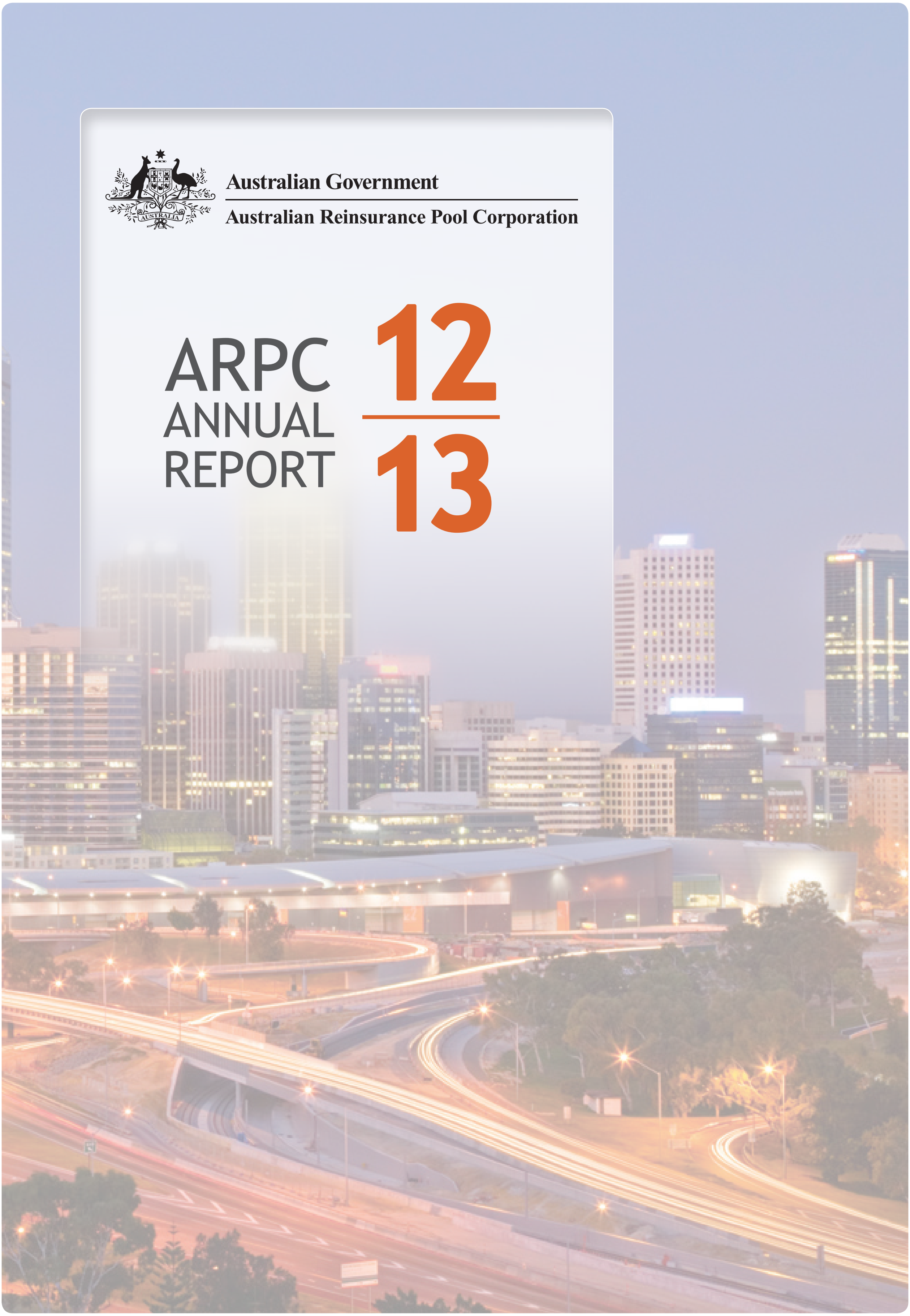
Australian Government

Australian Reinsurance Pool Corporation

ARPC ANNUAL REPORT 12/13



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Australian Government
Australian Reinsurance Pool Corporation

17 September 2013

Senator the Hon Arthur Sinodinos AO
Assistant Treasurer
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 2013. 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.

Yours sincerely

Joan Fitzpatrick BA(Hons), LLB, ANZIIF (Fellow), CIP, GAICD
Chair

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OVERVIEW

REPORT FROM THE CHAIR

On behalf of the ARPC, I present its 2012-13 annual report. I am pleased to report that ARPC is well placed to provide a strong financial response in the event of a significant terrorist attack against commercial assets on Australian soil.

As ARPC celebrates its tenth anniversary it is perhaps timely to reflect on the continuing benefit of the scheme. The aggregate value of assets covered by ARPC's pool exceeds $2.7 trillion, representing almost all of the available risk to the scheme. While risk transfer to the scheme is optional, it is the only viable option available for insurers of Australian commercial properties choosing to move terrorism risk off their balance sheet.

While no incidents that could give rise to a loss have occurred since the scheme commenced, we continue to see terrorism events or foiled events elsewhere in the world. In the past year public statements by a number of our security agencies gave us no reason to believe that the threat of loss has diminished in Australia.

When ARPC was incorporated, it relied totally on the Commonwealth for the financial response it provides to the community. As ARPC's capacity to respond has matured, the Board of APRC has adopted dual aims of protecting the Commonwealth from loss and returning terrorism risk to the private sector through the development of its retrocession program. In 2013 the retrocession program provides up to $3 billion in the event of a loss, which is expected to meet all but the very largest and least likely incident.

It is intended in the coming year ARPC will provide Secretariat services to the National Insurance Affordability Council and play a role in supporting its terms of reference. I believe that this new challenge is an acknowledgement of the dedication and commitment of the ARPC Board, the executive team and all of the staff.

We look forward to embracing this new challenge together and continuing the successful response provided by ARPC in its role to bridge the gap in the market for terrorism risk.

Joan Fitzpatrick BA(Hons), LLB, ANZIIF (Fellow), CIP, GAICD
Chair

17 September 2013

REPORT FROM THE CHIEF EXECUTIVE

ARPC's operating result of $72.5 million represents a 13.22 per cent decrease over the previous year. The significant factors in the decline in result were lower investment returns and costs associated with future payments against our first dividend to the Government.

The gross written premium for 2012–13 was $132.1 million, which represents a 5.92 per cent increase on last year. This growth comes on the back of the hardening of rates for commercial property insurance, which have trended upwards since the significant global and Australian catastrophe losses in 2011.

In the coming year we anticipate a reversal of this trend as competition among Insurers is set to increase markedly. The factors driving the market lower include lower than anticipated catastrophe claims and softening reinsurance costs, with global reinsurers having an excess of capital following below average losses through this year.

ARPC commenced paying the Commonwealth dividends in 2013 and is scheduled to release $700 million in dividends from its claims reserves over the next five years. While ARPC's claims reserves increased in the short term by $69.9 million, or 20.64 per cent, over the year, it is expected that claims reserves will decrease as a result of the ongoing dividend obligations extending until 2016. It is anticipated that claims reserves will subsequently rise again, in the absence of further dividend announcements. While the impact of dividends on claims reserves held by ARPC is significant, their impact on the size of the scheme, which is currently in excess of $13 billion, is not material.

In recent years ARPC has been developing the market appetite for pooled Australian terrorism risk and has placed a $3.2 billion dollar tranche of retrocession cover in the 2013 calendar year. As retrocession is substantially placed offshore, it will provide a significant overseas cash inflow, in response to a loss. The retrocession program will also respond before there is any substantial call on the Commonwealth guarantee of $10 billion afforded to ARPC to meet terrorism losses.

In 2012–13, ARPC focussed resources on sharpening its readiness to deal with a terrorism loss, improving both its loss modelling and event response capabilities.

I thank the Board, our executive team and all our staff for their ongoing commitment to maintaining the confidence of Australian Government, the reinsurance industry and the commercial sector in our ability to respond to an event.

As my term comes to an end in October 2013, I take this opportunity to wish my colleagues every success in keeping ARPC financially strong and in a constant state of readiness.

David Matcham
Chief Executive Officer

17 September 2013

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 2013. 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.

Joan Fitzpatrick BA(Hons), LLB, ANZIIF (Fellow), CIP, GAICD
Chair

17 September 2013

Jan Bowe MBA, BHA, GAICD

Member and Chair of the Audit and Compliance Committee
17 September 2013

HIGHLIGHTS

Below are the highlights from the 2012–13 financial year.

Financial	Outcome
Operating results	$72.5 million
Gross written premiums (GWP)	$132.1 million
Investment income	$35.9 million
Retrocession expense	$81.4 million
Retrocession program	$3.0 billion *

Corporate Governance	Result
Internal audit	After a competitive procurement process, Protiviti was awarded a three year contract from September 2012.
Risk management	ARPC continues to review and update risks and controls, and give regular updates to the Board.

Human resource management	Result
Superannuation	ARPC have been granted continuity of contributory membership for current CSS and PSS contributors, for new employees who are employed by ARPC post 2 November 2012.

Cedant monitoring	Result
Cedant review program	The insourcing of the program has been successful and continues to benefit ARPC. ARPC continued to conduct both full and follow-up reviews to ensure cedants comply with their reinsurance agreement.

Communications	Result
Internal communications	ARPC launched an intranet site allowing greater business team collaboration and instant information and news sharing.
External communications	ARPC's website is compliant with the Web Content Accessibility Guidelines 2.0. This allows people living with disabilities to access our website with ease.

Social/community	Result
Fundraising	ARPC staff have participated in several charity events throughout the year, including a Fred Hollows Walk, RSPCA cupcake day, Dragons Abreast Australia and Canberra Yellow Food Van Rescue.

*All dollar amounts have been rounded to one decimal point with the exception of those in Part 5.

ARPC OBJECTIVES

Below are ARPC's objectives for the 2012–13 financial year.

Objective 1

To meet our obligations under the *Terrorism Insurance Act 2003*

- have in place simple and efficient risk transfer mechanisms
- collect premiums under the scheme in a timely manner
- have an efficient and tested claims system process
- advise Treasury of expected losses from a declared terrorist incident (DTI).

Objective 2

To protect the Commonwealth guarantee and encourage market appetite for terrorism risk

- maintain a retrocession program each year
- provide quality exposure and modelling data.

Objective 3

To ensure the scheme meets industry and government expectations

- provide input and support to the Triennial Review as required
- consult with business and government about the scheme
- ensure that no reputational issues emerge should a terrorist incident be gazetted.

Objective 4

To ensure all insurers are aware of the scheme

- identify and target all issuers covering Australian risk with information about the scheme.

Objective 5

To collaborate and assist the industry and other sovereign catastrophe schemes

- provide regular presentations, training forums and interaction with other international reinsurance schemes and industry.

Objective 6

To keep the Government informed at all times

- ongoing liaison with Treasury and other key government agencies.

Objective 7

To maintain the highest standards of corporate governance

- maintain a high standard of corporate governance to provide transparency and accountability
- early adoption of any new standards
- provide annual compliance reporting of ARPC's legislative, regulatory and policy obligations
- achieve a risk position substantially aligned with ARPC's risk appetite.

Objective 8

To administer the scheme efficiently and effectively

- achieve three year moving average gross expense ratio below six per cent
- maximise investment revenue within defined risk parameters
- maintain full knowledge of the aggregate exposures of the scheme
- maintain sound knowledge of potential modes of terrorism and their potential financial impact on the scheme
- ensure responsible administration of premium revenue and claims.

Objective 9

To manage the pool prudently

- proactively manage the investment portfolio to achieve the target of 50 basis points above the RBA cash rate for internally managed funds
- proactively manage the investment portfolio to maintain a minimum of the Union Bank of Switzerland Warburg (UBSW) 3 to 5 year Australian Bond Rate for externally managed funds
- ensure that 95 per cent of aged debtors are below 30 days
- align short term funds to be no less than the amount of the retrocession deductible.

Objective 10

To be an employer of choice

- strive to maintain a low staff turnover
- encourage and support staff in all education and development opportunities
- promote a flexible work environment that supports a balance of work and family life
- foster a participative workforce supporting collaboration and diversity.

Objective 11

To manage stakeholder relations

- maintain professional and productive working relationships with stakeholders
- actively engage with key stakeholder agencies to support the achievement of ARPC's legislative functions.

GUIDING PRINCIPLES

The Australian Reinsurance Pool Corporation (ARPC) has created its vision, mission and code of conduct to support staff in their obligation to be professional and prudent in fulfilling ARPC's function.

VISION

To be highly respected and valued for our role in providing financial protection to the Australian business community.

MISSION

To provide a reinsurance facility to insurers seeking to place terrorism risk that cannot otherwise be placed with insurance markets.

VALUES AND CODE OF CONDUCT

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 Code of Conduct to which staff are required to adhere.

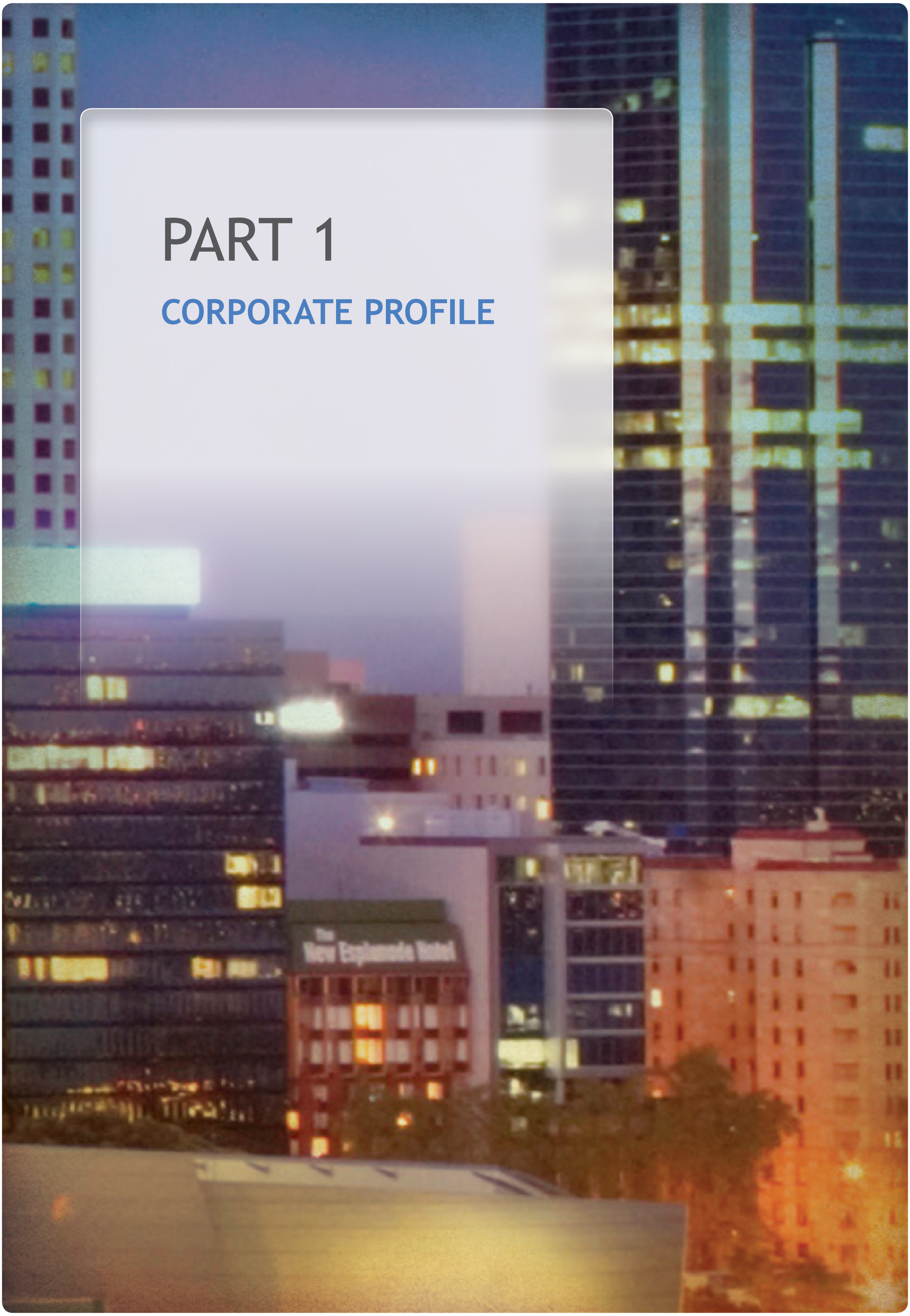
ARPC's Code of Conduct is based on a set of values that are common throughout the public and private sector. These include: integrity, accountability, respect, teamwork, professionalism and staff development. The values, together with the expected behaviour by staff, comprise the Code of Conduct.

Table 1: Values and code of conduct

ARPC value	Required employee behaviour
Integrity	• behave honestly and with integrity in the course of ARPC employment • only accept gifts and hospitality in accordance with ARPC's policies.
Accountability	• 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 • comply with their employment contract or enterprise agreement (whichever applies).
Respect	• when acting in the course of ARPC employment, treat everyone with respect and courtesy, and without harassment • treat every issue reasonably and fairly and without discrimination against any colleague, client or any other person.
Teamwork	• work collaboratively with their own team members and across teams • jointly strive to achieve ARPC's objectives • cooperate with other staff members by sharing their skills and knowledge.
Professionalism	• 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 • not make improper use of: – inside information – the employee's duties, status, power or authority, in order to gain, or seek to gain, a benefit or advantage for the staff member or for any other person.
Staff development	• actively seek to update their level of competence and knowledge • undertake relevant training and professional development courses as requested by ARPC.

PART 1

CORPORATE PROFILE



ORGANISATIONAL CONTEXT

Background

The Australian Reinsurance Pool Corporation (ARPC) is a statutory authority established under the *Terrorism Insurance Act 2003* (TI Act), being subject also to requirements under the *Commonwealth Authorities and Companies Act 1997* (CAC Act).

Following the terrorist events that occurred in the United States of America on 11 September 2001, there was a global withdrawal of terrorism insurance. This was of particular concern to the commercial property sector internationally. The Australian Government promptly acknowledged there could be considerable negative economic impacts as a consequence of a large pool of commercial assets remaining uninsured against the risk of terrorism.

In response to this critical area of market failure, the Australian Government consulted widely with relevant stakeholders, including the insurance and reinsurance sectors, the financial sector and representatives of the commercial property sector. The result was the introduction of TI Act, which established ARPC.

Role and functions

The Government was concerned that the lack of comprehensive insurance cover for commercial property or infrastructure would lead to a reduction in financing and investment in the Australian property sector. The potential for wide economic ramifications led the Government to conclude that intervention was necessary.

The role of ARPC was to establish, and subsequently provide ongoing administration of, a scheme that would provide insurance cover for eligible terrorism losses, with the scheme objectives consistent with the need to:

- maintain, to the greatest extent possible, private sector provision of insurance
- ensure that any 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 as their capability matures, ensuring an appropriate exit strategy for Government
- be compatible with global solutions.

The TI Act provides the legislative framework to meet these objectives by overriding terrorism exclusion clauses in eligible insurance contracts, enabling coverage of eligible terrorism losses arising from a declared terrorist incident (DTI). Although not compulsory to do so, insurers may reinsure this additional risk with ARPC, which, at the time of reporting, remains the only terrorism reinsurer in the Australian market.

Although at the time of reporting, the sole legislative function of ARPC remains the administration of the terrorism reinsurance scheme, section 43 of the TI Act also provides for the addition of functions through the incorporation of new regulations by the Governor-General.

This year marks the tenth anniversary of ARPC, with both the scheme and the corporation commencing operations on 1 July 2003.

THE SCHEME

The ARPC reinsurance scheme (the scheme) was established after discussions with key industry stakeholders, including insurance and reinsurance companies, banks, representatives of property owners, industry associations, insurance brokers and actuaries.

Through the scheme, insurance companies can choose to reinsure the risk of claims for eligible terrorism losses by paying premiums to ARPC. Consequently, holders of eligible insurance contracts will be covered in the event of a DTI, with insurers required to meet these claims in accordance with the other terms and conditions of individual policies.

Claims against the scheme are met once an individual insurance company's risk retention is exhausted. ARPC's pool of retained earnings will meet claims until the agreed retrocession deductible is reached. At this point claims are funded by the retrocession program, of which ARPC is a participant through co-reinsurance. Once retrocession is exhausted claims will continue to be met by the Commonwealth guarantee. The total value of the scheme is $13.4 billion.

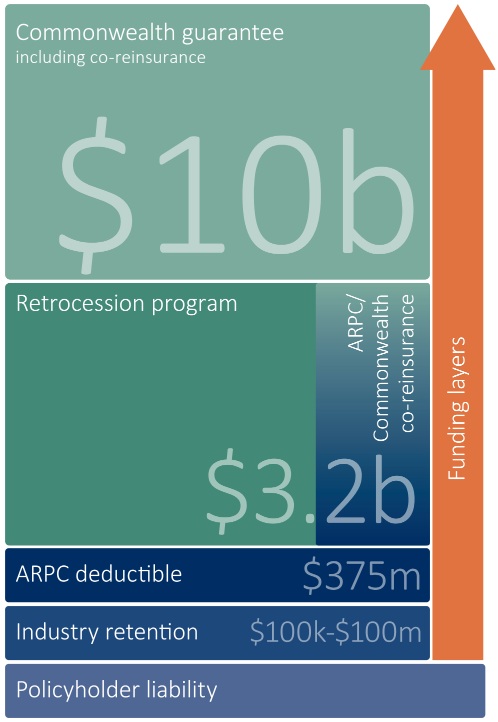
Diagram 1.1 explains the monetary value of each component.

