	7	**41,668**	37,467
Loans and receivables financial assets			
Receivables (gross)	8	**38,003**	36,568
Fair value through profit and loss (held to maturity)			
Fixed term deposits	9	**555,975**	495,000
Government securities	9	**20,359**	34,938
Carrying amount of financial assets		**656,005**	603,973
Financial liabilities			
At amortised cost			
Payables	14	**43,274**	39,106
Other interest bearing liabilities	15	**292**	-
Carrying amount of financial liabilities		**43,566**	39,106
(b) Net income and expense from financial assets/liabilities			
Investment income	5(c)	**28,351**	30,416
Net gain/(loss) from financial assets		**28,351**	30,416

(c) Fair value of financial instruments

		Carrying amount 2010 $'000	Fair value 2010 $'000	Carrying amount 2009 $'000	Fair value 2009 $'000
Financial assets					
Cash and cash equivalents	7	**41,668**	**41,668**	37,467	37,467
Receivables (gross)	8	**38,003**	**38,003**	36,568	36,568
Fixed term deposits*	9	**555,975**	**555,975**	495,000	495,000
Government securities*	9	**20,359**	**20,359**	34,938	34,938
Total financial assets		**656,005**	**656,005**	603,973	603,973
Financial liabilities					
Payables	14	**43,274**	**43,274**	39,106	39,106
Other interest bearing liabilities	15	**292**	**292**	-	-
Total financial liabilities		**43,566**	**43,566**	39,106	39,106

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

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

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

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