The quarterly newsletter from ARPC

UNDER THE COVER

SUMMER 2012

Australian Government
Australian Reinsurance Pool Corporation

Message from the CEO

Welcome to the summer edition of Under the Cover. While we are very lucky to have escaped the significant challenges most of you have faced over the last twelve months, we have continued to focus on our own, fortunately claim free, agenda.

ARPC continues to encourage the private sector's appetite for terrorism risk and you can read about our latest foray into reinsurance markets later in this edition. Each year ARPC spends 70% - 80% of premiums collected in purchasing a substantial retrocession program, more than twice the capacity of any other terrorism pool.

This year will see the completion of a three year exercise to gain the capability to model the impact of simulated attacks in Australia using chemical, biological and explosive agents. We have also completed a study to help us understand the most significant exposures in regional Australia. These exposures usually involve energy production with sometimes complex downstream supply dependencies.

We are very pleased to welcome Norris Robertson to our team in a dual role as internal audit manager and as a member of our cedant review team. Norris was previously head of internal audit at ActewAGL and also held an auditing role at Shell before that.

In this issue

Marine risk

We think it is worthwhile reminding cedants that a contract of marine insurance within the meaning of section 7 of the *Marine Insurance Act 1909* is not an eligible insurance contract because it is excluded by item 19 of the Terrorism Insurance Regulations 2003. Consequently, any risks which are covered by a marine insurance contract as defined, including static risks, are not eligible property for the purposes of the *Terrorism Insurance Act 2003*.

Renewal of ARPC's retrocession program

ARPC first introduced its retrocession program in 2009. The amount of retrocession purchased in that first year was $2.3 billion. The program has been renewed each year and each year the size of the program has increased. The capacity purchased for 2012 is $2.754 billion. The increased capacity, and the growth of ARPC's funds under management, has increased the capacity of the scheme to $13.42 billion.

While capacity has increased, the cost of the retrocession has decreased. The cost of the 2012 retrocession program is approximately $4 million less than the 2011 program. This is mainly due to the increased deductible and ARPC's claims free experience. ARPC has progressively increased the deductible from $300 million in 2009 to $375 million in 2012. ARPC plans to continue to increase its deductible during future years of claims free experience.

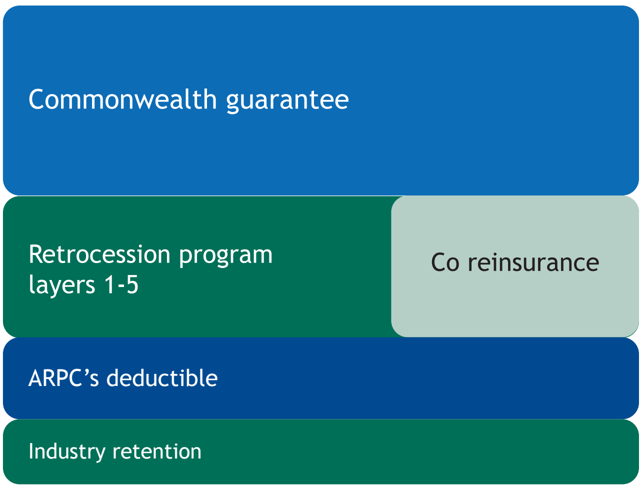
The pricing is also indicative of the confidence reinsurers have in the underwriting information provided by ARPC and our willingness to meet with our retrocessionaires during the renewal negotiations. The Chair, CEO and Client Service Manager, accompanied by representatives of Guy Carpenter, met with the major reinsurance markets in Australia and overseas during the renewal negotiations.

The major benefits of the retrocession program are:

- encouraging the return of the commercial terrorism insurance and reinsurance market for Australian risks;
- increasing the overall capacity of the scheme;
- placing the Commonwealth further from the risk of terrorism losses under the scheme;
- reducing the likelihood that a reduction percentage will be required.

The following diagram shows ARPC's $671.5 million commitment to the scheme. The co reinsurance layers will be met first from the balance of ARPC's reserve for claims. Once the reserve is exhausted, the co-reinsurance will be met from the Commonwealth guarantee.