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
  - inability to use eligible property, or part of eligible property, that is owned or occupied by the insured
- liability of the insured that arises out of the insured being the owner or occupier of eligible property.

Diagram 1.1: Scheme structure



Eligible property is property located in Australia comprising of:

- buildings (including fixtures) or other structures or works on, in or under land
- tangible property that is located in, or on, such property
- property prescribed by regulation.

Farms can also obtain cover if they hold insurance against business interruption.

The scheme covers eligible terrorism losses covered by an eligible insurance contract where the insurer has a reinsurance agreement with ARPC for any DTI. Insurers are required to meet eligible claims, in accordance with the other terms and conditions of their policies. Eligible terrorism losses do not include a loss or liability arising from the hazardous properties of nuclear fuel, material or waste.

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

The Regulations also exclude contracts of insurance that 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 TI Act includes (at section 5) a definition of a terrorist act. In order to have consistency across Commonwealth legislation, the definition draws on the meaning of a 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 DTI under section 6 of the TI Act. Upon that declaration, the provisions of the TI Act in respect of eligible terrorism losses become effective.

Reduction percentage

If the Minister considers that 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 DTI must be accompanied by the specification of a reduction percentage. The effect of a reduction percentage is to reduce the amounts payable for terrorism losses under eligible insurance contracts. The reduction percentage may subsequently be varied, but only by making it smaller.

Retentions

Insurers that reinsure their terrorism risks with ARPC retain part of the risk of liability from a DTI. Retentions are calculated at four 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 for individual insurers. The initial retention is contained in the reinsurance agreement entered into with ARPC and is reviewed on 1 July each year.

In addition to individual insurer retentions, the reinsurance agreement provides for maximum industry retention. If the aggregate retentions of insurers in respect of all eligible terrorism losses caused by a single DTI exceed the maximum industry retention of $100 million, the individual insurer's retention is reduced proportionately.

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

PREMIUMS

ARPC's premium and investment income is used to fund its operations and build the reserve available to meet future obligations. The premium charged by ARPC for reinsurance is determined by a Ministerial Direction. The premiums have been set by postcode having regard to the population density. There are three tiers of premium. Table 1.2 illustrates the breakdown of tiers and the broad geographical location to which they relate.

Table 1.2: Tier and broad geographical location

Tier	Geographical location
A	Covering the CBD areas of Australian cities with a population of over one million (Sydney, Melbourne, Brisbane, Perth and Adelaide)
B	Covering the urban areas of all state capital cities and cities with a population over 100,000 (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)
C	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

Reinsurance premiums are calculated as a percentage of the premium written by the reinsured that is attributable to the eligible insurance contract, as illustrated in table 1.3. The scheme allows for the tier rates to be increased following a claim on the scheme, allowing ARPC to finance its liabilities and rebuild the claims reserve.

Table 1.3: Premium structure for reinsurance

Class of insurance	Tier	Tier rate as a percentage of policy gross base premium
Commercial property	A	12
	B	4
	C	2
Business interruption	A	12
	B	4
	C	2
Public liability		Nil

Reporting of premiums

ARPC continues to develop and improve its online reporting system, RISe. This enables secure electronic submission by cedants of annual aggregate reports and premium returns, while also facilitating ARPC auditing of cedant returns.

INDUSTRY INVOLVEMENT

ARPC recognises the importance of industry involvement to ensure awareness of its scheme and to keep up with latest developments in insurance and terrorism risk. During 2012–2013 ARPC representatives continued to support and make presentations at local and international industry forums.

The Organisation for Economic Co-operation and Development (OECD) held its second international conference on terrorism risk insurance in December 2012 in Paris. ARPC assisted with the organisation and sponsorship of the event. ARPC's involvement with the OECD in the work on terrorism risk insurance dates back to 2003.

Attending the conference were 100 industry experts. These included the heads of most national terrorism insurance programs of OECD countries, as well as Russia and India. Also attending were decision makers from the public sector and industry (insurers, reinsurers, broker, risk modelling firms, international associations), plus risk managers of some major international corporations and renowned academics.

The issues analysed encompassed aspects of insurability surrounding the continued risk of terrorism and the changing nature of the risk. The conference looked at how the private insurers, reinsurers and national terrorist schemes are adapting to such change. ARPC's (then) Chair, Mr Joe Gersh, was invited to close the conference.

It addition to its international interactions, ARPC continued its dialogue with the Insurance Council and Treasury on gaps in the coverage of the scheme.

REVIEW OF THE TI ACT

The TI Act was drafted with the presumption that establishing ARPC and its associated terrorism reinsurance scheme would be a temporary measure, protecting the commercial sector until such time as market appetite for terrorism insurance returned. Given the global market uncertainty at that time, a requirement was written into the TI Act that the Minister must provide a report every three years, reviewing the need for the TI Act to continue in operation.

There have been three reviews to date, each examining the operation of the TI Act in the context of current market trends, including responses of governments globally to the market failure. The third and most recent review reported in May 2012, with the fourth review due to report by 30 June 2015.

All recommendations of the reviews have been accepted by the Government. Each review recommended the continuation of the TI Act for a further three years, also recommending that the premium rates remain at the 2003 level, in order to continue to encourage re-emergence of the private market. After the industry retention levels were incrementally increased between 1 July 2007 and 1 July 2009, no further retention increases have been recommended.

The 2006 review recommended that ARPC be given the discretion to determine whether to purchase retrocession once the premium pool reached $300 million. The first retrocession program commenced 31 December 2008, with the program subsequently renewed annually.

The purchase of retrocession remains one of several key issues that attract Government interest, and which will be included in the next review of the TI Act. These key issues are discussed in more detail below.

Retrocession

The capacity of ARPC to respond to a terrorism incident has continued to grow in line with the increasing pool of premiums and the prudent placement of an annual retrocession program. Over the past four years, the retrocession program has clearly facilitated a key objective of ARPC, which is to insulate both the economy and the Government from the financial effect of a terrorist event.

Consultations during the 2012 review highlighted that industry participants were uniformly of the view that the retrocession program represents a prudent use of ARPC's funds. Observations made in support of the continuance of the retrocession program included that it:

- encourages the return of the commercial terrorism insurance and reinsurance market for Australian risks
- increases the overall capacity of the scheme
- places the Commonwealth further from the risk of terrorism losses under the scheme
- reduces the likelihood that a reduction percentage will be required.

Should there be a declared terrorist incident, the retrocession program will provide the government of the day with a timely guarantee of an international cash flow, prior to any possible call on the Government's $10 billion guarantee. Consequently, ARPC remains firmly of the view that the program serves the best interests of the Commonwealth by placing it further from the risk of terrorism losses.

The 2012 review noted that the scheme's growth had continued unabated, owing largely to the 'no claims' history of the scheme to date. It was recommended that the 2015 review examine the continuing need for, and cost benefit of, the retrocession program, in the context of reviewing what the appropriate capacity of the scheme should be.

Mixed-use high-rise building cover

A key recommendation of the 2009 review was to explore the effects of extending the scheme to include mixed-use high-rise buildings that are not predominantly for commercial use. While not specifically mentioned in the 2012 terms of reference, many of the stakeholders contacted by the review raised the issue. It could be argued that the level of concern perhaps reflected the increasing prevalence of high-rise residential apartment complexes in most Australian cities' central business areas in recent years.

In response to the recommendation that this issue is re-examined prior to the 2015 review, ARPC has provided the Government with briefings on the implications of this classification of buildings remaining uninsured against terrorism incidents. This issue remains a matter of interest within both the commercial and property industry sectors.

Payment of a dividend

Since its inception, the terrorism insurance scheme has been backed by a Commonwealth guarantee to the amount of $10 billion. Consistent with Government policy, it was always anticipated that ARPC would compensate the Commonwealth for providing the guarantee. The 2012 review examined the potential impact of ARPC paying a dividend without impinging upon its capacity to pay claims through the scheme.

In making its recommendation, the review considered the concern of the Australian Government Actuary that there was great difficulty in confidently predicting the size of a possible claim on the scheme, and hence what capacity ARPC needed to retain.

The review subsequently recommended that ARPC pay an initial dividend to the Commonwealth of $400 million, to be spread over four years, with the first payment to be made in January 2013.

In the May 2013 Budget, there was a further call on ARPC to pay additional dividends to the Commonwealth of $75 million per year over the next four years. The 2012 review recommended that the subject of dividends be included in the 2015 review.

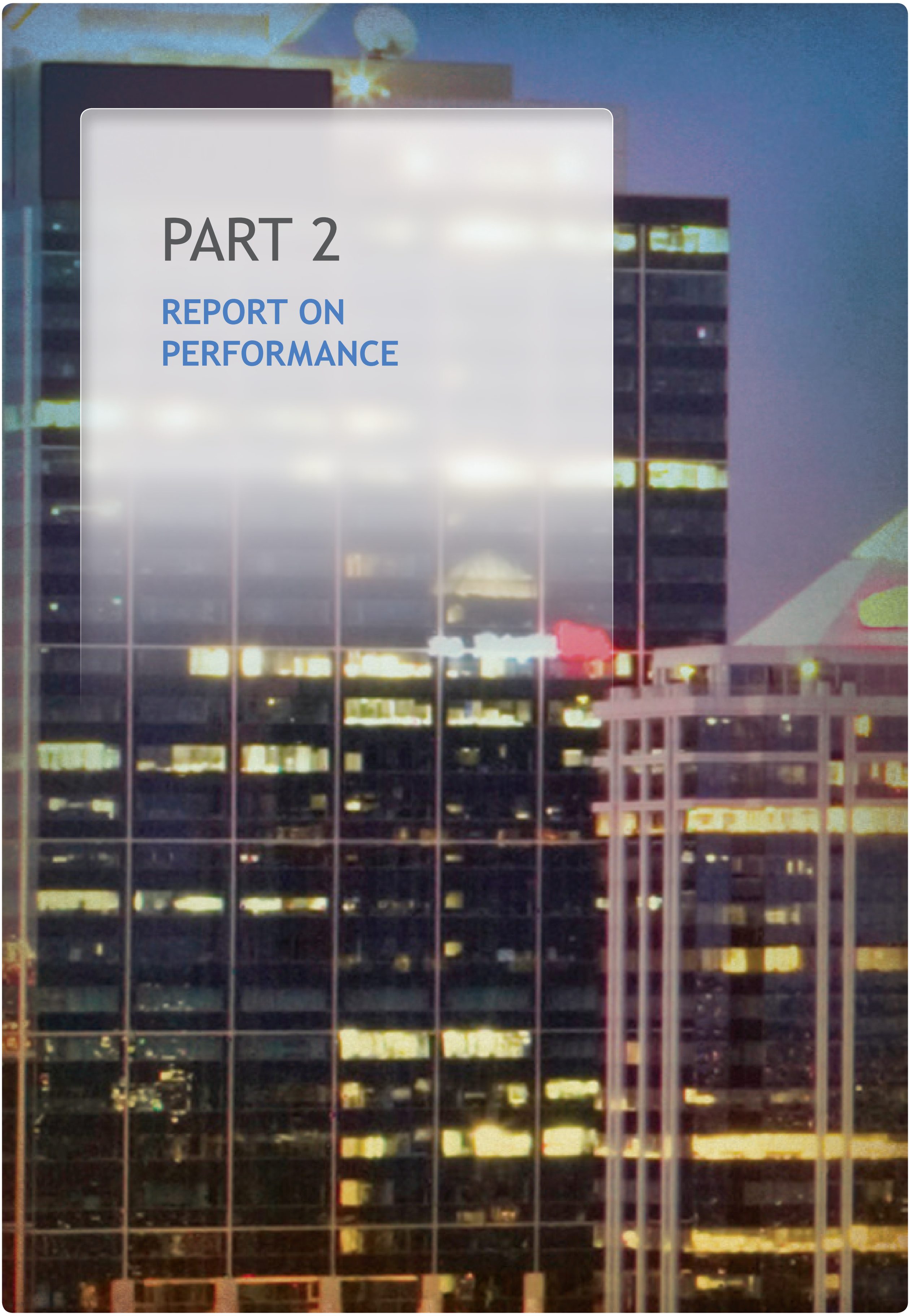
ARPC INSIGHT

AWARD FROM INDUSTRY

ARPC's Client Services and Reinsurance Manager, Michael Pennell was awarded an ANZIIF Service Award for his services to the insurance industry. This includes ten years of involvement with the Institute's Reinsurance Study Course (RiSC).

Michael's involvement with RiSC commenced as a student in 1993. In 2003, Michael was invited to join the RiSC syndicate leaders to provide guidance in the area of reinsurance and portfolio management to future leaders of the industry. Michael is a current member of the Reinsurance Rendezvous organising committee and is also on the Institute's Reinsurance Faculty Advisory Board.

ARPC is committed to encouraging and supporting their employees to be involved in the industry and we are delighted with Michael's achievement in this area. Congratulations Michael!



PART 2

REPORT ON PERFORMANCE

FINANCIAL REVIEW

Summary of financial information

The Australian Reinsurance Pool Corporation's (ARPC) financial highlights for 2009 through to 2013 are represented in table 2.1 below.

Table 2.1: Financial highlights

	2013 $'000	2012 $'000	2011 $'000	2010 $'000	2009 $'000
Net premium revenue	**45,900**	37,523	24,534	25,293	66,931
Acquisition costs	**(1,167)**	(1,124)	(609)	(603)	(599)
Retrocession commission income	**7,471**	7,705	8,004	7,551	3,446
Investment income	**35,912**	40,886	36,180	28,351	30,416
Other income	**(4,193)**	5,484	(88)	(596)	(254)
Other operating expenses	**(6,680)**	(6,986)	(6,635)	(6,800)	(5,395)
Finance Charge (Dividend)	**(4,793)**	-	-	-	-
Operating result	**72,450**	83,488	61,386	53,196	94,545
Gross written premium	**132,093**	124,709	112,555	104,885	106,270
Outwards retrocession premium	**(81,381)**	(81,607)	(84,186)	(80,098)	(37,440)
Net expense ratio	**20.04%**	14.56%	20.49%	26.89%	8.10%
Gross expense ratio	**7.23%**	4.59%	4.62%	6.45%	5.19%
Cash and cash equivalents	**4,953**	8,299	14,660	41,668	37,467
Investments	**666,230**	757,363	665,648	576,334	529,938
Reserve for claims	**408,252**	338,400	665,846	604,460	551,189

The significant changes to ARPC's financial performance and achievements for 2013 measured against 2012 are:

- gross written premium (GWP) of $132.1 million for 2013 (2012: $124.7 million) represents an increase of 5.92 per cent, consistent with increases in primary insurance premiums
- investment income decreased to $35.9 million (2012: $40.9 million) due to a period of falling interest rates, a very low risk investment profile, and the requirement to fund the first dividend payment to government
- ARPC renewed its retrocession program on 1 January 2013; the costs for the 2012–13 financial year decreased to $81.4 million (2012: $81.6 million) while the cover remained constant at $3.2 billion inclusive of co-reinsurance
- operating expenses for 2013 have remained stable; however:
  - the net expense ratio has increased to 20.04 per cent (2012 14.56 per cent) due to the financial costs associated with future payments against our first dividend to the government
  - the gross expense ratio of 7.23 per cent has increased (2012: 4.59 per cent) due to the financial costs associated with future payments against our first dividend to the government

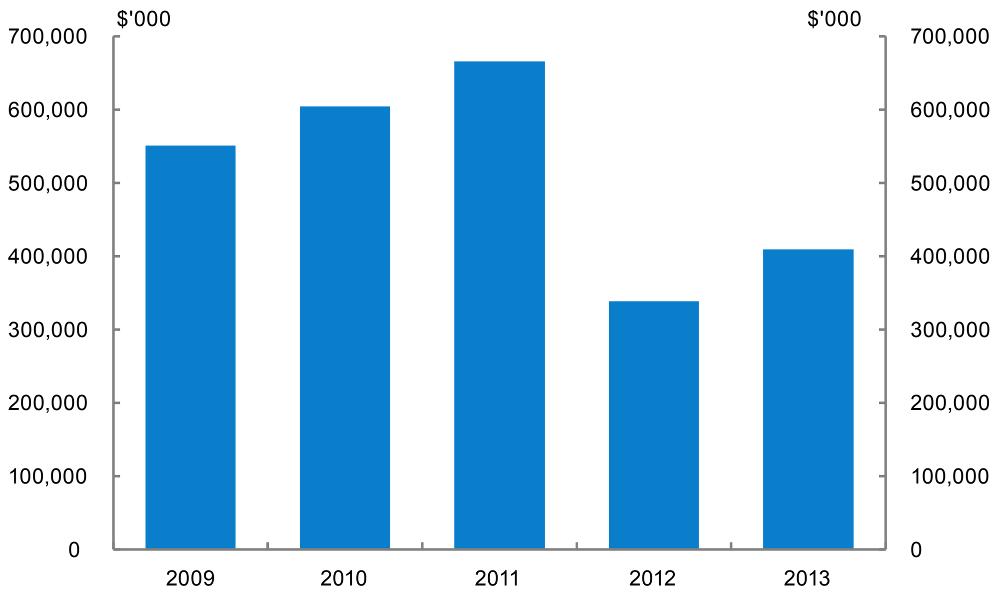
- the reserve for claims now stands at $408.3 million (2012: $338.4 million)
- in May 2013 the Government announced a second series of dividends of $300 million divided into yearly payments of $75 million, the second series of payments will commence in 2014
- the Government's dividend directions have resulted in ARPC having to fund future dividend payments of $150 million in 2014, 2015, 2016 and $75 million in 2017, having paid $175 million in January 2013.

Reserves

Total equity is $432.6 million (2012: $360.2 million) after allowing for the first dividend payment of $175 million to the Government. The reserve for claims is now $408.3 million (2012: $338.4 million) and the trend of reserves is illustrated in chart 2.2 below. The reserve is supportive of the $3.2 billion retrocession program, and the $10 billion Commonwealth guarantee.

During 2013, ARPC increased the claims handling reserve of $21.7 million to $24.3 million, as directed by ARPC policy. The claims handling reserve ensures that sufficient funds are set aside to allow ARPC to finalise any claims and reinsurance recoveries following cessation of the scheme or a significant DTI.

Chart 2.2: Reserve for claims



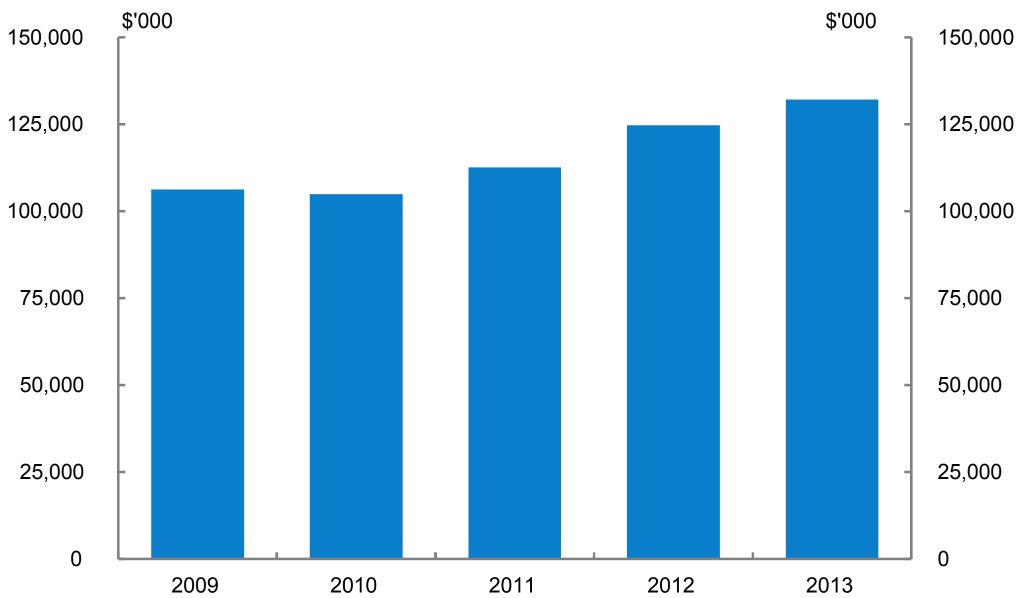
Gross written premium

The movement in gross written premium (GWP) is a function of two factors. The first is market activity with regard to asset developments and their associated business risks, where assets are continuously coming on line or being decommissioned. The second is the movement of primary insurance rate premiums in the insurance cycle. Due to competitive market forces, insurance premium rates tend to move up or down over a period known as a cycle.

During 2012–13, the major influence on GWP was the increase in premiums charged by primary insurers. The increases resulted from a reassessment of exposures to principal risks resulting from a recent period of significant natural disasters within Australia.

The trend of GWP growth is represented in chart 2.3 below.

