

UNDER THE COVER



Australian Government

Australian Reinsurance Pool Corporation



Message from the CEO

Welcome to the autumn edition of Under the Cover.

ARPC entered the retrocession market to place its 2012 reinsurance program as the Thai floods were unfolding and, while there is no correlation between weather losses and terrorism, both are often handled by the same reinsurance property underwriters. The Thai floods pushed 2011 to a near record year for global property catastrophe losses and it was not surprising to encounter a contraction in capacity and some pressure on prices. We renewed our program with slight cost savings and increased purchase of cover. This was achieved by taking a co-reinsurance

line throughout the program and by buying cover higher up in the program. The cover provided by the scheme grew to \$13.42 billion.

The 2012 triennial review of the scheme is currently in progress and the question of dividend has been raised. The scheme continues to benefit from a Commonwealth guarantee of \$10 billion and it is not unreasonable to expect to pay a dividend or fee for this facility.

ARPC currently has in excess of \$700 million of funds under management and an active investment program. The pool is forecast to continue to grow strongly in the absence of dividends and is now several times the size first conceived. ARPC is seeking expert input on what might be a sustainable dividend policy, an optimal pool of funds and consideration for what cover the scheme should provide in total.

In this issue

- *Review of the scheme*
- *Marine and transit insurance*
- *Annual aggregate reporting*
- *Postcode updates*
- *A moment with Anna*
- *Premium submissions due*



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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.

Reviews were completed in June 2006 and June 2009, and a review is due to be completed mid-2012. The 2012 review will examine:

- the need for the *Terrorism Insurance Act 2003* to continue in operation;
- the relationship between premiums (charged by ARPC) and the resulting pool of funds raised by ARPC, and the impact of retrocession (taken out by ARPC) on the pool and the terrorism insurance scheme more generally;
- whether the current levels and structure of industry retention that applies to each entity which reinsurers with ARPC are appropriate;
- whether the scheme should be refined in any other way to improve its operation.

Treasury will conduct the review and has sought submissions from key stakeholders including various private sector stakeholders, state, territory and Australian Government agencies. The review will report by April 2012.

Marine and transit insurance

ARPC has received several requests for clarification as to how the *Marine Insurance Act 1909* and the *Terrorism Insurance Act 2003* (TIA) work along-side each other, specifically to deal with a situation where goods in transit are subjected to storage which by its nature is not 'in the ordinary course of transit'. In these situations the cover provided by the Institute Clauses, including terrorism under the Institute Strikes Clauses, does not extend to insure the goods once they cease being in the course of transit.

It is not always clear when goods in storage are still 'in the ordinary course of transit' and when they are not. Although insurers may extend cover to include storage risks, they will invariably exclude terrorism risks.

The situation is further complicated by virtue of a lack of clear precedent on whether these extended policies fall under the *Marine Insurance Act 1909* or the *Insurance Contracts Act 1984*.

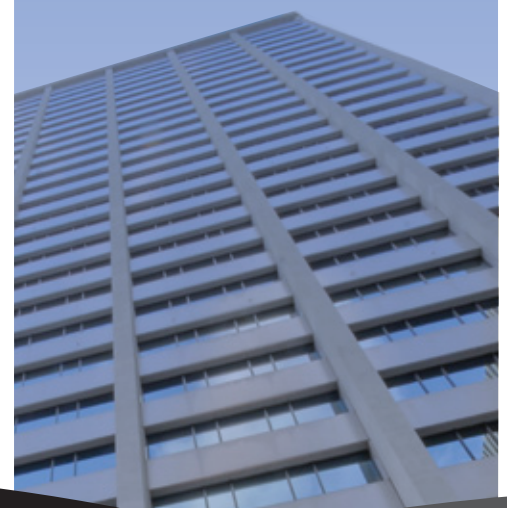
How should marine underwriters deal with this situation? ARPC consulted some prominent marine insurers. Neil Hiller of QBE was kind enough to explain how he deals with the situation.

In order for an insured to be provided with total certainty on terrorism cover for storage risks, he recommends that a separate ISR policy, which is subject to the TIA, be taken out. This seems a practical solution provided that premiums processed reflect a reasonable apportionment of risk under the two policies.

Annual aggregate reporting

For 'all risks ex construction works (CW)', we now require clients to split sums insured between the building and contents components, rather than submitting a combined report. The aggregate reports are a snapshot as at 30 June, and are due by 30 August each year. Information on how to submit the report can be found in the RISE manual: <http://www.arpc.gov.au/?/reinsuring/rise>

If you require any assistance implementing this split please contact Michael Pennell on + 61 2 8223 6777 or michael.pennell@arpc.gov.au.



Postcode updates

ARPC has undertaken the first of the postcode reviews for 2012. The table below highlights the postcode changes.

New postcodes

Postcode	Tier	State	Location	Reason
2052	B	NSW	University of NSW Sydney	Included as separate location area
2109	C	NSW	Macquarie University	Included as separate location area
2351	C	NSW	University of New England	Included as separate location area
2522	B	NSW	University of Wollongong	Included as separate location area
3662	C	VIC	Puckapunyal	Included as separate location area
5701	C	SA	numerous	New postcode

Premium submissions due

Premium submissions for the period ending 31 March 2012 are due by 30 April 2012. To submit your premiums please log into <https://rise.arpc.gov.au> and click on download templates.

For full instructions on how to submit your premium please refer to page 27 of the RISE cedant user manual. If you have any questions please contact Michael Pennell on + 61 2 8223 6777 or michael.pennell@arpc.gov.au.

Please note: all submissions, including nil submissions must be lodged through RISE.

A moment with Anna

Anna Sergi is ARPC's receptionist and administrative assistant who is based in the Canberra office. Anna joined ARPC in July 2011 and is responsible for looking after the front office, booking staff training and travel, and assisting the human resources team. Anna was previously employed by Centrelink and the Department of Finance and Deregulation where she worked in administrative and record keeping roles. During her time with us, Anna has enjoyed the work she has undertaken with the human resources team and increasing her knowledge in that area.

In her spare time Anna enjoys spending time with family and friends and regularly travels to Sydney for music concerts, festivals, and enjoys retail therapy. In the future she hopes to travel overseas to Italy and America.



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