Australian Government

Australian Reinsurance Pool Corporation

ARPC 2013 2014 ANNUAL REPORT

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Australian Government

Australian Reinsurance Pool Corporation

24 September 2014

Senator the Hon Mathias Cormann
Minister of Finance
Acting 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 2014. 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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1. OVERVIEW

1. Overview

Report from the Chair

On behalf of the Australian Reinsurance Pool Corporation (ARPC), I am pleased to present the 2013-14 annual report, my second report as Chair. Over the past year ARPC has been able to enhance both its financial and organisational capability to respond quickly to a declared terrorist incident (DTI).

ARPC plays a crucial role in protecting insurers and businesses with Australian commercial sector assets from losses caused by terrorism catastrophe. We were established in 2003 following the withdrawal of terrorism insurance cover from the private insurance market, after the 11 September 2001 terrorist attacks in the USA. The lack of an adequate private insurance market to cover all Australian commercial assets remains an ongoing problem, a problem which ARPC fully addresses.

Terrorism remains a persistent threat. At the time of writing this report, the threat level of a terrorist attack was raised to 'high', which means that a terrorist attack is likely. There is no doubt that in today's environment there is heightened awareness within the community of the risks of a terrorist attack on Australian soil.

ARPC's loss modelling shows the economic consequences of an attack would be very large. The probable insured losses would exceed the reinsurance capacity available in the private insurance market, causing market failure to occur.

Terrorism insurance pools similar to ARPC exist in all major economies around the world and are recognised as the most effective approach to the pooling of risk and the delivery of cost effective terrorism reinsurance to the insurance sector. Terrorism insurance pools like ARPC contribute to making communities more resilient to terrorism events by enabling faster financial recovery. ARPC helps improve Australian economic security by being ready and able to respond quickly to a DTI.

ARPC is considered a best practice pool amongst the global pools due to our deep experience with blast and plume loss modelling; as well as our strategic use of retrocession reinsurance where ARPC purchases pooled reinsurance cover from Australian and global markets.

Over the last year ARPC has continued to build and improve its capability in loss estimation modelling, its processes and systems capability to respond quickly to a DTI, and last but by no means least, in developing its leadership and people.

An important milestone in the past year has been the recruitment of two key executives, both of whom are highly experienced and capable: ARPC Chief Executive Officer Dr Christopher Wallace and Chief Operating Officer Ms Fran Raymond.

In 2014 ARPC launched its strategic plan for the next three years. The plan focuses on positioning ARPC as a trusted advisor on terrorism risk insurance and in connecting strongly with all our stakeholders emphasising our values and expertise.

During the year we responded to concerns raised by our insurer clients and our reinsurance providers following the Commonwealth Government’s Commission of Audit (CoA) report to government on 1 May 2014. The CoA report noted that ‘with continued recovery in the insurance markets, there is scope for a gradual Commonwealth exit over the coming years’ and ‘suggests the next review of the scheme will provide an appropriate vehicle for abolishing the Corporation’. ARPC’s view is that there continues to be market failure for terrorism insurance and that ARPC fully addresses this market failure by providing cost effective terrorism insurance.

In the coming year, we look forward to the next trienial review of the *Terrorism Insurance Act 2003* (TI Act) and supporting this important opportunity to examine the purpose and function of the organisation.

The Board and the executive team of ARPC are working to ensure the best outcome for Australia in terms of terrorism insurance protection for commercial property. This has been our core area of focus over the last few months of this year and will continue to be the case in the new financial year.

I am pleased to report that ARPC completed the 2013-14 year in a stronger financial position than the previous year, with net assets increasing from $432.6 million to $573.1 million. We delivered an operating surplus for the year of $71.4 million.

Meanwhile, ARPC as a reinsurer, maintains its core focus of being able to respond effectively and swiftly in the event of a DTI to deliver support to our stakeholders and for the benefit of the Australian economy.

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

24 September 2014

Report from the Chief Executive Officer

What we do

ARPC protects Australia from economic losses to eligible commercial property caused by terrorism catastrophe. We do this by using our expertise to provide cost effective reinsurance to support the economic resilience of the nation. ARPC is unique in Australia; the scheme is voluntary but the vast majority of insurers participate, and we are fully self-funding through the private sector insurance industry.

We are a Corporate Commonwealth entity and engage with the public sector through our responsible Minister, the Assistant Treasurer, and through our portfolio agency, the Treasury.

Our customers

We provide reinsurance cover to over 220 insurer customers, who cover $3 trillion in sums insured and collect $3.7 billion in gross written premiums from commercial businesses. In 2013-14 ARPC collected $129.7 million in premiums from our customers, which represents just 3.5 per cent of insurer gross written premiums.

The TI Act mandates insurers to issue cover for terrorism events. However, it is voluntary for insurers to purchase reinsurance cover from ARPC. Insurers are able to choose to purchase cover with ARPC, or offer cover under their own capacity or purchase alternative reinsurance.

Our reinsurance capacity

ARPC delivers significant reinsurance capacity to our insurer clients with $13.6 billion in reinsurance cover in the event of a DTI. Total capacity comprises industry retentions (in other words the deductible or excess retained by the insurer), ARPC net assets (held in our claims reserve from accumulated surpluses), retrocession reinsurance (private cover we purchase from reinsurers), and the Commonwealth guarantee (the guarantee provided by the Commonwealth Government to ARPC). ARPC purchases $2.9 billion in private capacity through its retrocession reinsurance program placed with 57 reinsurers from within Australia and globally.