Chart 2.3: Gross written premium

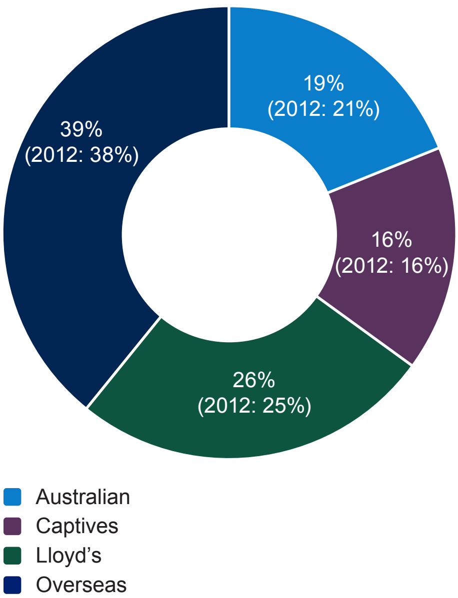


Active cedant treaties

ARPC's active treaties with cedants decreased during 2012–13 to 231 (2012: 246) as a result of industry consolidation. Australian cedants represent 19 per cent of the total active treaties and continue to contribute 87 per cent of the premium received. This has been a consistent occurrence since ARPC's commencement.

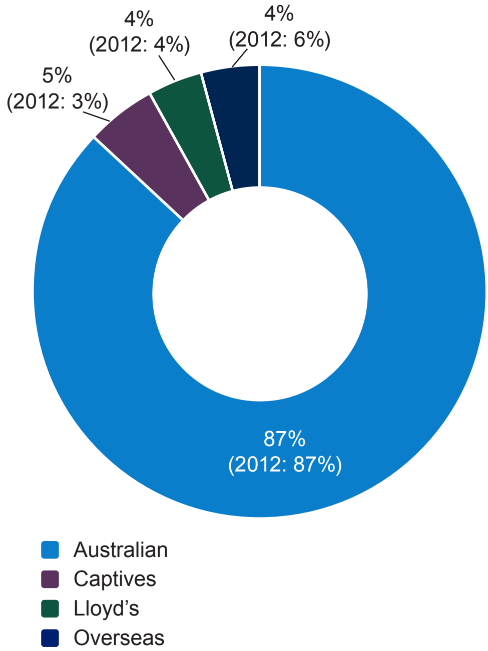
The percentage split between each of the categories is illustrated in chart 2.4 as follows.

Chart 2.4: Active treaties



The trend of GWP is measured by cedant type, premium by tier, premium by state and premium by business class. The following chart 2.5 illustrates GWP by cedant type.

Chart 2.5: Gross written premium by cedant type



Tables 2.6, 2.7 and 2.8 illustrate that GWP by tier, state and business class between 2009 and 2013 has remained reasonably stable.

Table 2.6: Gross written premium by tier

	Actual				
	2013 %	2012 %	2011 %	2010 %	2009 %
Tier A	**20%**	19%	19%	19%	21%
Tier B	**51%**	55%	56%	57%	54%
Tier C	**29%**	26%	25%	24%	25%
Total GWO $'000	**132,093**	124,709	112,555	104,885	106,270

Table 2.7: Gross written premium by state

	Actual				
	2013 $'000	2012 $'000	2011 $'000	2010 $'000	2009 $'000
NSW	**30%**	32%	31%	31%	31%
SA	**8%**	8%	9%	9%	8%
VIC	**21%**	21%	23%	22%	22%
TAS	**2%**	2%	2%	2%	1%
QLD	**22%**	22%	20%	21%	22%
NT	**1%**	1%	1%	1%	1%
WA	**15%**	13%	13%	13%	13%
ACT	**1%**	1%	1%	1%	1%
Total GWP	**132,093**	124,709	112,555	104,885	106,270
Cumulative Total	**934,905**	802,812	678,103	565,548	460,663

Table 2.8: Gross written premium by business class

	Actual				
	2013 $'000	2012 $'000	2011 $'000	2010 $'000	2009 $'000
Fire/ISR/BI	**83%**	80%	80%	81%	78%
Contract Works	**7%**	9%	9%	7%	10%
Burglary	**4%**	5%	5%	5%	5%
Miscellaneous Accident	**2%**	2%	2%	3%	3%
Mobile Plant	**3%**	3%	3%	3%	3%
Glass	**1%**	1%	1%	1%	1%
Farm	**0%**	0%	0%	0%	0%
Total GWP	**132,093**	124,709	112,555	104,885	106,270
Cumulative Total	**934,905**	802,812	678,103	565,548	460,663

* Farm cover accounts for 0.03 per cent of GWP. This figure has been rounded down for the purposes of this table.

Investment assets

ARPC managed investments internally and externally in 2012–13. ARPC's investment strategy complies with the *Commonwealth Authorities and Companies Act 1997* (CAC Act). All investments are held in ARPC's name.

Internally managed funds are placed in cash deposits, while external fund managers were responsible for $223.7 million in the Australian Government bond market.

ARPC's investment objectives are to ensure:

- the retention of capital
- funds are available at short notice
- investments provide the best rate of return available.

Table 2.9 provides a breakdown of ARPC's cash and investment balances as at 30 June 2013.

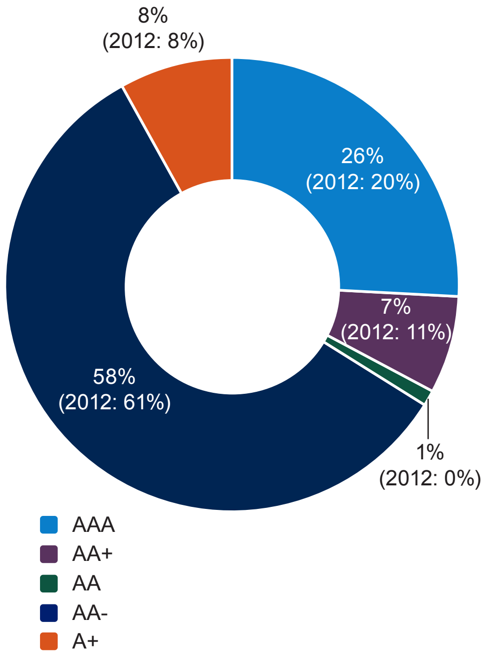
Table 2.9: Comparison of cash and investment balances as at 30 June 2013

	2013 $'000	2012 $'000
Internally Managed		
Cash at bank	**869**	1,055
Fixed Interest Deposits	**428,500**	433,500
Total internally managed cash and investments	**429,369**	434,555
External fund managers		
Cash at bank	**4,084**	7,244
Fixed Interest Deposits	**14,000**	87,500
Government (guaranteed) securities	**223,730**	236,363
Total external fund manager cash and investments	**241,814**	331,107
Total cash and investments	**671,183**	765,662

The benchmark return for ARPC is the Reserve Bank of Australia (RBA) official cash rate plus 0.5 per cent for internally managed cash deposits; and the Union Bank of Switzerland Warburg (UBSW) three-year to five-year Australian government bond index for funds managed by external fund managers.

ARPC's cash investments are held by Australian financial institutions with Standard and Poor's (S&P) credit ratings between A+ and AAA. ARPC holds other investments in the form of Australian Government and semi-government bonds with S&P credit ratings of AA to AAA. Chart 2.10 illustrates ARPC's investments by credit rating category.

Chart 2.10: Investments by credit rating 2013



Investment income

The investment income return for 2012–13 is a good result given the low interest rate environment experienced for the financial year.

The official cash rate was 2.75 per cent at 30 June 2013 compared to 3.50 per cent for last year. The Australian Government three-year and five-year bonds traded at near record lows while the 10-year bond rate traded down to 2.70 per cent, which is close to the lowest yield since Federation. ARPC believes that this signals a low interest rate environment, and consequently lower future yield returns.

Table 2.11 provides a breakdown between internally and externally generated investment incomes as at 30 June 2013.

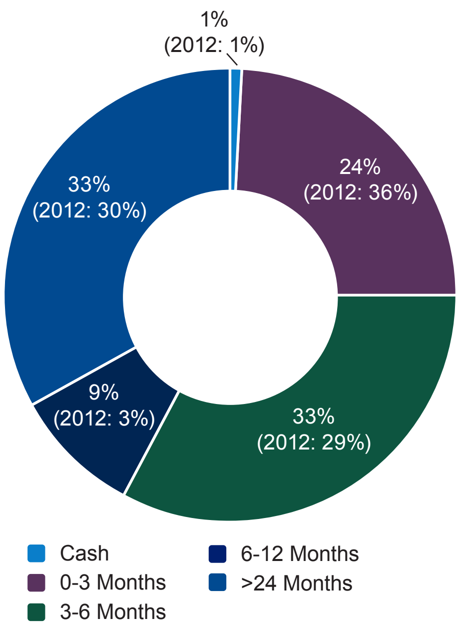
Table 2.11: Investment income for the period ended 30 June 2013

	2013 $'000	2012 $'000
Internally Managed		
Cash at bank	**529**	318
Fixed Interest Deposits	**20,483**	23,436
Total internally managed income	**21,012**	23,754
External fund managers		
Cash at bank	**37**	563
Fixed Interest Deposits	**2,193**	9,181
Government (guaranteed) securities	**12,670**	7,388
Total external fund managers income	**14,900**	17,132
Total cash and investments	**35,912**	40,886

The maturity spreads on the internally managed cash portfolio contributed to ARPC achieving an average return for the 2012—13 year of 4.64 per cent, whilst the externally managed bond portfolios increased in value by 3.56 per cent.

The maturity of funds invested is illustrated in chart 2.12.

Chart 2.12: Funds held at 30 June 2013 by maturity



Influences on future performance

ARPC's two sources of income are insurance premiums and investment income on its pool of retained earnings, set aside to meet claims.

Premiums have been increasing year on year as a result of the growing stock of buildings and infrastructure in Australia. In recent years we have seen an acceleration of investment in the resources sector, which has lifted tier C premiums and premiums overall. We anticipate continued growth in the aggregate values of assets insured, with the pipeline of resource investment continuing to have an impact.

Reinsurance premiums charged by ARPC are expressed as a percentage of the cedant companies' premium and therefore ARPC's overall premium income is subject to insurance market cycles, even though our rates remain stable. ARPC has experienced an increase in its premiums as a result of a hardening market for commercial property insurance, which is attributable to significant catastrophe losses in 2011. While commercial property premiums are currently still increasing, the expectation for the near future is for a moderate softening.

ARPC's pool of retained earnings has grown strongly in recent years through buoyant investment income and increased premiums. Investment income is now expected to slow considerably as we move into a period of record low interest rates and as a result of a reduction in the pool of retained earnings to meet dividend payment obligations.

While the impact of dividends on retained earnings and future investment income is significant, the impact on the size of the scheme overall, at less than 5 per cent, is much less significant.

Cash flow analysis indicates that ARPC can continue to place a substantial retrocession program while meeting current dividend requirements.

SIGNIFICANT EVENTS

Under section 38(2)(a) of the TI Act, ARPC has been given a Ministerial Direction to make a payment to the Commonwealth of $75 million in March 2014.

It was the intention of (then) Government that ARPC will provide secretariat services to a new National Insurance Affordability Council and play a role in supporting its terms of reference.

There have been no other developments since the end of the 2012–13 financial year that have significantly affected or may significantly affect:

- ARPC's operations in future financial years
- the results of those operations in future financial years.

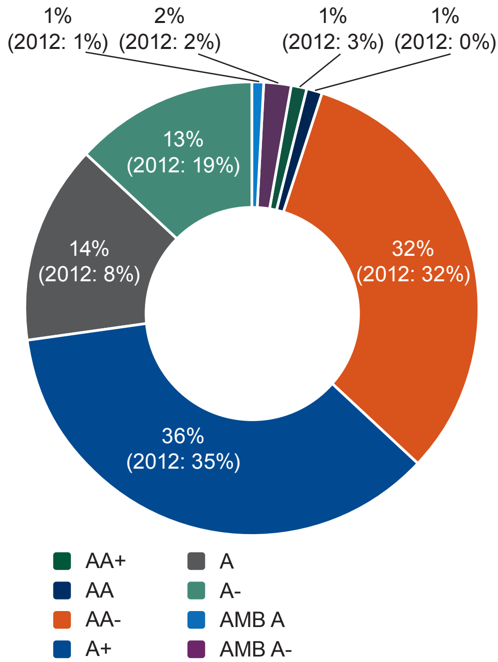
RETROCESSION

Placement

There are 63 participants in the retrocession program drawn from the Australian, Lloyds, European, Bermudan, USA and Asian markets. The size of the program has been increased and renewed for each calendar year since 2009.

The spread of participants in the program reduces the risk to ARPC in the event of default by any one of the participants. Program participants must have a minimum S&P rating of A-. The downgrade clause in the retrocession contract gives ARPC the right to reassess its position if a retrocessionaire suffers a rating downgrade. ARPC's broker, Guy Carpenter, actively monitors the financial stability of ARPC's retrocession counterparties. These measures assist in protecting the financial stability of the retrocession program and the scheme overall.

Chart 2.13: Retrocession program counterparty credit rating 2013



All ratings are Standard & Poor's except AMB A and AMB (A.M. Best) and were not included last year.

The 2013 retrocession program of $3.0 billion (2012: $2.8 billion) was placed in five layers in excess of $375 million (2012: $375 million). Layers 1 to 4 of the retrocession program are co-reinsured by ARPC and the Commonwealth guarantee. Losses in excess of the retrocession program are covered by the Commonwealth guarantee. See diagram 1.1 in Part 1 of the annual report for illustration of the scheme's multi-layers.

Benefits

As noted in Part 1, ARPC's retrocession program continues to provide the following benefits:

- encourages the return of the commercial terrorism insurance and reinsurance market for Australian risks
- increases the overall capacity of the scheme

- positions the Commonwealth further from the risk of terrorism losses under the scheme
- reduces the likelihood that a reduction percentage will be required.

Program cost

Retrocession expense is recognised using the 365th method, with the expense incurred for the 12 months to 30 June 2013 totalling $81.4 million (2012: $81.6 million). The total retrocession commission income recognised by ARPC for 2013 was $7.5 million (2012: $7.7 million). The reduction in cost of the retrocession was achieved by increasing the program deductible and introducing co-reinsurance, where ARPC and the Commonwealth guarantee retain a share of the retrocession.

Future of the program

The *Terrorism Insurance Act Review: 2012* recommended that an assessment of the appropriate capacity of the scheme should be undertaken as part of the next review of the TI Act, which must be completed by 30 June 2015. That review will also reassess the continuing need for, and a cost-benefit analysis of, ARPC's retrocession program.

EXPOSURE RISK MANAGEMENT

A key expectation of government is that ARPC should seek to be in a position to advise the Minister of the likely costs to the scheme in the event of a DTI. This estimate will then inform the calculation of an appropriate reduction percentage.

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 analyse:

- aggregate exposure information
- estimate its probable losses in the event of a DTI
- provide evidence-based advice to the Minister on an appropriate reduction percentage.

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 postcode level. The information is uploaded by cedants directly into ARPC's website, which enables ARPC to analyse the distribution of exposure risk across Australia. The analysis includes the ability to report aggregate exposures.

Table 2.14, and charts 2.15 and 2.16 provide an overview of ARPC's total exposure based on information provided by cedants in reports for 30 June 2013.

Table 2.14: Aggregate exposure amounts by tier as at 30 June 2013

	2013 $ trillion	2012 $ trillion	2011 $ trillion	2010 $ trillion
Tier A	**0.4**	0.4	0.3	0.3
Tier B	**1.5**	1.5	1.2	1.3
Tier C	**1.2**	1.1	1.2	1.0
Total GWO $'000	**3.1**	3.0	2.7	2.6

Chart 2.15: Percentage of aggregate exposure held by tier as at 30 June 2013

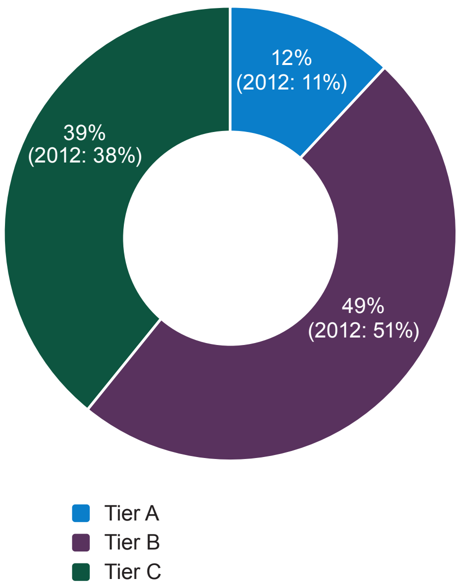
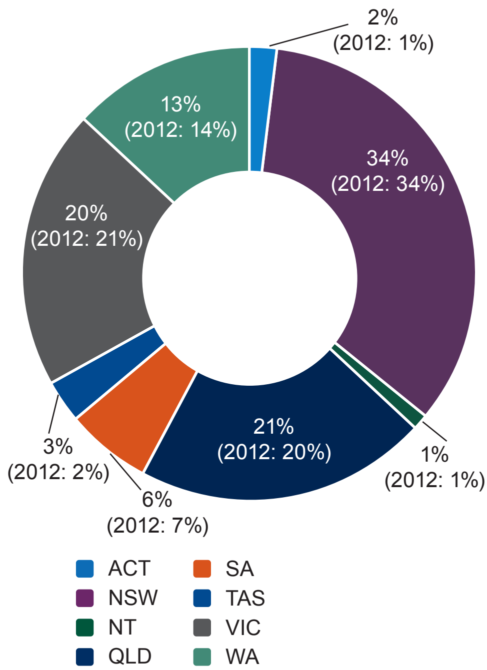


Chart 2.16: Aggregate exposure by state as at 30 June 2013



The exposure report by state allows ARPC to check the correlation between state exposures and collected premiums, and the relative size of assets in each state.

Loss estimation modelling

Development of ARPC's loss estimation capabilities

The aggregate exposure information received from cedants allows ARPC to analyse its exposures at a postcode level. ARPC considered that, to meet the Government's expectations, it required a more robust exposure modelling capability. It began by requesting street level information from cedants and worked with internal and external resources to map that information into a two dimensional (2D) loss estimation model. Risk Frontiers of Macquarie

University was engaged in 2006–07 to assist in further enhancing ARPC's 2D loss estimation capabilities.

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.

Attorney-General's Department

In 2008 ARPC requested the Attorney-General's Department (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 (GA) as the technical provider.

In 2009 ARPC entered into a contract with AGD to undertake a three year development program to improve ARPC's loss estimation capabilities. The development program was designed to both enhance the current 2D model, and develop a more rigorous three dimensional (3D) blast modelling capacity. The program also included modelling for losses arising from chemical and biological incidents. This work draws on contributions from a number of Australian Government agencies.

Work to date has focused on engineering surveys, computerised 3D modelling of central business district (CBD) buildings and the development of blast, plume and ventilation schema and modelling frameworks. The three year program and progress is summarised below.

Three dimensional blast model

The three dimensional blast model is intended to accurately analyse pressure waves and resulting damage from blasts in most tier A locations. The model is being built by GA and a semi-automated version was demonstrated in mid June 2013. There is still work and further testing to be completed by GA. Production of reliable loss figures is expected to be achieved in September 2013.

Plume report

AGD has also managed a project to report on the potential damage from the release of a biological or chemical agent within tier A locations. This project drew on the expertise of several government agencies including GA, Bureau of Meteorology, Defence Science and Technology Organisation and the Australian Federal Police, as well as external consultants. The report improves ARPC's understanding of this type of event, and that the area affected can be extensive.

Regional loss estimation report

ARPC engaged AGD to analyse losses from upstream and downstream business interruption caused by damage to assets located in regional Australia. The work comprised a threat assessment of major regional infrastructure based on the interdependencies of industries relying on that infrastructure, and the economic loss that would result from removal of services.

ARPC engaged two major insurance brokers to investigate the link between the economic loss estimated in the AGD report and potential insured losses. Their reports provided ARPC with the capacity to estimate probable insured losses from an event involving infrastructure in regional Australia. This work will be of assistance when the capacity of the scheme is evaluated in the 2015 review.

ARPC INSIGHT

Each year ARPC engages with the industry to place its retrocession program for the coming calendar year.