Diagram 1: Scheme structure



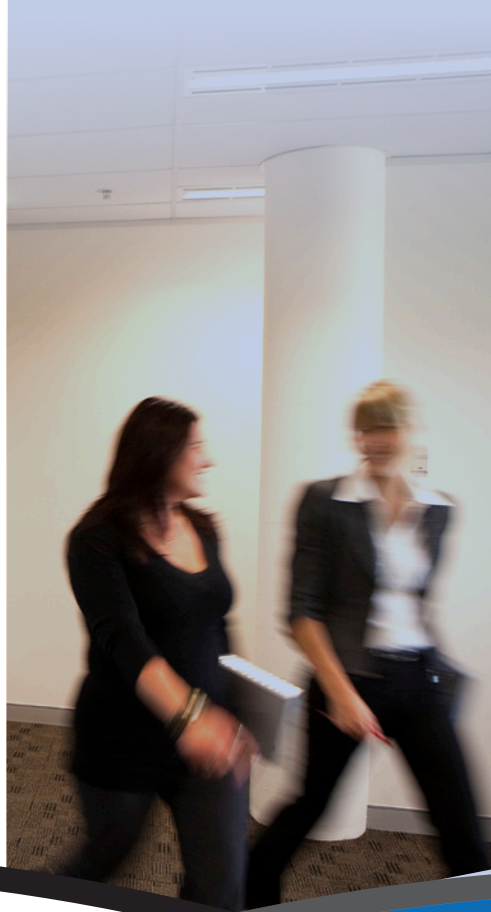
ARPC aims to maximise the capacity purchased from APRA regulated companies, followed by APRA approved companies, then companies from other regions. Priority is given to those reinsurers with the highest financial rating. The minimum rating required to participate in ARPC's retrocession program is A-.

Second quarter premiums

The second quarter premium submissions are due by 31 January 2012. Please use RISe to submit your premiums. If you have any questions please contact Michael Pennell in our Sydney office on +61 2 8223 6777 or via email michael.pennell@arpc.gov.au.

Postcode tables

During our cedant review visits one of the issues we encounter regularly is that of postcode tables not being kept up to date. It is essential that these are kept current as it could affect premium returns for ARPC. We suggest that the responsibility for this is allocated to a particular person who can monitor this publication for any updates.



A moment with Norris

Norris Robertson recently joined ARPC in the role of Manager Internal Audit/Insurance Auditor. His role oversees the internal audit function and he will work with the outsourced contractor on the annual program. He will also be working on the cedant review program with the ARPC's Claims Manager, Michael Stallworthy.

Norris has worked in the internal audit field for 25 years and has worked with organisations like CSIRO, Brunei Shell Petroleum and most recently as director of internal audit with ActewAGL. He is looking forward to increasing his knowledge around insurance issues and the cedant review process.

Norris enjoys school holiday camping and hiking trips with his wife and two children. He is a keen café cyclist and has participated in a number of charity rides and the occasional race. His challenge for 2012 is the Hawkesbury Canoe Classic, a 111km overnight paddling event which raises funds for the Arrow Bone Marrow Transplant Foundation.

Highlights from the annual report

The 2010-11 annual report was tabled in Parliament on 26 October 2011 and below are some of the highlights from this report.

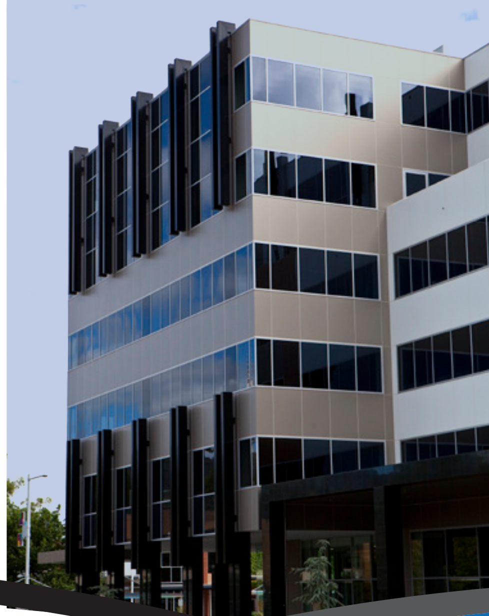
Financial highlights for the year ended 30 June 2011 include:

- operating result of $61.386 million;
- gross written premium of $112.555 million;
- investment income of $36.180 million;
- reserve for claims of $665.846 million.

Other annual report highlights include:

- ARPC's loss estimation capabilities continue to be developed and refined;
- ARPC undertook a major review of its risk management and realigned its risk register with key processes to assist with the monitoring and reporting of risks to management and the Board;
- ARPC implements strategies designed to minimise waste and conserve energy.

To view the annual report please click on the below link: Australian Reinsurance Pool Corporation — Annual reports. If you wish to receive a copy of the annual report please contact us on +61 2 6279 2100 or via email enquiries@arpc.gov.au



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