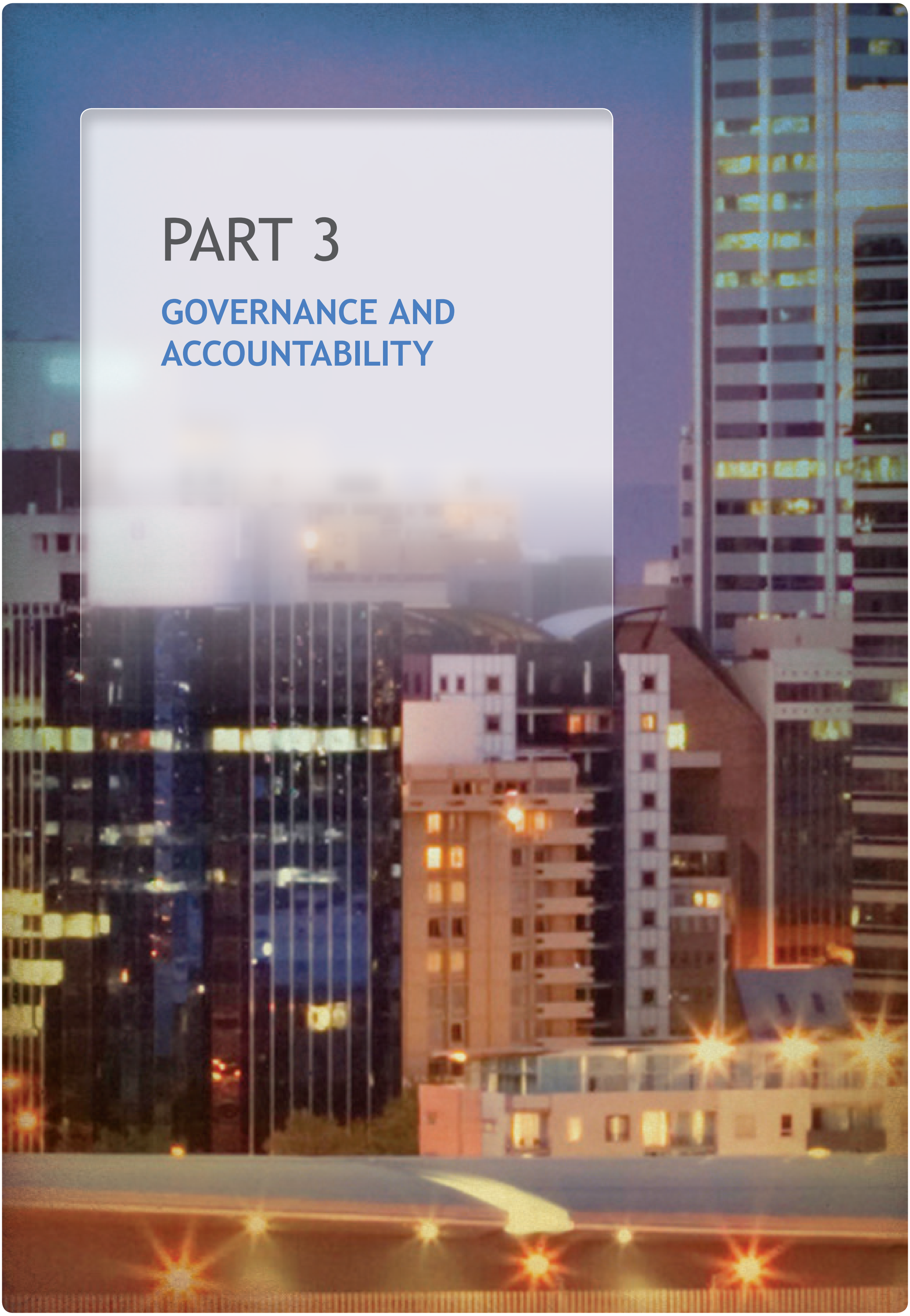
Terrorism is notoriously difficult to price because of the low frequency of events and the fact that there is the unpredictability of human intervention in any terrorist incident.

Retrocessionaires will only offer meaningful capacity if they are able to price the risk and quantify their probable maximum loss. ARPC's exposure risk management work enables ARPCs to leverage the capacity and price of the retrocession program.

Retrocessionaires are given detailed underwriting information demonstrating the depth of ARPC's portfolio of risks. Over the past few years, ARPC has significantly increased its loss modelling capability, in collaboration with experts from Geoscience Australia. As a result, the depth of ARPC's modelling allows retrocessionaires to gain a more precise understanding of their potential exposures when pricing risk, and enables them to offer ARPC sufficient program capacity at optimal rates. Further detail of ARPC's loss modelling developments can be found in this chapter.

PART 3

GOVERNANCE AND ACCOUNTABILITY



GOVERNANCE FRAMEWORK

The Australian Reinsurance Pool Corporation (ARPC) is committed to embedding a culture of good corporate governance in its daily operations. ARPC actively implements corporate governance structures and mechanisms that comply with the Australian Standard for good corporate governance (AS 8000–2003).

Established under the TI Act, ARPC is a Commonwealth agency within the Treasury Portfolio, being subject also to requirements under the *Commonwealth Authorities and Companies Act 1997* (CAC Act). Under the CAC Act, ARPC is required to provide its annual report to the responsible Minister, with its annual financial statements audited by the Australian National Audit Office. The responsible Minister was the Hon Bill Shorten MP from 1 July 2012 to 26 June 2013. The Hon David Bradbury MP was appointed as responsible Minister on 1 July 2013.

ARPC Board appointment and remuneration

Part 3 of the TI Act prescribes the establishment of ARPC's Board of Directors (the Board), including the powers and functions of the corporation. Section 12 of the TI Act states the Board must comprise a part-time Chair and at least four, but no more than six, non-executive directors. Each director must be appointed by the Minister for a fixed term of no more than four years. Under section 13 of the TI Act, the Minister must be satisfied that any candidate for appointment to the Board is of good character, with relevant qualifications and experience. Remuneration for all Board members is set by the Remuneration Tribunal.

Members

After almost ten years as ARPC's inaugural Chair, Mr Joseph Gersh AM retired on 31 December 2012. On 1 January 2013, Ms Joan Fitzpatrick commenced her appointment as the new Chair for a three year term, having been initially appointed as a director of the Board for the period 12 September to 31 December 2012. The only other change to the Board membership during the reporting year was the appointment of a new director, Ms Melinda Howes, who also commenced on 1 January 2013.

At the time of tabling this report, the Board comprised the Chair and five members, with one vacancy resulting from the resignation of Mr James Murphy effective 11 July 2013. The names and details of the ARPC Board members that held office during the 2012–13 financial year follow, including their tenure.

Mr Joseph Gersh AM, Chair

Qualifications: BComm LLB(Hons)

Mr Gersh was ARPC's inaugural Chair, appointed on 1 July 2003 and retired from this role on 31 December 2012.

Mr Gersh had 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 was the Executive Chairman of Gersh Investment Partners Ltd and held a range of directorships, including the Payments System Board of the Reserve Bank of Australia.

Ms Joan Fitzpatrick, Chair

Qualifications: BA(Hons) LLB, ANZIIF (Fellow), CIP, GAICD

Ms Fitzpatrick was first appointed as a director on 12 September 2012 and as Chair from 1 January 2013. Her current term expires on 31 December 2015.

Ms Fitzpatrick is a qualified barrister with expertise in managing commercial and manufacturing businesses. Ms Fitzpatrick joined the insurance industry in 1992 in London and became CEO of the Australian Insurance Institute in 1997.

As CEO, Ms Fitzpatrick led all of the state based insurance institutes to federal unification and merged with the Insurance Institute of New Zealand to create the Australian and New Zealand Institute of Insurance and Finance (ANZIIF) in 2000.

Ms Fitzpatrick is a Director of the Institute Board and of the Victorian Managed Insurance Authority (VMIA) and is a Director of the CREATE Foundation. She is a graduate of the Australian Institute of Company Directors and a business advisory Board member for World Vision, Greenfleet, RMIT and Deakin University.

Ms Patricia Azarias

Qualifications: BA(Hons) MA MPA

Ms Azarias was first appointed on 22 April 2008; her current term expires on 24 April 2014.

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 Special Broadcasting Service (SBS) Board, Chair of the Audit and Risk Committee of SBS, Co-Chair of the Risk and Audit Committee of the NSW Director of Public Prosecutions, and is the Deputy Chair of the NSW Community Relations Commission.

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

Ms Jan Bowe

Qualifications: BHA MBA, GAICD

Ms Bowe was first appointed on 1 July 2009; her current term expires on 30 June 2015.

Ms Bowe has held senior positions in the financial services sector in both insurance and banking. She has a strong background in general management, having held a number of senior roles in prominent organisations, including Suncorp Metway, the Commonwealth Bank and Rio Tinto. Ms Bowe currently combines her role as a strategy consultant with a portfolio of Board non-executive director appointments, including QT Mutual Bank and Combined Dispensaries Friendly Society.

Ms Bowe is the Chair of the Audit and Compliance Committee in a decision ratified by the Board on 21 August 2013.

Ms Melinda Howes

Qualifications: BEc, FASFA, FIAA, GAICD

Ms Howes was appointed on 1 January 2013; her current term expires on 31 December 2015.

Ms Howes is the CEO of the Actuaries Institute. An actuary, her career in financial services spans policy, strategy, consulting, product and sales work in superannuation, wealth management, insurance and not for profit entities.

Before joining the Actuaries Institute, Ms Howes was Director of Policy at the Association of Superannuation Funds of Australia. Prior to that, she consulted with ALEA Actuarial Consulting Pty Ltd. She also spent eleven years at BT from the early 1990s, culminating in a role as Director of Superannuation and Retirement Products.

Ms Howes is a non-executive director of Hollard Holding Australia & Hollard Insurance. She is on the advisory board of Macquarie University's Faculty of Business and Economics, and sits on the Government's Insurance Reform Advisory Group and Superannuation Roundtable.

Ms Howes is a member of the Audit and Compliance Committee.

Mr Tom Karp

Qualifications: BA(Hons), FIAA

Mr Karp was first appointed on 29 August 2008, with his term expiring on 28 February 2012. He was reappointed on 1 July 2012, with his current term expiring on 30 June 2015.

Mr Karp is an actuary and, in June 2008, retired as the Executive General Manager, Supervisory Support, at the Australian Prudential Regulation Authority (APRA). Prior to joining APRA, Mr Karp was with the Insurance and Superannuation Commission for nine years 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 is a member of the Actuarial Standards Committee of the International Actuarial Association.

Ms Marian Micalizzi

Qualifications: BBus(Acctcy), FCA, MAICD

Ms Micalizzi was appointed as an inaugural member of the Board on 1 July 2003, with her current term expiring on 30 June 2015.

Ms Micalizzi is a chartered accountant, a company director and a consultant in both the public and private sectors, with experience spanning over 20 years. She has expertise in specialist corporate financial and advisory services including financial institutions' regulation and prudential supervision. Ms Micalizzi is a Member of the SunSuper Audit, Risk and Compliance Committee, a position she has held since 2005. Ms Micalizzi is also a current member of the Management and Finance Committee of the Cancer Council Queensland, and has been Governor of the World Wildlife Fund (WWF) Australia since 2010.

Ms Micalizzi was the Chair of the Audit and Compliance Committee until 31 July 2013.

Mr James Murphy PSM

Qualifications: BA(Econ&History) LLB MPubLaw

Mr Murphy was appointed as an inaugural member of the Board on 1 July 2003, and resigned his current term on 11 July 2013.

Mr Murphy was the Executive Director, Markets Group in the Treasury. He has extensive experience as a senior executive in the Commonwealth Government, which was acknowledged when he was awarded a Public Service Medal in 2011.

Mr Murphy was a member of the Audit and Compliance Committee.

Board meetings

The Board meets on a regular basis, with table 3.1 listing the number of meetings attended by each member during the 2012–13 financial year.

Table 3.1: 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	3	3
Ms Joan Fitzpatrick	4	4
Ms Patricia Azarias	6	3
Ms Jan Bowe	6	5
Ms Melinda Howes	3	3
Mr Tom Karp	6	4
Ms Marian Micalizzi	6	5
Mr James Murphy	6	5

COMMITTEES

Supporting the Board, ARPC convened two standing committees during the reporting period, the Audit and Compliance Committee and the Risk Committee. Both committees were established under terms of reference 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.

The Risk Committee was dissolved by the Board in March 2013, with the committee's responsibilities returned to the Board.

Audit and Compliance Committee

The purpose of the committee is to:

- assist the Board to:
  - i) fulfil its responsibilities in relation to ARPC's accounting and financial reporting obligations
  - ii) comply with ARPC's statutory obligations
  - iii) oversee the work of the internal auditors
- provide a forum for communication between Members, the senior management of ARPC, the internal auditor and the Australian National Audit Office (ANAO).

During the reporting period the committee reviewed and approved the internal audit plan and reviewed all reports received from the internal auditor. The committee also monitored the implementation of internal audit recommendations, reviewed and accepted the terms of engagement of ANAO and reviewed the financial statements to assist the Board in making the statements required by the Finance Minister's Orders (FMO).

During the year the Board, through the Audit and Compliance Committee, received reports from the internal audit service provider together with the Chief Audit Executive, in accordance with the Annual Audit Plan and reports commissioned by the CEO. Recommendations for improvements in relation to internal controls, policies and procedures were made in a number of areas, including procurement. These recommendations have been accepted and have been or are currently being implemented.

The members of the committee who have held office during the reporting period are:

Ms Jan Bowe (Chair)

Ms Marian Micalizzi (resigned effective 31 July; previous Chair)

Ms Patricia Azarias

Ms Melinda Howes

Mr James Murphy (resigned effective 11 July).

There were four meetings of the committee held during 2012–13, with the number of meetings attended by each committee member illustrated in table 3.2.

Table 3.2: 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 Marian Micalizzi	4	4
Ms Patricia Azarias	4	1
Ms Jan Bowe	4	4
Mr James Murphy	4	3
Mr Melinda Howes	1	1

Risk Committee

Whilst operational, the committee met once during 2012-13. The Risk Committee membership comprised all Board members. At the meeting, the committee provided support for management's review of the ARPC's risk management processes. The Risk Committee also reviewed ARPC's key strategic risk areas—DTI preparedness, fraud management, retrocession placement and cedant compliance.

While operational, the committee was responsible for:

- reviewing and endorsing ARPC's risk management framework to ensure that appropriate strategies were in place for identification, assignment and mitigation of risk
- identifying and understanding ARPC's risk exposure and the impact of the organisation meeting its goals
- ensuring that management monitors the effectiveness of the risk management and mitigating controls
- encouraging the adoption of an effective risk management culture within ARPC.

The number of Risk Committee meetings attended by each committee member is set out in table 3.3.

Table 3.3: 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	1	1
Ms Patricia Azarias	1	0
Ms Jan Bowe	1	1
Ms Joan Fitzpatrick	1	1
Mr Tom Karp	1	1
Ms Marian Micalizzi	1	1
Mr James Murphy	1	1

LEADERSHIP TEAM

ARPC's executive managers provide strategic and financial guidance for the organisation, making recommendations to the Board on operational and business plans, as well as investment and reinsurance strategies. The leadership team also supports effective communication and strategic understanding in all areas of operations within ARPC.

David Matcham

Chief Executive Officer

David was appointed to the position of CEO of ARPC on 5 October 2010 and is contracted to continue until October 2013.

David joined ARPC with 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 CEO in 2003. He held that position until his retirement in 2009. David is currently the Chair of the CREATE Foundation, the peak body which advocates for children in care. He is also a director of Hollard Insurance. He previously held a position on the Board of the Insurance Council of Australia (ICA).

Laurence Daly

Chief Financial Officer

Laurence was the CFO and was responsible for the Corporate Services area. This includes finance, investments and information communication technology. Laurence resigned from ARPC and Dr Derek Ambrose has been acting CFO from May 2013.

Maria Batzogiannis

Manager Human Resources and Corporate Administration

Maria ensures that all human resources and administration policies, procedures and strategies are compliant, implemented and updated, allowing business objectives to be achieved. In addition, Maria oversees the library, records management and HR legal related matters within ARPC.

Alison Kelly

Manager Corporate Governance

Alison joined ARPC in December 2012 as the Manager of the Corporate Governance area. She is responsible for ensuring ARPC has high quality processes in place for all corporate governance practices including; risk management, business continuity, assurance services and compliance with all policy and legislative requirements. Alison has responsibility for ARPC communication and is also ARPC's Board Secretary, providing support to the Board and to the Audit and Compliance Committee.

Michael Pennell

Manager Client Services and Reinsurance

Michael is responsible for arranging contracts of reinsurance with insurers who issue eligible insurance contracts. He assists insurers and brokers in understanding the scheme and is responsible for implementing ARPC's retrocession program. Michael leads various projects that enable ARPC to develop and enhance its loss estimation capabilities. He also serves on the reinsurance Faculty Advisory Board of the Australian and New Zealand Insurance Institute and the Advisory Board of Risk Frontiers.

Michael Stallworthy

Manager Cedant Review and Claims

Michael is responsible for establishing and managing the claims processes and procedures. He is also responsible for conducting the cedant review program. This involves visiting mainly Australian and Singapore cedants over a rolling two year period to conduct an audit on cedant compliance with the terms of the reinsurance agreement.

ARPC INSIGHT

ARPC recognises the importance of investing in the training of their employees. This ensures they have up to date skills and are well equipped to perform their jobs.

ARPC's Manager Corporate Governance, Alison Kelly, attended the Reinsurance in Practice Seminar hosted by Guy Carpenter in Cambridge and London earlier this year. The eight-day seminar extends participants' knowledge of reinsurance principles and practices with a comprehensive training program. More than 50 participants attended the seminar from throughout the Asia-Pacific region, including groups from India, China, Japan, Vietnam, the Philippines and of course Australia. The course was structured to cater for a wide range of industry experience, with some like Alison being very new to reinsurance, while others had experience spanning more than 20 years.

The seminar was very practical, with the first half providing participants a robust framework of fundamental reinsurance theory and practices. The second half of the seminar saw presentations from specialists within Guy Carpenter, including those working with catastrophe modelling and specialists in the fundamentals of analysing risk using analytical tools within Guy Carpenter's latest software. With lectures from leading experts in the field, case studies and interactive group sessions, participants gained a robust grounding in reinsurance principles and practices.

Alison said she was amazed at the scope of expertise within the reinsurance industry and Guy Carpenter in particular. The knowledge gained and resources provided have been very beneficial and Alison said she is very appreciative of the opportunity to learn in such a knowledge-rich environment.

CORPORATE GOVERNANCE PRACTICES

The Board and ARPC's leadership team remain committed to maintaining the highest standard of corporate governance, and continue to monitor corporate governance trends from a range of sources across government and the private sector. Although not formally regulated by the Australian Prudential Regulation Authority (APRA), ARPC draws on APRA standards for general insurers as a benchmark for its organisational practices.

ARPC's corporate governance framework is underpinned by several key policy documents, including the Fraud Control Plan and the Risk Management Framework. It is also an integral component within the Board charter, the terms of reference of its Audit and Compliance Committee and the delegations to the CEO and senior executives.

ARPC formally recognises the Australian Stock Exchange's (ASX's) Principles of Good Corporate Governance and Best Practice Recommendations, which support the delivery of sound corporate governance practices across the organisation. These eight principles are provided below, together with illustrative examples of how ARPC incorporates them into its operations.

Principle 1: Lay solid foundations for management and oversight

The Board Charter documents the roles and responsibilities of the Board and its members; the Board approves the financial delegations authority. Both the charter and the delegations authority are periodically reviewed. The Board and the Audit and Compliance Committee have conducted self-evaluations during this reporting period. Senior management performance reviews were undertaken in 2012-13 by the CEO, in accordance with the documented Performance Management System.

Principle 2: Structure the Board to add value

All members of the Board are independent and, under the TI Act, must be appointed by the Minister. Members are required to update their Personal Interest Disclosures Statements at each meeting of the Board. In compliance with the TI Act, the Chair of the Board cannot also be the CEO.

Principle 3: Promote ethical and responsible decision making

The Board Charter documents a Code of Conduct for all members that was derived from the fiduciary duties imposed by statue and general law, plus more general ethical considerations. ARPC promotes a corporate culture that embraces the principles of equity and diversity, which provide a framework for its values and code of conduct. ARPC employees are bound by the code of conduct, which is available on the intranet. The Fraud Control Plan provides guidance on staff responsibility and accountability in maintaining ethical practices and reporting suspected breaches of the code of conduct.

Principle 4: Safeguard integrity in financial reporting

In accordance with the CAC Act, the CEO and CFO annually provide written certification to the Board regarding the integrity of ARPC's financial reports, granting assurance that ARPC's financial situation and operational results are in accordance with relevant accounting standards. The Board Charter requires the establishment of an Audit and Compliance Committee, to be comprised of at least three Board members; the Chair of the committee cannot also be the Chair of the Board.

Principle 5: Make timely and balanced disclosure

In accordance with the CAC Act, the ARPC annual report is provided to the Minister and tabled in both Houses of Parliament, prior to being published on the ARPC website. The report details management, operational and accountability information, including ARPC's financial statements. ARPC publishes a quarterly newsletter on its website to update cedants and the public on recent developments.

Principle 6: Respect the rights of shareholders

Being a CAC Act agency, ARPC does not have a shareholder Minister. However, it maintains open communications with key stakeholders through regular meetings with cedants, industry associations and government.

Principle 7: Recognise and manage risk

During 2012–13 ARPC reviewed its risk management practices following an intensive process to update its Risk Register. In April 2013, the Board chose to dissolve the Risk Committee, in recognition of the fact that the Board has responsibility for risk. Each Board meeting now has a standing agenda item to examine risk management. This further demonstrates ARPC's commitment to ensuring that a risk management culture becomes an integral component of daily operations. The Audit and Compliance Committee meets at least three times each year and ensures any issues identified during audits are recorded and monitored on issues logs until fully remediated.

Principle 8: Remunerate fairly and responsibly

Remuneration for Board members is determined by the Remuneration Tribunal. When determining remuneration packages for employees, consideration is given to salaries payable for similar positions within the public and private sectors. Annual increments are based on the outcomes of individual performance appraisals, which are performed twice yearly as part of the Performance Management System.

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 the Audit and Compliance Committee authorises the committee to take whatever independent advice it considers necessary.

Confidentiality agreements

On commencement of employment with ARPC, all staff and Board members are required to sign a Confidentiality Agreement, which outlines their obligations relating to the non-disclosure of confidential information. Agreements are renewed and refresher training provided annually.

Indemnity and insurance of directors and officers

Consistent with the requirements of the CAC Act, ARPC has entered into a deed of indemnity with each Board Member. For 2012–13, ARPC maintained and paid premiums for insurance covering Members and senior managers against legal costs and other expenses that may be incurred in the performance of their duties. The premium paid for the Directors' and Officers' Indemnity Insurance in 2012—13 was $48,647 ($60,671 in 2011—12).

Judicial and administrative decisions and review

During the year ended 30 June 2013, there were no judicial decisions or decisions of administrative tribunals that could significantly affect the operations of ARPC. The only report by a third party was the ANAO's report on ARPC's financial statements, which is published within this report.

Ministerial Directions

Under section 38 of the TI Act, the Minister responsible for ARPC may give written directions in relation to the performance of ARPC's functions and the exercise of its powers.

On 22 July 2013, the Minister issued a new direction to ARPC under section 38(2)(a) of the TI Act, requesting ARPC to make a payment to the Commonwealth of $75 million in March 2014. Three previous Ministerial Directions still remain in force:

- a direction in respect of the risk to be retained by the reinsureds, effective from 1 July 2007
- a direction in respect of premium rates to be charged by ARPC, effective from 1 July 2011
- the first direction under subsection 38(2)(a) of the TI Act, regarding payments to be made by ARPC to the Commonwealth in the January of each year from 2013 to 2016 inclusive.

General policy orders

Under the sections 28 and 48A of the CAC Act, the Commonwealth Government can issue General Policy Orders (GPOs) that will apply to most bodies subject to the *Financial Management and Accountability Act 1997* or the CAC Act. During the period of reporting, ARPC was notified of two GPOs that will apply to ARPC.

In November 2012, ARPC received notification that the Attorney General proposed to expand the mandatory application of the Protective Security Policy Framework (PSPF) to include all CAC Act agencies. Notwithstanding that it remains reliant on Treasury for some critical aspects of the PSPF, such as security vetting and IT system security controls, ARPC is well placed to be fully compliant with this GPO.

In February 2013, ARPC received notification that the Minister for Finance and Deregulation, Senator the Hon Penny Wong, proposed a GPO that would facilitate and promote the ready and open exchange of views and information between ARPC and the newly established Parliamentary Budget Office. Although willing to comply, ARPC advised that this would have little impact on ARPC's operations due to its lack of involvement in the Parliamentary Budget process. However, ARPC notes that there is likely to be greater impact following the passing of the new *Public Governance, Performance and Accountability Act 2013* on 28 June 2012.

RISK MANAGEMENT

Throughout 2012—13, ARPC's risk management processes were improved in line with recognised better practice. ARPC's annual review of enterprise risks was undertaken in January 2013 and involved all senior managers and representative from the outsourced internal audit provider. The annual review realised improvements in clarifying and realigning risks within the adopted business practices.

Further enhancements have been realised through the granular assignment of risk management controls across the organisation and improved functionality of supporting technology. Risk is now a standing agenda item at each ARPC Board meeting. There will be subsequent upgrades to the risk reporting system as ARPC strives for ongoing improvement in its risk management capabilities.

The Board and senior management will work together early in 2014 to develop an enterprise risk appetite statement as an integral part of strategic planning for 2014—15.

INTERNAL AUDIT

Current program

The following reviews and other activities were conducted by internal audit in 2012—13:

- the Chief Audit Executive (CAE) assessed ARPC's general control framework against the five elements of the Committee of Sponsoring Organisations of the Treadway Commission (COSO) framework; this work provides a baseline for an ARPC annual assessment of overall control health
- the CAE participated with management in a review of key ARPC risks and controls
- based on reviewed risks, the CAE revised and agreed on an updated three year strategic plan of work
- ARPC's internal and external managed fund controls were reviewed by Protiviti
- ARPC's payroll process controls were reviewed by Protiviti
- the newly implemented in house accounts receivable system controls were reviewed by Protiviti
- the cedant review program was reviewed by Protiviti
- expenditure controls on consultants and contractors were reviewed by Protiviti
- the CAE acquired a role to coordinate ARPC projects tracking and Board reporting
- the CAE verified previously closed internal audit actions including RISe system security actions.

During the year, Internal Audit provided the Audit and Compliance Committee with six internal audit reports. ARPC's senior management team will continue to work with the CAE and Protiviti to improve the organisation's alignment with the COSO control framework and strive for best practice in the areas of internal controls and accountability.

2013—14 program

The planned internal audit program for 2013–14 includes reviews of:

- information technology security
- DTI planning and response capability
- compliance obligations tracking and completion including AS 3806 conformance
- retrocession program management and compliance
- an external assessment of the internal audit functions compliance with internal audit standards
- administrative functions compliance as appropriate.

BUSINESS CONTINUITY

ARPC's business continuity framework has continued to improve throughout 2012—13. Significant reworking of the framework has realised improved consistency across ARPC's plans for managing both interruptions of business critical functions as well as organisational response following to potential declared terrorist incident (DTI).

During 2012–13, ARPC performed comprehensive end to end testing of the DTI capabilities, realising positive confirmation of processes as well as areas for improvement. Many of these improvements will also flow into the business continuity plan.

ARPC has benefited from more robust IT disaster recovery facilities through significant investment by the Treasury.

FRAUD PREVENTION AND CONTROL

During the period of reporting, ARPC continued to refine its Fraud Control Plan, (the Plan), which incorporates ANAO's *Elements of Better Practice Fraud Control 2011*. The Plan is also consistent with the *Commonwealth Fraud Control Guidelines 2011*.

ARPC has adopted a risk-based approach to fraud control. The Plan clearly allocates responsibilities for fraud risk management and control between the Audit and Compliance Committee, the CEO, ARPC management and staff. The Plan also outlines policy, legislation and governance requirements; the four key fraud control strategies that are in place are: prevention, detection, response and monitoring and reporting.

In parallel with drafting the Fraud Control Plan, ARPC created a Whistleblower Protection Policy, subsequently amending its procedures for reporting fraud within the organisation. Staff were given the opportunity to provide feedback during the drafting process and subsequently provided copies of the new policy. Staff refresher training was provided during the reporting period.

CEDANT REVIEW PROGRAM

Background

ARPC's cedant review program was introduced in 2005 to assist clients to meet their obligations under the reinsurance agreement. This is achieved by assisting clients to ensure they have processes in place to:

- accurately identify eligible insurance contracts
- accurately calculate premiums
- ensure that the correct premium is remitted to ARPC
- submit accurate aggregate exposure information
- process claims in the event of a DTI.

Over time, ARPC has assisted most Australian based cedants to improve their processes. However, some still operate with old system technology, which limits improvements in certain areas, for example the elimination of back calculating of gross written premium. Due to cedant staff turnover, ARPC is often required to undertake refresher training of the reinsurance obligations. Conversely, a few cedants have been able to introduce new or updated technology in their systems, which has enhanced their process capabilities.

ARPC found all clients to be extremely receptive, helpful, cooperative and willing to improve areas where issues have been found. As well as ensuring that their obligations are met, the program continues to enhance 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:

- ARPC is in a position to advise clients on many issues to enable them to comply with the terms of the reinsurance agreement

- it contributes greatly to maintaining good relationships with clients
- it enables clients to provide feedback on various issues, which in turn, forms part of ARPC's input into the triennial review process.

Cedant visits

ARPC visits cedants on a regular basis. The following table details the number of cedant visits conducted over the past four years.

Table 3.4: Number of cedant reviews undertaken by ARPC

Type of review	2012-13	2011-12	2010-11	2009-10
Full reviews	12	14	20	15
Follow up reviews	12	13	9	6
Total	**24**	**27**	**29**	**21**

Trends

From cedant reviews we have observed that the most common trends and issues are:

- postcode tables not being updated
- back calculating of gross written premium
- terrorism exclusion clauses that are ambiguous or could have unintended consequences.

ARPC will continue its commitment to inform cedants of their reporting obligations through its cedant review program in an effort to reduce the incidence of these issues.

COMMUNICATION

ARPC is committed to open and timely communication. We actively engage with our stakeholders and staff to build and maintain good relationships.

During 2012–13, notable achievements in this area were the introduction of new and upgraded technology for ARPC websites, the continuation of stakeholder engagement through its online newsletter and the cedant review program.

ARPC launched a dedicated intranet site allowing greater business team collaboration. The site is interactive and encourages regular contribution from staff. Instant updates on news and activities in the workplace have now replaced ARPC's monthly internal newsletter.

In line with Government directives, ARPC's website was upgraded to Web Content Accessibility 2.0 level AA (WCAG.2.0 AA) compliance a year ahead of time. This standard identifies that ARPC's website is accessible and user friendly, especially for people living with a disability.

ARPC continued its cedant review program to maintain open communication with cedants. ARPC's online quarterly newsletter, Under the Cover, kept cedants and business partners informed of ARPC developments, submissions due and industry news.

To raise its profile with foreign insurers, ARPC continues to place targeted advertisements in overseas insurance magazines. ARPC has also supported articles for publication in selected magazines. Members from its senior management team and the Board are also involved in industry events, presentations and training. Most notable was the presentation to the OECD in December 2012.

FREEDOM OF INFORMATION

The *Freedom of Information Act 1982* (FOI Act) provides the public with a general right of access to documents held by Australian Government agencies including ARPC.

Although ARPC did not receive any direct requests for information under the FOI Act during the reporting period, in June 2013 Treasury sought ARPC's advice on material relating to ARPC's business that was the subject of an FOI request to Treasury.

Any person seeking access to ARPC documents under the FOI Act must lodge a formal request in writing, clearly identifying the document or class of document to which access is sought. Requests should be addressed to:

Manager Corporate Governance
Australian Reinsurance Pool Corporation
GPO Box 3024
Canberra ACT 2601

Email: enquiries@arpc.gov.au
Fax: +61 2 6279 2111

In compliance with a requirement under the FOI Act, ARPC must publish a range of information on its website. Under the Information Publication Scheme (IPS), the ARPC website publishes its organisational structure, functions, appointments, annual reports, consultation arrangements, any submissions to Parliament, routinely requested information and details of our freedom of information officer.

For further details of this information please visit ARPC's IPS webpage at: www.arpc.gov.au/ips.

Consultation arrangements

People and 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, cedants and other interested parties outside the Australian Government for discussions on various matters.

ECOLOGICALLY SUSTAINABLE DEVELOPMENT

To facilitate minimising its environmental footprint, ARPC implements strategies designed to minimise waste, conserve energy and minimise water usage. Both ARPC's premises in Canberra and Sydney have a 4.5 star energy rating.

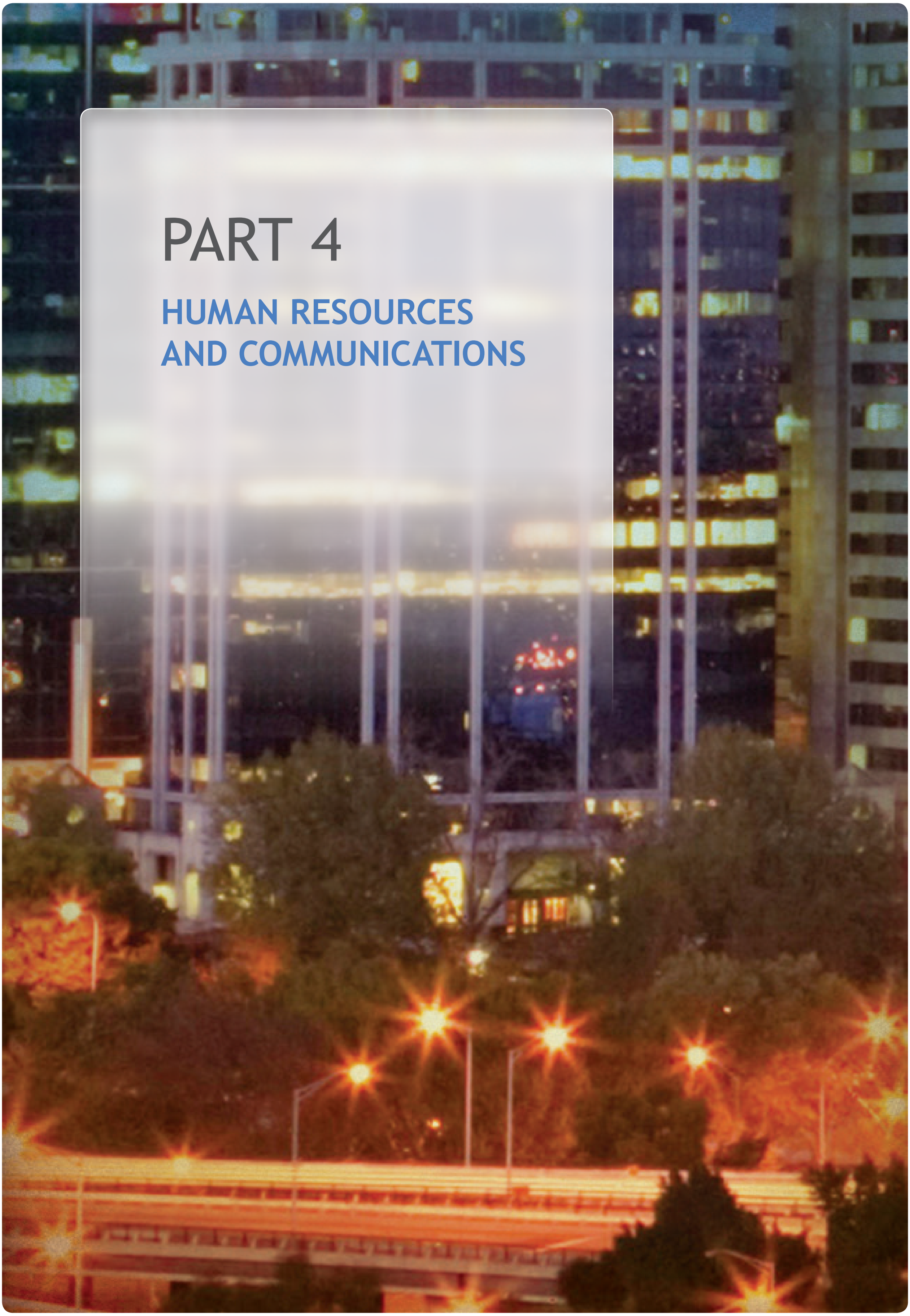
The following table demonstrates the steps taken by the building owners and by ARPC to assist in reducing our carbon footprint.

Table 3.5: Steps taken to minimise energy, waste and water consumption

Theme	Canberra office	Sydney office
Energy efficiency	Use of air-conditioning system which uses high efficiency pump and fan motors.	Lift generators have been replaced to decrease lift energy consumption.
	Use of high efficiency magnetic chillers. The chillers used to generate the building cooling are an innovative design with magnetic bearings rather than the conventional setup. This eliminates friction resulting in higher efficiency chillers.	Variable speed drive on pumps and fans to decrease heating ventilation air-conditioning (HVAC) energy consumption.
	The building has high performance double glazing.	Chiller plants have been upgraded.
	Use of sensor lighting in various offices.	Use of sensor lighting for after-hours activation.
	Use of low energy LED lighting.	Manual switch lighting during business hours.
	Shutting down computers outside of working hours.	Shutting down computers outside of working hours.
	Turning off non-essential lights and computers.	Turning off non-essential lights and computers.
	Purchasing and use of carbon neutral paper, which supports sustainable forest management in Australia and around the world.	Purchasing and use of carbon neutral paper, which supports sustainable forest management in Australia and around the world.
Waste	Utilising double sided printing to reduce the volume of paper used.	Utilising double sided printing to reduce the volume of paper used.
	Recycling of paper, cardboard, print cartridges, plastics, glass and fluorescence tubes.	Recycling of paper, cardboard, print cartridges, plastics, glass and fluorescence tubes.
Water	Use of grey water harvesting and re-use system.	The building has been accredited with a 4.0 water rating.
	Use of high efficiency hydraulic fixtures. Water conservation within the building has been optimised via the use of highly efficient taps, shower heads and toilets.	

PART 4

HUMAN RESOURCES AND COMMUNICATIONS



ORGANISATIONAL STRUCTURE

Sections 32 and 33 of the TI Act state that ARPC may employ such persons it considers necessary, including consultants, for the performance of its functions and the exercise of its powers. As at 30 June 2013, ARPC had twenty-seven staff including the Chief Executive Officer. Nineteen are full-time permanent staff, five are part-time permanent staff and three are non-ongoing staff. Twenty-three staff are located in ARPC's Canberra office and four staff are located in the Sydney office. The Canberra office manages the corporate governance, corporate services and human resources functions, and the Sydney office is responsible for claims, cedant reviews, client services and retrocession.

The organisational chart at 4.1 on page 66, illustrates functional responsibilities of ARPC.

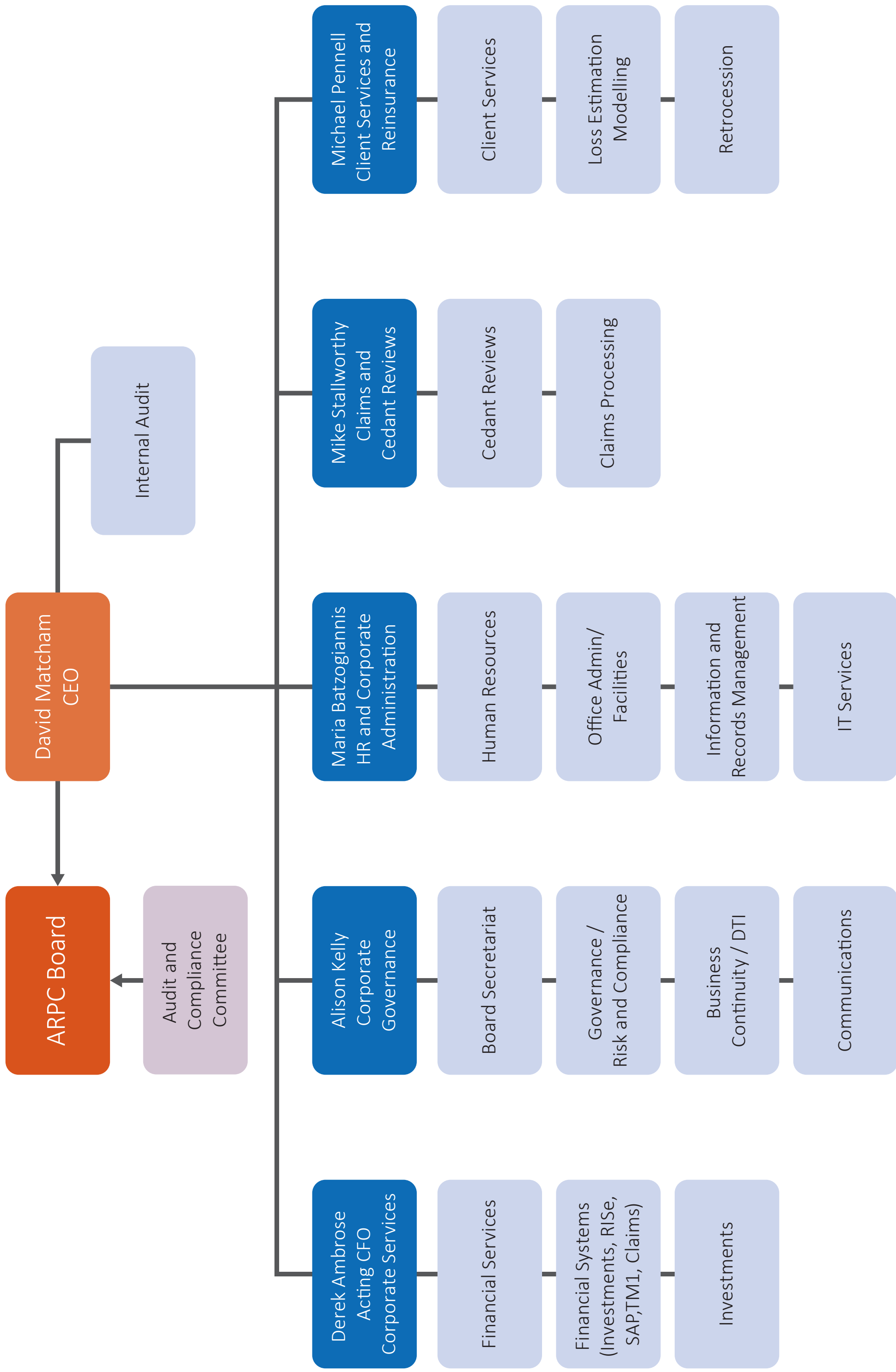
Staffing information

ARPC enjoys a blend of experienced staff across all levels, with a mixture of technical and specialised skills that work together collaboratively. A positive female gender representation has been maintained in ARPC's workforce overall during 2012-13, with ARPC's female workforce accounting for 63 per cent of staff. All part-time employees are female, with most full-time female employees returning after maternity leave to part-time roles in order to maintain a healthy work-life balance.

Photo 4.2 is of ARPC Canberra and Sydney staff, taken after the July staff meeting.

Photo 4.2: Staff photo

Chart 4.1: ARPC's organisational chart



Following are three tables that show classification, gender and length of service of staff, as at 30 June 2013.

Table 4.3: Number of permanent on-going employees by classification and gender

Classification	Male	Female	Total
ARPC level 3	-	3	3
ARPC level 4	-	1	1
ARPC level 5	-	5	5
ARPC level 6	1	2	3
ARPC EL 1	1	1	2
ARPC EL 2	3	1	4
Senior executive staff (SES)	4	2	6
Total	9	15	24

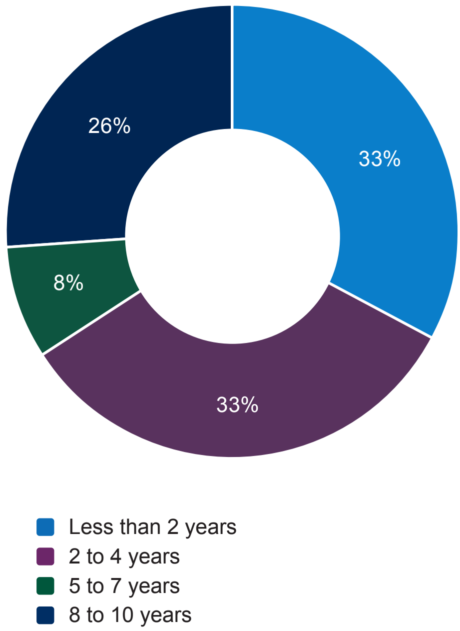
Table 4.4: Number of non-ongoing employees by classification and gender

Classification	Male	Female	Total
ARPC level 3	-	-	-
ARPC level 4	-	-	-
ARPC level 5	-	1	1
ARPC level 6	-	-	-
ARPC EL 1	-	-	-
ARPC EL 2	-	1	1
Senior executive staff (SES)	1	-	1
Total	1	2	3

Table 4.5: Length of service by team

Staff Group	< 2 years	2- 4 years	5- 7 years	8-10 years
Claims and cedant review	0	0	0	1
Client services and reinsurance	0	0	0	1
Human resources and corporate administration	1	3	0	2
Corporate services	5	2	0	3
Corporate governance	3	3	2	0
Executive	0	1	0	0
Total	9	9	2	7

Chart 4.6: Length of service



HUMAN RESOURCE MANAGEMENT

The Human Resources (HR) team provides a range of HR and administrative support to ARPC staff. The team is responsible for determining, implementing, monitoring, reviewing and evaluating HR strategies, plans and policies to meet business needs. The HR team are also responsible for:

- people management
- training and development
- recruitment and selection
- administration of the performance management system
- employment contracts and remuneration
- Work Health and Safety (WHS).

ARPC's payroll and high level WHS functions are managed by Treasury through a service level agreement.

During the year ARPC dealt with a number of human resource related matters and changes of senior personnel. As a result, further development of staff performance systems and an assessment of skills are currently being implemented by management and monitored by the Board.

Administration

The Administration team provides a range of services that enable successful completion of ARPC operations. The team is responsible for a varied range of tasks including:

- organising domestic and international travel
- ordering new office equipment and arranging repairs on existing equipment
- ordering IT equipment
- managing ARPC's reception, including mail services, stationary supplies and greeting of ARPC visitors
- managing physical and personal security of staff and visitors
- managing facilities.

Employment agreements

All ARPC staff are appointed under the TI Act. The employment terms and conditions for senior executive staff (SES) equivalent staff are governed by individual employment agreements, while the CEO is employed on a fixed term contract.

ARPC's Enterprise Agreement 2010—14, which provides the terms and conditions of employment for non-SES staff, was approved in early 2010 and subsequently varied in late 2011. This variation extended the term to 2014, while also providing for an annual salary increase of 2.5 per cent during the extended term.

ARPC's Enterprise Agreement will continue to operate throughout 2013, with negotiations for ARPC's new agreement due to commence in early 2014.

The following table provides the salary scales for all non-SES staff as at 30 June 2013.

Table 4.7: Salary scales for non-SES staff

Level	Salary band
ARPC level 1	$42,590–$46,252
ARPC level 2	$49,093–$52,343
ARPC level 3	$55,593–$58,841
ARPC level 4	$62,091–$65,341
ARPC level 5	$69,811–$74,280
ARPC level 6	$78,749–$95,406
Executive Level 1	$102,717–$117,830
Executive Level 2	$125,467–$143,994

Performance management system

ARPC's performance management system (PMS) governs the development and performance of employees through a collaborative approach between managers and staff.

During the reporting period, considerable effort has been put into reviewing and updating staff job descriptions and work plans to ensure relevance and currency, alignment with corporate goals, and guidance for staff in the achievement of business outcomes. Apart from the CEO, all employees participate in the PMS, which is reviewed annually to reflect any changes to:

- ARPC's Enterprise Agreement
- how senior executive staff are assessed
- new employees.

The PMS is a tool used to facilitate improvements in ARPC's capabilities. Managers and employees have joint responsibility to participate and contribute to setting performance and development goals and discussing when and how work is to be completed. These agreed goals along with expected outcomes are documented in individual employee performance appraisal records.

The PMS is designed to promote regular two-way, fair and objective, face-to-face performance feedback, in accordance with ARPC's Enterprise Agreement 2010—14. The PMS will also assist in managing cases where performance expectations are not being met. The PMS provides a fair and equitable way to recognise and reward staff for their performance and achievements over the preceding 12 months, through incremental salary advancement. Staff are rated on a scale of one (exceeds standard) to five (not meeting standard) and are required to receive a rating of one or two to be eligible for a salary increment. ARPC also allows for performance bonuses to be paid of up to 10 per cent of a staff member's salary, in acknowledgment of outstanding performance or contribution to ARPC.

Learning and development

ARPC recognises the value of investing in its staff to ensure they are all equipped to perform well in their roles.

ARPC supports and is committed to providing suitable training and other learning and development opportunities for all staff. It encourages staff to participate in a broad range of relevant technical skills training, management courses and leadership development. Identification of training and development opportunities also form part of the annual Performance Management Review.

ARPC supports staff attendance at relevant industry conferences, seminars and external courses. During the year staff attended a wide range of development programs including:

- CAT risk management and modelling Australasia
- TM1 end user training
- advanced Microsoft Excel training course
- writing for the web
- mental health first aid course
- Financial Services Accountants Association national conference
- CPA congress
- Australasian Business Continuity summit
- Comcare national conference
- Chartered Secretaries Australia annual conference
- Reinsurance in Practice seminar.

ARPC staff have access to training and development programs offered by Treasury and actively participate in those programs.

Study assistance

Study assistance is an integral part of ARPC's HR strategy and is available to ongoing staff, who have successfully completed probation. ARPC provides leave and financial assistance to staff undertaking part-time courses of study that will enhance their contribution to ARPC and that are relevant to the ARPC's operational requirements.

ARPC has made a significant investment in supporting staff undertaking tertiary study. At 30 June 2013 employees were undertaking study in:

- Certificate IV in Human Resources
- Bachelor of Business Informatics
- Certificate IV in Accounting and Finance
- Certificate IV in Compliance Management
- Treasury Certificate in Business Services.

Employment survey

ARPC places importance on understanding staff so that it can build and maintain job satisfaction in the workplace. In order to improve, ARPC is committed to a constant process of internal review and analysis.

The employment survey increases understanding of what motivates staff, their views and opinions on ARPC's work environment and what is important to them to maintain commitment to their role.

The results of the employment surveys enable ARPC to receive feedback on strategies, working conditions and the working environment against base line data. This ensures that appropriate strategies and plans are implemented to address and improve on identified issues or concerns. The employment survey measures areas that influence staff commitment and satisfaction including:

- leadership and management
- workplace culture and communications
- staff value and recognition
- training and development opportunities
- pay and benefits
- job satisfaction
- career prospects.

Participation in the survey is voluntary, and will continue to be conducted on a regular basis. There was a 64 per cent participation rate of ARPC employees for the 2012—13 employment survey.

WORK HEALTH AND SAFETY

The ARPC is committed to ensuring the health, safety and wellbeing of all its workers including staff, contractors and visitors.

A Health and Safety Committee has been established by Treasury to address matters such as WHS issues and policies, staff wellbeing, health and safety performance reporting, accommodation issues and accident and incident reports.

The committee consists of representatives from each Treasury workplace group and Treasury agencies covered by service level agreements. It also includes members of the Treasury Workplace Committee and key corporate services staff. ARPC has a Health and Safety Representative (HSR) on the committee, as part of our Service Level Agreement with Treasury. ARPC's HSR's are provided with formal training to provide an understanding of their roles and responsibilities in relation to WHS matters.

The *Work Health and Safety Act 2011* (WHS Act) became effective on January 2012 replacing the *Occupation Health & Safety Act 1991*, in a move to harmonise health and safety laws across Australia.

ARPC's Health and Safety Management Arrangements (HSMA), used in conjunction with the WHS Act, regulations and approved codes of practice, are integrated into the daily management of the offices. Although the WHS Act no longer requires HSMA's to be in place, ARPC will continue to maintain and update its HSMA. The HSMA was developed in consultation with staff and provides a framework and support network designed to foster a healthy and safe workplace. The HSMA reinforces the responsibilities that ARPC has in actively promoting these strategies for the wellbeing of all staff, contractors and visitors to our workplaces.

To actively promote a healthy workforce, ARPC undertook the following activities:

- developed and reviewed internal policies and procedures to address any new or emerging hazards
- offered influenza vaccinations to all employees
- arranged workstation assessments for all new staff and for existing staff
- carried out testing and tagging of all electrical equipment
- promoted the use of the employee assistance program
- provided opportunities for all staff to attend a mental health and wellbeing training course (through Comcare)
- provided opportunities for staff to attend training sessions on dealing with bullying and harassment within the workplace.

ARPC has an obligation under the WHS Act to provide a first aid service to staff. The Canberra office has one senior and two qualified first aid officers, while the Sydney office has one qualified first aid officer. All first aid officers will retain their qualifications by undertaking refresher courses each year.

Incidents

When incidents occur, ARPC is committed to supporting staff and providing appropriate assistance to help them return to work in a safe and supportive environment. This is undertaken in accordance with Treasury's rehabilitation policy and guidelines.

No serious personal injuries, prescribed incapacities or dangerous occurrences were reported during 2012–13 that resulted in a compensation claim.

WELLBEING

ARPC is committed to the wellbeing of its staff through initiatives such as the employee assistance program, lifestyle payment, quit smoking program and ensuring staff inclusion.

Employee assistance program

ARPC provides an employee assistance program that provides counselling and support to staff and immediate family members. The program delivered effective support during the year and was accessed by a small number of staff.

Lifestyle payment

To support staff in making healthy lifestyle choices, ARPC's wellbeing program includes a lifestyle payment. ARPC's Enterprise Agreement provides for an annual payment toward positive lifestyle expenses. This payment has been used to participate in health and wellbeing activities including, but not limited to, gymnasium and swimming pool fees, dietary memberships and sporting equipment. This program has 100 per cent participation from eligible staff.

Quit smoking program

ARPC offers a one off payment of reimbursement to ongoing employees undertaking a quit smoking program. One employee accessed the program during 2012—13.

Staff inclusion

ARPC maintains an open, consultative and collaborative process with its staff through regular all-staff meetings. These meetings are opportunities for staff to come together, share information and build their understanding of ARPC's business, external factors that affect ARPC's work and the operational matters that directly influence their duties.

The meetings are also used as a forum to discuss a range of ideas or issues that are interesting and relevant to staff members, such as , problem solving, professional development and celebration.

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 fosters an environment that attracts, develops, values and retains people from varying cultural backgrounds as well as those of different ages, genders, skills and experiences. By implementing the workplace diversity program, ARPC seeks to:

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

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

TEAM BUILDING

Lunch and Learn

ARPC's lunch and learn sessions are an enjoyable and informal way to encourage learning and inspire staff to discuss and create awareness on various organisational issues, provide training and development programs and improve staff communication. The sessions are held bimonthly in Canberra and bring Sydney and Canberra staff together.

In addition to externally facilitated training, ARPC also utilises the skills, knowledge and expertise of its staff by providing them with the opportunity to deliver the training sessions. Sessions held in 2012—13 included:

- fraud risk management
- Treasury travel guidelines
- building resilience
- understanding workplace bullying
- health and wellbeing in the workplace.

Fundraising

ARPC staff have participated in many charity fundraisers during the year. Donations have been made to support many charities including:

- Fred Hollows walk
- RSPCA cupcake day
- Dragons Abreast Australia
- Canberra Yellow Van Food Rescue.

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 code of conduct to which staff are required to adhere. ARPC's values and code of conduct are reinforced at each staff planning day and fraud awareness sessions. Please see guiding principles on page xvii.

RECORDS MANAGEMENT

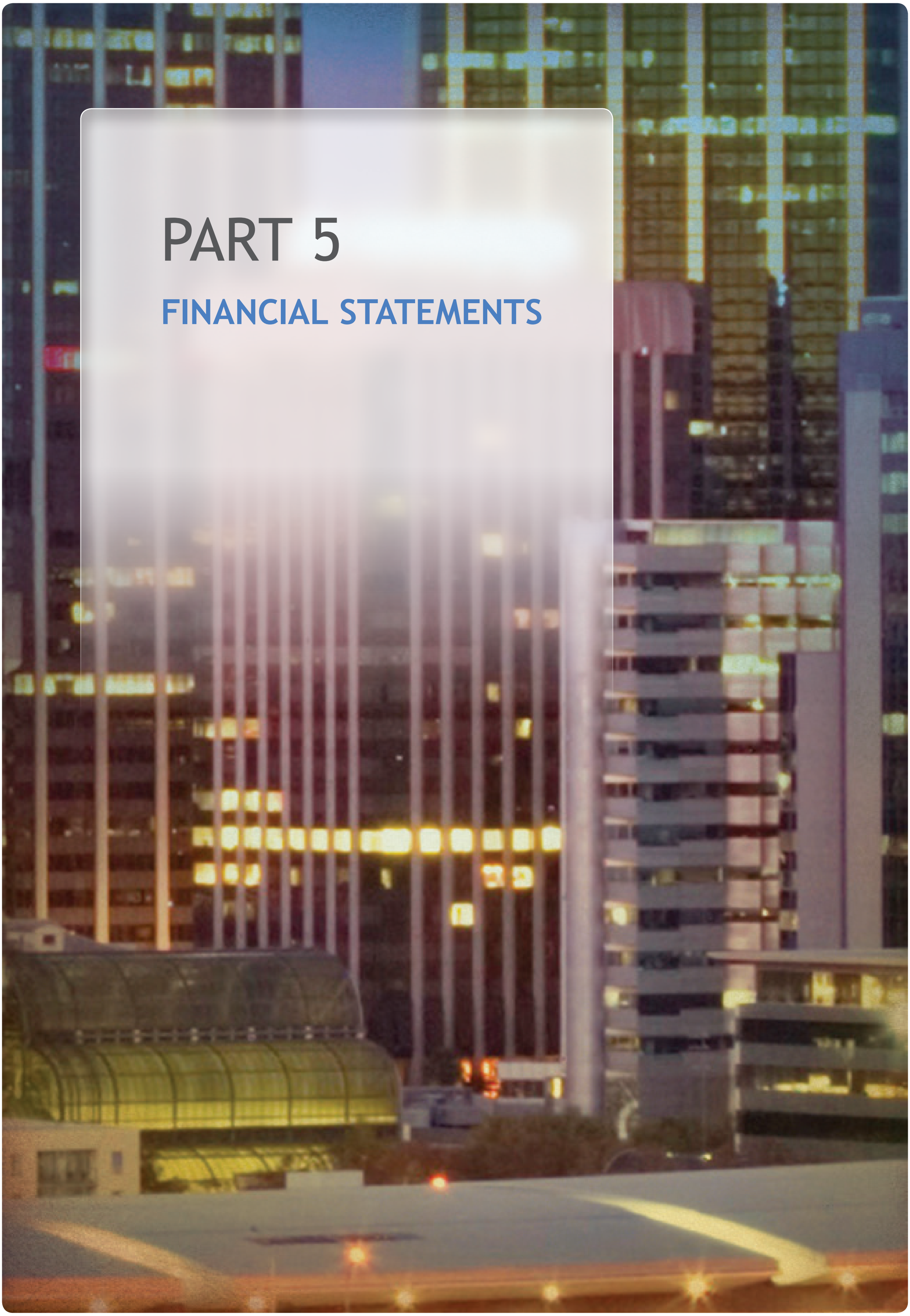
In July 2011 ARPC took steps to move to electronic record-keeping, in line with new Government policy and for efficiency purposes. In September 2011, ARPC completed its first mandatory information and record keeping assessment, using the Check-up 2.0 online tool, with follow on assessments throughout 2012 and 2013. Over the next twelve months, ARPC will implement a compliant electronic document and records management system (EDRMS) with supporting policy, procedures and an information processes framework.

ARPC INSIGHT

Each year ARPC actively supports its employees to take part in variety of fundraising events. In October 2012 employees took part in the Dragons Abreast Festival. The aim of the festival is to support breast cancer survivors, raising awareness of breast cancer, and to have fun participating in the race.

Seven ARPC employees took part, along with 13 friends and family, forming one of 42 corporate teams, with participants from private and public organisations and schools. Paddlers were dressed as pirates to race, and prizes were awarded for best team campsite, best war cry and best dressed crew. Awards were also given to the fastest medical team, the fastest women's team and to the team most aligned to the spirit of Dragons Abreast.

The ACT Dragons Abreast Festival raised an amazing $41,538 for local and national groups supporting women on their breast cancer journey. Everyone who participated in the event enjoyed the day, particularly knowing that they were raising funds for a very worthy cause.



PART 5

FINANCIAL STATEMENTS

CONTENTS

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

Report on the Financial Statements

I have audited the accompanying financial statements of Australian Reinsurance Pool Corporation for the year ended 30 June 2013, which comprise: a Statement by the Members, Chief Executive and Chief Financial Officer; the Statement of Comprehensive Income; Balance Sheet; Statement of Changes in Equity; Cash Flow Statement; Schedule of Commitments; and Notes comprising a Summary of Significant Accounting Policies and other explanatory information.

Members Responsibility for the Financial Statements

The members' of the Australian Reinsurance Pool Corporation are responsible for the preparation of the financial statements that give a true and fair view in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, including the Australian Accounting Standards, and for such internal control as is necessary to enable the preparation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

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 about 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 of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Australian Reinsurance Pool Corporation's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the members, as well as evaluating the overall presentation of the financial statements.

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT 2600
Phone (02) 6203 7300 Fax (02) 6203 7777

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

Independence

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

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 2013 and of its financial performance and cash flows for the year then ended.

Australian National Audit Office

Michael J Watson

Michael J Watson

Group Executive Director

Delegate of the Auditor-General

Canberra

17 September 2013

STATEMENT BY MEMBERS, CHIEF EXECUTIVE AND CHIEF FINANCIAL OFFICER

In our opinion, the attached financial statements for the year ended 30 June 2013 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 Fitzpatrick	D Matcham	D Ambrose
Chair	Chief Executive Officer	Acting Chief Financial Officer
17 September 2013	17 September 2013	17 September 2013

Statement of comprehensive income

for the year ended 30 June 2013

	Notes	2013 $'000	2012 $'000
Premium revenue		**127,281**	119,130
Outwards retrocession premium expense		**(81,381)**	(81,607)
Net premium revenue	5(a)	**45,900**	37,523
Claims expense		**-**	-
Retrocession and other recoveries revenue		**-**	-
Net claims incurred		**-**	-
Acquisition costs	6(b)	**(1,167)**	(1,124)
Underwriting result		**44,733**	36,399
Retrocession commission revenue	5(b)	**7,471**	7,705
Investment income	5(c)	**35,912**	40,886
Other income	5(d)	**(4,193)**	5,484
Other operating expenses	6(b)	**(6,680)**	(6,969)
Finance charges	6(a)	**(4,793)**	(17)
Operating result		**72,450**	83,488

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

Balance sheet

as at 30 June 2013

		Notes	2013 $'000	2012 $'000
Assets				
	Current assets			
	Cash and cash equivalents	7	**4,953**	8,299
	Receivables	8	**45,874**	43,218
	Investments	9	**666,230**	757,363
	Deferred insurance assets	10(a)	**42,752**	40,418
	Other non-financial assets	11	**56**	34
	Total current assets		**759,865**	849,332
	Non-current assets			
	Property plant and equipment	12	**739**	916
	Intangibles	12	**1,695**	1,755
	Total non-current assets		**2,434**	2,671
Total assets			**762,299**	852,003
Liabilities				
	Current liabilities			
	Unearned liability	13(a)	**66,263**	61,502
	Payables	14(a)	**43,495**	40,303
	Dividend payable	14(b)	**75,000**	175,000
	Other interest bearing liabilities	15	**54**	25
	Employee provisions	16(a)	**220**	244
	Total current liabilities		**185,032**	277,074
	Non-current liabilities			
	Dividend payable	14(b)	**143,990**	214,202
	Other interest bearing liabilities	15	**247**	301
	Employee provisions	16(a)	**337**	234
	Other provisions	16(b)	**51**	-
	Total non-current liabilities		**144,625**	214,737
Total liabilities			**329,657**	491,811
Net assets			**432,642**	360,192
Equity				
	Accumulated reserves		**-**	-
	Asset revaluation reserve		**60**	60
	Claims handling reserve		**24,330**	21,732
	Reserve for claims		**408,252**	338,400
Total equity			**432,642**	360,192

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

Statement of changes in equity

as at 30 June 2013

	Notes	Accumulated reserves		Asset revaluation reserve		Claims handling reserve		Reserve for claims		Total equity	
		2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
		$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Opening balance at 1 July		**-**	-	**60**	-	**21,732**	-	**338,400**	665,846	**360,192**	665,846
Income and expenses											
Net operating result		**72,450**	83,488	**-**	-	**-**	-	**-**	-	**72,450**	83,488
Total income and expenses		**72,450**	83,488	**-**	-	**-**	-	**-**	-	**72,450**	83,488
Asset revaluation reserve		**-**	-	**-**	60	**-**	-	**-**	-	**-**	60
Transfers between equity components											
Transfer to reserve for claims	1(j)	**(72,450)**	(83,488)	**-**	-	**-**	-	**-**	-	**(72,450)**	(83,488)
Claims handling reserve		**-**	-	**-**	-	**2,598**	21,732	**-**	-	**2,598**	21,732
Transfer to reserve for claims from accumulated reserves		**-**	-	**-**	-	**-**	-	**69,852**	61,756	**69,852**	61,756
Transactions with owners											
Distributions to owners		**-**	-	**-**	-	**-**	-	**-**	(389,202)	**-**	(389,202)
Closing balance at 30 June		-	-	**60**	60	**24,330**	21,732	**408,252**	338,400	**432,642**	360,192

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

Cash flow statement

for the year ended 30 June 2013

	Notes	2013 $'000	2012 $'000
Operating activities			
Cash received			
Premiums		**138,129**	133,881
Commission		**8,229**	8,462
Interest		**34,360**	43,789
Total cash received		**180,718**	186,132
Cash used			
Retrocession payments		**84,497**	84,378
Creditors and employees		**8,157**	7,837
Net goods and services tax paid to ATO		**7,437**	8,457
Total cash used		**100,091**	100,672
Net cash from or (used by) operating activities	17	**80,627**	85,460
Investing activities			
Cash received			
Proceeds from sale of investments (bonds)		**519,645**	188,804
Proceeds from maturities of term deposits		**1,076,500**	1,631,000
Total cash received		**1,596,145**	1,819,804
Cash used			
Purchase of property, plant and equipment		**67**	91
Purchase of intangibles		**40**	15
Purchase of investments (bonds)		**507,011**	412,019
Placement of term deposits		**998,000**	1,499,500
Total cash used		**1,505,118**	1,911,625
Net cash from or (used by) investing activities		**91,027**	(91,821)
Financing activities			
Cash used			
Distributions to owners		**175,000**	-
Total cash used		**175,000**	-
Net cash from or (used by) financing activities		**(175,000)**	-
Net increase or (decrease) in cash held		**(3,346)**	(6,361)
Cash and cash equivalents at the beginning of the reporting period		**8,299**	14,660
Cash and cash equivalents at the end of the reporting period	7	**4,953**	8,299

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

Schedule of commitments

as at 30 June 2013

	2013	2012
	$'000	$'000
By type		
Other commitments		
Service level agreements*	**1,585**	2,640
Software license agreement**	**-**	31
Software development agreement***	**408**	66
Operating leases****	**2,796**	3,459
Total other commitments	**4,789**	6,196
Commitments receivable	**(435)**	(563)
Net commitments by type	**4,354**	5,633
By maturity		
Service level agreements commitments		
One year or less	**920**	1,055
From one to five years	**665**	1,585
Total service level agreements commitments	**1,585**	2,640
Software licence agreement commitments		
One year or less	**-**	31
From one to five years	**-**	-
Total software licence agreement commitments	**-**	31
Software support and development agreement commitments		
One year or less	**268**	33
From one to five years	**140**	33
Total software support and development agreement commitments	**408**	66
Operating lease commitments		
One year or less	**799**	747
From one to five years	**1,997**	2,712
More than five years	**-**	-
Total operating lease commitments	**2,796**	3,459
Commitments receivable		
One year or less	**(180)**	(170)
From one to five years	**(255)**	(393)
More than five years	**-**	-
Total commitments receivable	**(435)**	(563)
Net commitments by maturity	**4,354**	5,633

The above schedule should be read in conjunction with the accompanying notes.
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	Description of leasing agreement
Lease for office accommodation	Upon exercising the 3 year lease option the rent will be reviewed in accordance with prevailing market conditions.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

Note 1: Summary of significant accounting policies

1.1 OBJECTIVES OF ARPC

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).

ARPC operates on a not for profit basis. The financial statements have been prepared for ARPC as an individual entity and are for the reporting period 1 July 2012 to 30 June 2013.

The TI Act operates by overriding terrorism exclusion clauses in eligible insurance contracts to the extent the losses excluded are eligible terrorism losses arising from a declared terrorist incident.

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

1.2 CHANGES IN ACCOUNTING POLICY

There have been no changes in accounting policies in the year ended 30 June 2013.

1.3 SIGNIFICANT 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(b) 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.

The acquisition cost estimate is required to enable ARPC to determine the underwriting result. Costs that are incurred in obtaining and recording policies of insurance include legal, advertising, risk assessment, and other administrative costs. The estimate is based on actual costs incurred attributable to those activities.

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.

1.4 NEW AUSTRALIAN ACCOUNTING STANDARDS

Adoption of new Australian Accounting Standards Requirements

No accounting standard had been adopted earlier than the application date as stated in the standard. New and revised standards that were issued prior to the signing date, and are applicable to the current reporting period did not have a financial impact, and are not expected to have future financial impact on ARPC.

Future Australian Accounting Standard requirements

A number of revised or new Australian Accounting Standards have been issued that are effective for future reporting periods. With the exception of AASB 13 *Fair Value* (effective for the 2013-14 financial year) and AASB 9 *Financial Instruments* (effective for the 2015-16 financial year), the revisions are not expected to materially affect the accounting treatment of ARPC's assets, liabilities, revenue or expenses.

AASB 13 Fair Value

The key features of the new standard in determining fair value include but not limited to, use of principal (most advantageous) market and highest and best use for non-financial assets.

For non-financial assets (plant and equipment) the presumption is that the current use is its highest and best use, unless evidence exists to overcome this. This is unlikely to impact on ARPC.

For financial assets fair value is defined to be the exit price. This will result in a shift in the valuation of the Government Bonds in the investment portfolio. The financial impact is currently under review with the impact not likely to be material. It is estimated to be between $0.15 million and $0.20 million decrease in the investment balance.

From a preliminary examination, ARPC has assessed that some of the investment portfolio will be priced at exit price instead of mid-price under the new standard. AASB 13 has retrospective application, and accordingly on the first day of the reporting period that AASB 13 becomes operational (1 July 2013 for the 2013-14 financial year) ARPC would need to re-state its financial asset values as at 30 June 2012 and 30 June 2013 and disclose the financial impact of the change in accounting treatment and make other transition disclosures required by AASB 13.

AASB 9 Financial Instruments

The AASB has been progressively replacing the current standard for the measurement and recognition of financial instruments (AASB 139 *Financial Instruments: Recognition and Measurement)* with a new standard AASB 9 *Financial Instruments*.

Financial assets

ARPC classifies its financial assets into the following categories: financial assets at fair value through profit or loss; and creditors as other financial instruments. ARPC determines which classification applies to each class of financial assets on the basis of how it manages the assets and assesses the performance of the financial assets.

All of ARPC's financial assets are designated at fair value through profit or loss.

AASB 9 establishes new rules for determining the accounting treatment for financial assets. It requires that a financial asset is to be carried at fair value through profit or loss, except where the business objective of the entity is to hold the instrument to collect its contractual cash flows (rather than trading to earn capital profits) and those contractual cash flows are in the nature of principal and interest on the principal outstanding, and in which case the financial asset is to be carried at amortised cost. Where an entity's objective for holding a financial asset changes, so should the accounting treatment. The sale of a financial asset for portfolio management, credit or liquidity reasons would not represent a change of purpose from one of collection of contractual cash flows to one of trading to earn capital profits.

From a preliminary examination, ARPC has assessed that all of its financial assets will remain at fair value through the profit and loss. In the event the investment strategy changed and the principal objective was to hold the instruments to collect its contractual cash flows, AASB 9 changes would apply. Accordingly, on the first day of the reporting period that AASB 9 becomes operational (1 July 2015 for the 2015-16 financial year) ARPC would need to re-state its financial asset values as at 30 June 2014 and 30 June 2015 and disclose the financial impact of the change in accounting treatment and make other transitional disclosures required by AASB 9.

Financial liabilities

ARPC's financial liabilities are classified as other financial liabilities (which requires measurement at amortised cost). ARPC determines which classification applies to each class of financial liability on the basis of how it manages and assesses the performance of the financial liability.

ARPC's financial liabilities will not be impacted by the changes proposed in AASB 9.

1.5 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The following accounting policies have been adopted in 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 2012; 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 in Division 17.12 of the FMOs, 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(v)).

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.

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.

(a) Going concern

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

(b) 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 2013 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 one eighth method, 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.

Effective interest rate method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

(c) 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.

(d) 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 (2012: $0). Accordingly, there has been no write down in ARPC's deferred acquisition costs.

(e) Outstanding claims liability

The financial statements have not included a provision for outstanding claims (2012: $0)

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

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

In the event of a declared terrorist incident, an actuary will be engaged to independently assess the outstanding claims liability at balance date.

(f) Net claims incurred

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

(g) 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 and cash equivalents

Cash and cash equivalents includes notes and coins held and any deposits in bank accounts with an original maturity of 3 months or less and subject to insignificant risk of changes in value. Cash is recognised at the nominal amount.

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 mid-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.

The presentation of the maturity profiles of Government (guaranteed) securities represents the contractual maturities of these securities. These securities have been classified as current on the Balance sheet due to the intention to realise within twelve months.

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.

(h) 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.

(i) Transactions with Government as owners

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.-

A direction was given by the Minister, 21 June 2012, to commence dividend payments from 2013. This direction was for a payment of $175 million to be made during 2013 with further payments of $75 million for each consecutive year from 2014 to 2016 inclusive.

Further to this, a second direction, on 22 July 2013, has been received. This direction is for an additional $75 million dividend to be paid in March 2014. The direction is an event after Balance sheet date and therefore, has not been reflected in the financial statements.

(j) 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.

(k) Employee benefits

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

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

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

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

Leave

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

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

The liability for long service leave has been determined by reference to the work of an actuary as at 30 June 2011. Actuarial reviews of long service leave are undertaken on a three yearly basis. 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 default superannuation scheme is the Australian Government Employees Superannuation Trust.

The liability for superannuation recognised as at balance date represents the outstanding payable as at 30 June 2013.

(l) 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 noncurrent 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.

Operating lease payments are expensed on a straight line basis that is representative of the pattern of benefits derived from the leased assets.

(m) Finance charges

All finance charges are expensed as incurred.

(n) 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 (2012: $0).

(o) Financial Liabilities

Financial liabilities are classified as 'other financial liabilities' for the purposes of AASB139 Financial Instruments: Recognition and Measurement.

Financial liabilities are recognised and derecognised at transaction date. They represent trade creditors and accruals and are recognised at the amounts at which they are expected to be settled. Financial liabilities are recognised to the extent that the goods or services have been received.

All payables are unsecured and are paid within credit terms.

(p) 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 (2012: $0).

(q) 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, in accordance with the Finance Minister's Orders.

(r) 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 'make good' recognised.

Revaluations

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

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

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

ARPC engaged an independent valuer, Preston Rowe Patterson NSW Pty Limited, to conduct a valuation to determine the fair value of the property, plant and equipment as at 1 July 2011.

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

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the revalued amount, with the exception of leasehold improvements, which are revalued 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 straightline method of depreciation. Leasehold improvements are depreciated on a straightline 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:

	2013	2012
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 2013. 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 (2012: $0).

(s) 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 straightline basis over its anticipated useful life. The useful life of ARPC's externally purchased and internally developed software is four years (2012: 4 years).

All software assets were assessed for indications of impairment as at 30 June 2013. There has been no impairment writeoff recognised in these financial statements (2012: $0).

(t) 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)
- for receivables and payables.

(u) Insurance

ARPC has insured risks through Marsh Pty Ltd. The insurance coverage includes Directors and Officers Liability, Group Journey Injury Insurance, Corporate Travel Insurance, and Business Package Insurance. Workers compensation is insured through Comcare Australia.

(v) 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.

(w) Comparatives

Certain amounts in the financial statements have been reclassified to conform with the current year's presentation.

Note 2: Events after the Balance sheet date

There have been several events after Balance sheet date. A direction from the Minister, dated 22 July 2013 to pay $75 million in dividend effective March 2014. The resignation of Board member, Mr J Murphy, effective 11 July 2013 and the resignation of the Chief Executive Officer, Mr D Matcham effective 4 October 2013. Ms M Micalizzi resigned as Chair of the Audit and Compliance Committee, effective 31 July 2013. Ms J Bowe was appointed as Chair of the Audit and Compliance Committee, effective 21 August 2013.

Note 3: Risk management

ARPC's approach to managing risk is consistent with the Australian/New Zealand Standard for Risk Management (AS/NZS ISO 31000:2009). 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 nonfinancial, which ARPC has identified it might face.

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

The broad risk categories discussed below are:

- insurance risk
- operational risk
- capital risk
- financial risks 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 utilises a standard reinsurance agreement for underwriting and accepting insurance risks
- ARPC undertakes a cedant review program to verify the premium levels
- 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:

- access to a Commonwealth guarantee for the due payment of money that may become payable by the Corporation to any person other than the Commonwealth. If a DTI occurs the Treasurer must specify a pro rata (percentage) reduction in claims to be paid out by insurers, if, in the absence of such a reduction percentage, the total amounts payable by the Commonwealth might exceed $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
- 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
- during 2012 ARPC established a claims handling reserve. The purpose of this reserve is to ensure there are sufficient monies set aside to allow ARPC to continue to operate in order to finalise any claims and reinsurance recoveries following cessation of the scheme or

a significant DTI. The claims handling reserve as at 30 June 2013 is $24.33 million (2012: $21.73 million).

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
- 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 nonAPRA 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-**
	2013	**2013**	**2013**	**2013**
	$'000	**$'000**	**$'000**	**$'000**
ARPC				
Total exposure	**-**	**40,000**	**18,900**	**948,350**
	A+	**A**	**A-**	**Total**
	2013	**2013**	**2013**	**2013**
	$'000	**$'000**	**$'000**	**$'000**
ARPC				
Total exposure	**1,058,150**	**460,930**	**443,090**	**2,969,420**

	Retrocession program counter party credit rating			
	AAA	AA+	AA	AA-
	2012	2012	2012	2012
	$'000	$'000	$'000	$'000
ARPC				
Total exposure	-	70,063	10,275	892,625
	A+	A	A-	Total
	2012	2012	2012	2012
	$'000	$'000	$'000	$'000
ARPC				
Total exposure	972,208	252,382	556,626	2,754,179

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 enterprisewide 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
- 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 reserve for claims in cash and investments of $671 million
- in the event of a DTI ARPC would be required to pay $375 million before claiming on its retrocession program
- ARPC has access to a $2.969 billion retrocession program, which is extended to $3.225 billion using co-reinsurance, in excess of $375 million
- ARPC has access to a Commonwealth guarantee for the due payment of money that may become payable by the Corporation to any person other than the Commonwealth. If a DTI occurs the Treasurer must specify a pro rata (percentage) reduction in claims to be paid out by insurers, if, in the absence of such a reduction percentage, the total amounts payable by the Commonwealth might exceed $10 billion.

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)
- 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 has been no foreign currency transactions recognised in the financial statements (2012: $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;

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

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

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

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

		Floating interest rate	**Fixed interest rate maturing in**			**Total**
		1 year or less	**1 year or less**	**1-5 years**	**> 5 years**	
		2013	**2013**	**2013**	**2013**	**2013**
	Notes	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Interest bearing financial assets						
Cash and cash equivalents	7	**4,953**	**-**	**-**	**-**	**4,953**
Fixed term deposits	9	**-**	**442,500**	**-**	**-**	**442,500**
Government securities	9	**-**	**-**	**193,161**	**30,569**	**223,730**
Total		**4,953**	**442,500**	**193,161**	**30,569**	**671,183**
Weighted average interest rate		**2.71%**	**4.08%**	**5.43%**	**5.88%**	**4.54%**

		Floating interest rate	Fixed interest rate maturing in			Total
		1 year or less	1 year or less	1-5 years	> 5 years	
		2012	2012	2012	2012	2012
	Notes	$'000	$'000	$'000	$'000	$'000
Interest bearing financial assets						
Cash and cash equivalents	7	8,299	-	-	-	8,299
Fixed term deposits	9	-	521,000	-	-	521,000
Government securities	9	-	5,156	112,657	118,550	236,363
Total		8,299	526,156	112,657	118,550	765,662
Weighted average interest rate		3.47%	5.54%	5.80%	5.97%	5.64%

The table below details the interest rate sensitivity analysis of ARPC at the reporting date, holding all other variables constant.

	Movement in variable	Movement in variable	Financial impact			
			Profit / (Loss)		Equity	
	2013	2012	**2013**	2012	**2013**	2012
	%	%	**$'000**	$'000	**$'000**	$'000
Interest rate movement						
- interest bearing	**+1.20**	+1.40	**8,054**	10,719	**8,054**	10,719
Financial assets	**-1.20**	-1.40	**(8,054)**	(10,719)	**(8,054)**	(10,719)

The method used to arrive at the possible change of 120 basis points was based on both statistical and nonstatistical 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 120 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.

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 Department of Finance and Deregulation deemed a 120 basis point change to be reasonably possible and this was adopted by ARPC when reporting interest rate risk.

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
- an approved investment policy document; compliance with the policy is monitored and reported monthly.

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

	Notes	AAA 2013 $'000	AA+ 2013 $'000	AA 2013 $'000	AA- 2013 $'000	A+ 2013 $'000	Unrated 2013 $'000	Total 2013 $'000
		Credit Rating						
ARPC								
Cash and cash equivalents	7	**868**	**-**	**-**	**4,085**	**-**	**-**	**4,953**
Fixed term deposits	9	**-**	**-**	**-**	**386,500**	**56,000**	**-**	**442,500**
Government securities	9	**173,065**	**43,071**	**7,594**	**-**	**-**	**-**	**223,730**
Receivables	8	**-**	**-**	**-**	**-**	**-**	**45,874**	**45,874**
Total		**173,933**	**43,071**	**7,594**	**390,585**	**56,000**	**45,874**	**717,057**

	Notes	AAA 2012 $'000	AA+ 2012 $'000	AA 2012 $'000	AA- 2012 $'000	A+ 2012 $'000	Unrated 2012 $'000	Total 2012 $'000
		Credit Rating						
ARPC								
Cash and cash equivalents	7	1,056	-	-	7,243	-	-	8,299
Fixed term deposits	9	-	-	-	458,500	62,500	-	521,000
Government securities	9	151,826	84,537	-	-	-	-	236,363
Receivables	8	-	-	-	-	-	43,155	43,155
Total		152,882	84,537	-	465,743	62,500	43,155	808,817

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.

	Notes	Neither past due nor impaired		Past due but not impaired 0 to 3 months		Total	
		2013	2012	**2013**	2012	**2013**	2012
		$'000	$'000	**$'000**	$'000	**$'000**	$'000
Financial assets							
Premium receivables	8	**32,654**	27,524	**377**	31	**33,031**	27,555
Commission receivables	8	**3,710**	3,771	**-**	-	**3,710**	3,771
Interest receivable	8	**9,133**	11,774	**-**	-	**9,133**	11,774
Other receivables	8	**-**	55	**-**	-	**-**	55
Total		**45,498**	43,124	**377**	31	**45,874**	43,155

Liquidity risk

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

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

		1 year or less		from 1 - 5 years		Total	
		2013	2012	**2013**	2012	**2013**	2012
	Notes	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Financial liabilities							
Payables	14(a)	**43,495**	40,303	-	-	**43,495**	40,303
Dividend payable	14(b)	**75,000**	175,000	**143,990**	214,202	**218,990**	389,202
Other interest bearing liabilities	15	**54**	25	**247**	301	**301**	326
Total		**118,549**	215,328	**144,237**	214,503	**262,786**	429,831

Note 5: Revenue

		2013 $'000	2012 $'000
(a)	**Net premium revenue**		
	Gross written premium	**132,093**	124,709
	Movement in unearned premium reserve	**(4,812)**	(5,579)
	Total premium revenue	**127,281**	119,130
	Outwards retrocession premium	**(81,381)**	(81,607)
	Net premium revenue	**45,900**	37,523
(b)	**Retrocession commission income**	**7,471**	7,705
	Total retrocession commission income	**7,471**	7,705
(c)	**Investment income**		
	Cash at bank	**566**	881
	Term deposits	**22,676**	32,617
	Government securities	**12,670**	7,388
	Total investment income	**35,912**	40,886
(d)	**Other income**		
	Realised gain/(losses) recognised through the statement of comprehensive income	**1,695**	513
	Unrealised gain/(losses) recognised through the statement of comprehensive income	**(5,888)**	4,971
	Total other income	**(4,193)**	5,484
(e)	**Total revenue**	**166,471**	173,205

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Note 6: Other operating expenses

		2013	2012
		$'000	$'000
(a)	**Expenses by nature**		
	Employee expenses	**3,462**	2,816
	Services from related entities	**582**	353
	Goods from external entities	**37**	29
	Services from external entities	**2,695**	3,729
	Operating lease rentals	**729**	808
	Depreciation and amortisation	**342**	358
	Finance charges[1]	**4,793**	17
	Total expenses by nature	**12,640**	8,110
(b)	**Expenses by function**		
	Acquisition costs	**1,167**	1,124
	General and administration expenses[2]	**10,981**	6,544
	Investment expense	**492**	442
	Total expenses by function	**12,640**	8,110
(c)	**Employee expenses**		
	Wages and salaries	**2,673**	2,303
	Superannuation	**399**	259
	Leave and other entitlements	**382**	245
	Other employee expenses	**8**	9
	Total employee expenses	**3,462**	2,816

1 $4.788 million represents unwinding of the discount on the dividend payable of $389,202.

2 Note 6(b) is reconciled to the Statement of comprehensive income

General and administrative expenses	10,981
Add: Investment expense	492
Less: Finance charges	4,793
Other operating expenses	6,680

Note 7: Cash and cash equivalents

	2013	2012
	$'000	$'000
Cash at bank	**4,953**	8,299
Total cash and cash equivalents	**4,953**	8,299

Cash and cash equivalents consist of at call deposits held with the Reserve Bank of Australia, Australia and New Zealand Bank, Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corporation.

Note 8: Receivables

	2013	2012
	$'000	$'000
Premium receivable	**33,031**	27,555
Commission receivable	**3,710**	3,771
Interest receivable	**9,133**	11,774
Net GST Receivable/(Payable) from the Australian Taxation Office	**-**	63
Other receivables	**-**	55
Total receivables	**45,874**	43,218

All receivables are with entities external to ARPC. Credit terms are net 30 days (2012: 30 days). Trade debtors are non-interest bearing.

Receivables (gross) are aged as follows:

	2013	2012
Not overdue	**45,497**	43,187
Overdue by:		
Less than 30 days	**97**	31
30 to 60 days	**-**	-
60 to 90 days	**-**	-
More than 90 days	**280**	-
	45,874	43,218

Interest receivable

The interest rate ranges from 2.15% to 8.00% (2012: 2.90% to 8.00%) and the frequency of payment is monthly for cash accounts, semi-annually for Government and semi-government securities and on maturity for term deposits.

Note 9: Investments under s18 of the CAC Act

	2013	2012
	$'000	$'000
Term deposits	**442,500**	521,000
Government securities	**223,730**	236,363
Total investments	**666,230**	757,363

Term deposits

Term deposits are held with Australia and New Zealand Bank, St George Bank, National Australia Bank, Westpac Banking Corporation, Bank of Western Australia and Suncorp Metway Ltd. These deposits earn an effective rate of interest of 4.08% (2012: 5.54%). Interest is payable on maturity for deposits with a term of 12 months or less. Where the term exceeds 12 months, interest is paid at 12 months with the balance on maturity. Terms are between30 and 365 days (2012: 21 and 735 days).

Government (guaranteed) securities

Securities have contractual terms of up to 10 years. They are issued or guaranteed by the Commonwealth, a State or a Territory Government and are traded in active markets. The effective interest rate is 5.88% (2012: 5.97%).

Note 10: Deferred insurance assets

			2013	2012
			$'000	$'000
(a)	**Deferred insurance assets as at 1 July**			
	Deferred retrocession premium	10(b)	**42,166**	39,902
	Deferred acquisition costs	10(c)	**586**	516
	Total deferred insurance assets		**42,752**	40,418
(b)	**Deferred retrocession premium as at 1 July**			
	Deferred retrocession premium as at 1 July		**39,902**	42,139
	Retrocession premium deferred		**42,166**	39,902
	Amortisation charged to expense		**(39,902)**	(42,139)
	Deferred retrocession premium as at 30 June		**42,166**	39,902
(c)	**Deferred acquisition costs as at 1 July**			
	Deferred acquisition costs as at 1 July		**516**	525
	Acquisition costs deferred		**586**	516
	Amortisation charged to expense		**(516)**	(525)
	Deferred acquisition costs as at 30 June		**586**	516

Note 11: Other non-financial assets

	2013	2012
	$'000	$'000
Prepayments	**56**	34
Total other non-financial assets	**56**	34

All other non-financial assets are current assets.

Note 12: Property, plant and equipment and intangibles

	Leasehold improvements $'000	Plant and equipment $'000	Intangibles $'000	Total $'000
Cost or deemed cost				
Balance at 1 July 2011	1,200	182	2,322	3,704
Additions				
- by purchase	-	-	-	-
- internally developed - in progress	-	-	15	15
- internally developed	-	-	91	91
Disposals	(159)	(69)	-	(228)
Balance at 30 June 2012	1,041	113	2,428	3,582
Balance at 1 July 2012	1,041	113	2,428	3,582
Additions				
- by purchase	49	18	40	107
- internally developed - in progress	-	-	-	-
- internally developed	-	-	-	-
Disposals	-	(2)	-	(2)
Revaluation increment/(decrement)	-	-	-	-
Balance at 30 June 2013	1,090	129	2,468	3,687

	Leasehold improvements $'000	Plant and equipment $'000	Intangibles $'000	Total $'000
Depreciation/amortisation				
Balance at 1 July 2011	(197)	(91)	(553)	(841)
Revaluation increment/(decrement)	197	91	-	288
Depreciation for the year	(201)	(37)	(120)	(358)
Disposals	-	-	-	-
Balance at 30 June 2012	(201)	(37)	(673)	(911)
Balance at 1 July 2012	(201)	(37)	(673)	(911)
Revaluation increment/(decrement)	-	-	-	-
Depreciation for the year	(214)	(28)	(100)	(342)
Disposals	-	-	-	-
Balance at 30 June 2013	(415)	(65)	(773)	(1,253)
Carrying amounts				
At 1 July 2011	1,003	91	1,769	2,863
At 30 June 2012	840	76	1,755	2,671
At 1 July 2012	840	76	1,755	2,671
At 30 June 2013	675	64	1,695	2,434

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

A revaluation was undertaken by an independent valuer, Preston Rowe Paterson NSW Pty Limited on 1 July 2011.

No indications of impairment were found for leasehold improvements or plant and equipment in 2013. (2012: Nil)

Note 13: Unearned liability

		2013 $'000	2012 $'000
(a) **Unearned liability**			
Unearned premium liability	13(b)	**62,522**	57,710
Unearned commission liability	13(c)	**3,741**	3,792
Total unearned liability		**66,263**	61,502
(b) **Unearned premium liability as at 1 July**		**57,710**	52,132
Deferral of premiums on contracts written in the period		**62,522**	57,710
Earning of premiums written in the previous periods		**(57,710)**	(52,132)
Unearned premium liability as at 30 June		**62,522**	57,710
(c) **Unearned commission liability as at 1 July**		**3,792**	3,954
Deferral of commissions on contracts written in the period		**3,741**	3,792
Earning of commissions written in the previous periods		**(3,792)**	(3,954)
Unearned commission liability as at 30 June		**3,741**	3,792

Note 14(a): Payables

	2013 $'000	2012 $'000
Retrocessionaire creditors	**41,825**	39,688
Trade creditors	**9**	12
Net GST Payable/(Receivable) from the Australian Taxation Office	**1,192**	-
Accruals	**469**	603
Total payables	**43,495**	40,303

Retrocessionaire creditors:

In accordance with ARPC's reinsurance treaty expiring 31 December 2013 the retrocession premium was paid quarterly in advance. Settlement is made net 30 days.

Trade creditors:

Settlement is made net 30 days.

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

Note 14(b): Dividends

	2013	2012
	$'000	$'000
Payable to the Australian Government	**218,990**	389,202
Dividends payable are represented by:		
Current	**75,000**	175,000
Non-current	**143,990**	214,202
Total dividends	**218,990**	389,202

Dividends payable:

In accordance with section 38(3)(b) of the *Terrorism Insurance Act 2003,* a Ministerial direction was received dated 21 June 2012 directing ARPC to pay a dividend to the Government.

Events after balance date

In accordance with section 38(3)(b) of the *Terrorism Insurance Act 2003,* a Ministerial direction was received dated 22 July 2013 directing ARPC to pay an additional dividend of $75m to the Government in March 2014.

Note 15: Other interest bearing liabilities

	2013	2012
	$'000	$'000
Lease incentive	**301**	326
Other interest bearing liabilities are represented by:		
Current	**54**	25
Non-current	**247**	301
Total other interest bearing liabilities	**301**	326

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 over the lease term.

Note 16: Provisions

	2013	2012
	$'000	$'000
(a) **Employee provisions**		
Salaries and wages	74	66
Leave	473	402
Other	10	10
Total employee provisions	**557**	478
Current / non-current		
Current	220	244
Non-current	337	234
Total employee provisions	**557**	478
(b) **Other provisions**		
Make good provision	**51**	-
Total other provisions	**51**	-

	Provision for make good	Total
	$'000	$'000
Carrying amount at beginning of period	-	-
Additional provisions made	51	-
Write back of provision	-	-
Amount owing at end of period	51	-

All other provisions are non-current liabilities.

Note 17: Cash flow reconciliation

	2013	2012
	$'000	$'000
Reconciliation of cash and cash equivalents as per balance sheet to cash flow statement		
Report cash and cash equivalents as per:		
Cash Flow Statement	**4,953**	8,299
Balance Sheet	**4,953**	8,299
Difference	-	-
Reconciliation of operating result to net cash from operating activities:		
Operating result	**72,450**	83,488
Depreciation/amortisation expense	**342**	358
(Increase)/decrease in receivables	**(2,656)**	(4,257)
(Increase)/decrease in other non-financial assets	**(22)**	293
(Increase)/decrease in deferred insurance assets	**(2,334)**	2,246
Increase/(decrease) in unearned liability	**4,761**	5,416
Increase/(decrease) in payables[1]	**7,980**	(2,221)
Increase/(decrease) in other interest bearing liabilities	**(24)**	78
Increase/(decrease) in provisions	**130**	59
Net cash from / (used by) operating activities	**80,627**	85,460

[1] The movement in the payables includes $4.788 million for the unwinding of the discount on the dividend payable.

Note 18: Average staffing levels

	2013	2012
The average staffing levels for ARPC during the year were:	**24**	20

Note 19: Executive remuneration

(a) **Executive remuneration expense for the reporting period**

	2013	2012
	$	$
Short-term employee benefits:		
Salary	**1,102,464**	1,260,208
Annual leave accrued	**100,324**	112,279
Performance bonuses	**34,685**	10,000
Total short-term employee benefits	**1,237,473**	1,382,486
Post-employment benefits		
Superannuation	**148,376**	138,983
Total post-employment benefits	**148,376**	138,983
Other long-term benefits		
Long-service leave	**31,457**	33,756
Total other long-term benefits	**31,457**	33,756
Total	**1,417,306**	1,555,225

Notes:
1. Note 19(a) was prepared on an accrual basis.
2. Note 19(a) excludes acting arrangements and part-year service where remuneration expensed for a senior executive was less than $180,000.

Note 19: Executive remuneration (continued)

(b) Average annual reportable remuneration paid to substantive senior executives in 2013.

Average annual reportable remuneration[1]	Substantive senior executives No.	Reportable salary[2] $	Contributed superannuation[3] $	Reportable allowances[4] $	Bonus paid[5] $	Total reportable remuneration $
Total remuneration (including part-time arrangements):						
less than $180,000	**3**	**106,383**	**13,117**	**-**	**-**	**119,500**
$210,000 to $239,999	**1**	**179,636**	**23,608**	**-**	**12,257**	**215,501**
$240,000 to $269,999	**2**	**214,750**	**28,765**	**-**	**11,214**	**254,729**
$360,000 to $389,999	**1**	**341,659**	**46,726**	**-**	**-**	**388,385**
Total number of substantive senior executives	**7**					

(b) Average annual reportable remuneration paid to substantive senior executives in 2012.

Average annual reportable remuneration[1]	Substantive senior executives No.	Reportable salary[2] $	Contributed superannuation[3] $	Reportable allowances[4] $	Bonus paid $	Total reportable remuneration $
Total remuneration (including part-time arrangements):						
less than $180,000	1	121,408	15,178	-	-	136,586
$180,000 to $209,999	1	174,423	19,304	-	-	193,727
$210,000 to $239,999	1	192,412	21,419	-	-	213,831
$240,000 to $269,999	2	219,628	23,742	-	5,000	248,370
$360,000 to $389,999	1	331,237	35,598	-	-	366,835
Total number of substantive senior executives	6					

[1] This table reports substantive senior executives who received remuneration during the reporting period. Each row is an averaged figure based on headcount for individuals in the band.

[2] 'Reportable salary' includes the following:

(a) gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column);
(b) reportable fringe benefits (at the net amount prior to 'grossing up' for tax purposes);
(c) exempt foreign employment income;
(d) salary sacrificed benefits.

[3] The 'Contributed superannuation' amount is the average cost to the entity for the provision of superannuation benefits to substantive senior executives in that reportable remuneration band during the reporting period.

[4] 'Reportable allowances' are the average actual allowances paid as per the 'Total allowances' line on individuals' payment summaries.

[5] 'Bonus paid' represents the average actual bonuses paid during the reporting period in that reportable remuneration band. The 'Bonus paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving the entity during the financial year.

Note 19: Executive remuneration (continued)

(c) Average annual reportable remuneration paid to other highly paid staff in 2013

During the reporting period there were nil employees (2012: nil) with total reportable remuneration greater than $180,000.

Note 20: Members' remuneration

	2013	2012
	$	$
	75,778	44,619

The number of Members of ARPC included in these figures are shown below in the relevant remuneration bands:

	2013	2012
$ Nil - $14,999	**7**	6
$ 15,000 - $29,999	**1**	1
Total number of Members of ARPC	**8**	7

A review was undertaken by the Remuneration Tribunal which resulted in increased salary arrangements for Members effective August 2012.

Note 21: Auditor's remuneration

	2013	2012
	$	$
The cost of financial statement audit services provided to ARPC was	**145,000**	122,000

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 J Fitzpatrick, Ms P Azarias, Ms J Bowe, Mr T Karp, Ms M Micalizzi, Mr J Murphy and Ms M Howes.

Changes in membership during the year:

Ms J Fitzparick was first appointed on 12 September 2012 until 31 December 2015.

Ms M Howes was first appointed on 1 January 2013 until 31 December 2015.

Mr J Gersh's term expired on 31 December 2012.

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 $501,540 (2012: $352,978). These transactions were made on terms equivalent to those that prevail on arms length transactions.

Joan Fitzpatrick is the Board Chair of the Australian and New Zealand Institute of Insurance and Finance (ANZIIF), transactions to the value of $10,848 with ANZIIF are deemed related party transactions. Staff and executives are members and attend professional development engagements with the Australian and New Zealand Institute of Insurance and Finance. These transactions were made on terms equivalent to those that prevail on arms length transactions. ANZIIF was not a related party in 2012.

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

		Note	2013	2012
			$'000	$'000
(a)	**Categories of financial instruments**			
	Financial assets			
	Cash and cash equivalents	7	**4,953**	8,299
	Loans and receivables financial assets			
	Receivables (gross)	8	**45,874**	43,155
	Fair value through profit and loss			
	Fixed term deposits	9	**442,500**	521,000
	Government securities	9	**223,730**	236,363
	Carrying amount of financial assets		**717,057**	808,816
	Financial liabilities			
	At amortised cost			
	Payables	14(a)	**42,303**	40,303
	Dividends	14(b)	**218,990**	389,202
	Other interest bearing liabilities	15	**301**	326
	Carrying amount of financial liabilities		**261,595**	429,831
(b)	**Net income and expense from financial assets / liabilities**			
	Investment income	5(c)	**35,912**	40,886
	Net gain/(loss) from financial assets		**35,912**	40,886

PART FIVE

FINANCIAL STATEMENTS

Note 23: Financial instruments (continued)

	Notes	**Carrying amount 2013 $'000**	**Fair value 2013 $'000**	Carrying amount 2012 $'000	Fair value 2012 $'000
Financial assets					
Cash and cash equivalents	7	**4,953**	**4,953**	8,299	8,299
Receivables (gross)	8	**45,874**	**45,874**	43,155	43,155
Fixed term deposits *	9	**442,500**	**442,500**	521,000	521,000
Government securities *	9	**223,730**	**223,730**	236,363	236,363
Total financial assets		**717,057**	**717,057**	808,817	808,817
Financial liabilities					
Payables	14(a)	**42,303**	**42,303**	40,303	40,303
Dividend payable	14(b)	**218,990**	**218,990**	389,202	389,202
Other interest bearing liabilities	15	**301**	**301**	326	326
Total financial liabilities		**261,594**	**261,594**	429,831	429,831

* 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.

ACRONYMS AND ABBREVIATIONS

AASB	Australian Accounting Standards Board
AGA	Australian Government Actuary
AGD	Attorney General's Department
ANAO	Australian National Audit Office
ANZIIF	Australian and New Zealand Institute of Insurance and Finance
AMB	A.M. BEST
APRA	Australia Prudential Regulation Authority
ARPC	Australian Reinsurance Pool Corporation
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange
ATO	Australian Taxation Office
CAC Act	*Commonwealth Authorities and Companies Act 1997*
CAE	Chief Audit Executive
CBD	Central business district
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIPMA	Critical Infrastructure Protection Modelling and Analysis
CPA	Certified Practising Accountant
DTI	Declared terrorist incident
FMO	Finance Minister's Orders
FOI Act	*Freedom of Information Act 1982*
GA	Geoscience Australia
GPOs	General Policy Orders
GST	Goods and services tax
GWP	Gross written premium
HR	Human resources
HSMA	Health and Safety Management Arrangements
HSR	Health and Safety Representative
IPS	Information Publication Scheme
NABERS	National Australian Built Environment Rating System
OECD	Organisation for Economic Co-operation and Development
OH&S Act	*Occupational Health and Safety Act 1991*
OH&S	Occupational health and safety
PMS	Performance Management System
RBA	Reserve Bank of Australia
RISe	Reinsurance information system, ARPC's client information management system
RMS	Risk management strategy
SBS	Special Broadcasting Service
S&P	Standard and Poor's
SES	Senior executive staff
TI Act	*Terrorism Insurance Act 2003*
UBSAG35	Union Bank of Switzerland Australian Government 3-5 year bond index
UBSW	Union Bank of Switzerland Warburg
WCAG 2.0	Web Content Accessibility Guidelines 2.0
WHS Act	*Work Health and Safety Act 2011*
WHS	Work Health and Safety

INDEX OF ANNUAL REPORT REQUIREMENTS

In compliance with the Commonwealth Authorities (Annual Reporting) Order 2011 clause 21, ARPC's reporting on *Commonwealth Authorities and Companies Act 1997* (CAC Act) and other applicable legislation in the Annual Reporting on Operations are set out in table 6.1.

Table 6.1: Index of annual report requirements

Part A: includes CAC Act and Finance Ministers (annual reporting) Orders 2011

i. Commonwealth Authorities and Companies Act 1997

Section	Requirements	Annual report location	Page
s.9(1)(a)	Directors must prepare annual report in accordance with Schedule 1	Report of operations	ix
s.9(1)(b)	Presentation to the responsible Minister within the timeline	Transmittal letter	iii
Sch. 1, cl.1(a)	Report of operation prepared by the directors	Report of operations	ix
Sch. 1, cl.1(b)	Financial statements prepared by the directors under Cl.2	Statement of Members, Chief Executive and Chief Financial Officer	81
Sch. 1, cl.1(b)	Auditor-General's report on financial statements	Independent Auditor's Report	79-80
Sch. 1, cl.2(3)	Statement on financial statements by the directors	Statement of Members, Chief Executive and Chief Financial Officer	81
Sch. 1, cl.3(1)	Auditor-General's statement; whether the statements comply with the Finance Minister's orders	Independent Auditor's Report	79-80

ii. Commonwealth Authorities (annual reporting) Orders 2011

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Cl. 6	Approval by directors	Report on operations	ix
Cl.10	Enabling legislation—objectives and functions	Objectives Organisational context	xi 19
Cl.11	Responsible Minister	Governance framework	45
Cl.12 (a)	Ministerial Directions	Ministerial Directions	57
Cl.12(b)	General Policies issued under s.28 of CAC Act (as in force before 1 July 2008)	General Policy Orders	57
Cl.12(c)	General Policy Order under s.48A of CAC Act	Not applicable	-
Cl.13	Information about directors	Members	45-49
Cl.14	Organisational structure (a) outline of organisational structure	Organisational structure and chart	65-66
Cl.14	Organisational structure (b) location of the organisation	Organisational structure	65
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15	Related entity transaction	Note 22: Related party disclosures	118
16(a)	Key activities and changes —significant event	Significant event	37
16(b)	—operational and financial results	Financial review Financial statement	29 77
16(c)	Changes to state of affairs or principle activities	Not applicable	-
16(d)	Amendments to enabling legislations or other relevant legislations	Not applicable	-
17	Judicial decisions and reviews by outside bodies	Judicial and administrative decisions and reviews	57
18	Obtaining information from subsidiaries	Not applicable	-
19	Indemnities and insurance premiums for officers	Indemnities and insurance policies	56

Part B: includes *Terrorism Insurance Act 2003, Environment Protection and Biodiversity Conservation Act 1999*, *Work Health and Safety Act 2011* and *Freedom of Information Act 1982*.

iii. Terrorism Insurance Act 2003

Section	Requirements	Annual report location	Page
s.5	Meaning of terrorist act	The coverage	20-21
s.6(7)	Reduction percentage	Reduction percentage	21
s.7	Eligible insurance contracts	The scheme	20-21
s.8	Effect of terrorism exclusions in eligible insurance contracts	The coverage	20-21
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s.10	Functions of Corporation	Organisational context	19
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s.12(1)	Corporation members	Members	45-49
s.13(1)	Appointment of members	ARPC Board appointment and remunerations	45
		Members	45
s.17	Remunerations and allowances for members	ARPC Board appointment and remunerations	45
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iv. Environment Protection and Biodiversity Conservation Act 1999.

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v. Work Health and Safety Act 2011

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