ARPC currently purchases almost all the global capacity that is available for Australian risks through S&P's A– or better rated reinsurers. However, this private sector capacity is insufficient to cover a probable maximum loss. Therefore, ARPC has access to the $10 billion Commonwealth guarantee. ARPC's total capacity covers 99 per cent of probable maximum loss scenarios from a conventional blast in central business district (CBD) locations. ARPC is the only vehicle through which the insurance industry is able to access the $10 billion Commonwealth guarantee.

ARPC provides a transparent funding infrastructure for distributing compensation. It enables quick payments to the business community to provide economic support in a time of crisis. In this way we contribute to the nation's resilience by allowing it to recover financially more quickly from a DTI.

Terrorism reinsurance capacity

There is currently insufficient terrorism reinsurance capacity to cover all commercial business risks in Australia. ARPC purchases retrocession reinsurance capacity to protect the government from paying the Commonwealth guarantee. It also encourages participation by Australian and global reinsurers in delivering private capacity to cover private commercial business assets.

Some market commentators believe that the private reinsurance market has both capacity and appetite to provide cover at the level required. ARPC's recent experience in testing the market availability demonstrates that this is not yet the case for the whole market, and only limited capacity exists for individual risks.

An independent expert analysis will take place later in 2014 as part of the triennial review to test the current appetite for a return of the private market at the capacity level required to cover a possible maximum loss.

Our payments to government

ARPC assists the sharing of risk between the private sector and government. To date, ARPC has paid the government fees through dividends of $325 million to reimburse government for the provision of the $10 billion Commonwealth guarantee. ARPC will continue to pay the government a total of $450 million in fees and dividends over the next four years.

Our value for money

The average price of cover to insurers is currently 3.5 per cent of eligible policy premiums, which is a very favourable level when compared with other international terrorism reinsurance pools.

Levels of retention (the deductible or excess) held by insurers are also very low, with insurers holding retention on average of $1 million and up to a maximum of $10 million. Insurers covered by ARPC also benefit from the capping of liability under the TI Act, which limits insurer's liabilities through the legislated reduction percentage for a loss exceeding ARPC's capacity.

The reduction percentage operates by reducing very large losses to ensure no more than the $10 billion Commonwealth guarantee is drawn. This means our insurer client's capital is fully protected, although commercial businesses may receive a reduced payment if the DTI exceeds the Commonwealth guarantee amount.

Terrorism reinsurance pools and schemes operate in all major western economies. Pooling of risk for terrorism catastrophe is an efficient response when capacity is limited and prices are high. As global capacity has slowly increased, ARPC has transferred risk to the reinsurance market and reduced reliance on the Commonwealth guarantee in the event of a terrorism catastrophe.

2014 to 2017 strategic plan

In February 2014, the Board and executive team developed a new strategic plan for the period 2014 to 2017. We also undertook a capability review of the organisation to ensure ARPC has the skills and resources to deliver the strategic plan. The new plan is aimed at developing ARPC's capacity to be a trusted advisor on terrorism insurance. Further details of the plan are set out in this report.

Three-year review of the Act (triennial review)

ARPC was established as a temporary measure to ensure that Australia's commercial property continued to have access to terrorism insurance in the wake of the 11 September 2001 terrorist attacks. The TI Act requires a review to be conducted, which we refer to as the triennial review, at least once every three years that examines need for the Act to continue in operation. Reports for the three previous triennial reviews are available on our website. We encourage our stakeholders to participate in this important review.

Financial result overview

Our overall financial performance in 2013-14 was better than plan. Our operating result for the year ended 30 June 2014 was $71.4 million and was $7.0 million (10.9 per cent) better than plan, and $1.1 million (1.4 per cent) less than last year. The operating result variance to both plan and last year is primarily due to investment (and other) income of $26.5 million which is $3.2 million (14.9 per cent) better than plan, and $6.8 million (21.6 per cent) less than last year.

We received premium revenue of $129.7m, which was $3.7m (2.9 per cent) better than plan, and $2.4m (1.9 per cent) higher than last year.

Our expenses were $9.0 million and were $0.3 million (2.4 per cent) better than plan, and $3.6 million (28.5 per cent) lower than last year.

Our net retrocession cost (after retrocession commission revenue) was $74.1 million and was $0.1 million (0.2 per cent) slightly worse than plan, and $0.2 million (0.3 per cent) higher than last year.

A lower balance of investment assets and lower interest rates are impacting investment income. Investment assets (including cash) are $596.8 million and are $74.4 million (11.1 per cent) less than last year due to payments to government that totalled $150 million.

Outlook

ARPC is well positioned to respond to an event. In addition to our total funding capacity of $13.6 billion, we have in place a skilled and experienced team. We also have in place a response plan for a DTI, and loss modelling capability.

We look forward to the triennial review and further implementing the ARPC strategic plan. We will continue to work with all scheme stakeholders to ensure value for money is achieved for all our stakeholders, namely government, insurers, reinsurers, and commercial businesses.

Dr Christopher Wallace BEc(Hons) PhD(Econ), ANZIIF (Fellow), CIP
Chief Executive Officer

24 September 2014

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 2014. 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

24 September 2014

Jan Bowe BHA MBA, GAICD
Member and Chair of the Audit and Compliance Committee

24 September 2014

2. STRATEGY AND OUTLOOK

2. Strategy and outlook

Strategic plan 2014-17

The ARPC Strategic Plan 2014-17 was developed through workshops held with the Board, CEO and the executive team; planning sessions with staff; and incorporated feedback from stakeholder meetings.

The strategic planning sessions provided an opportunity for the newly appointed CEO and the Chief Operating Officer (COO) to gain a comprehensive insight to the key drivers of ARPC's strategic direction. The opportunity for Board members, the CEO and COO to build rapport was appreciated by all participants. An external facilitator was engaged to undertake staff involvement activities across the organisation and to incorporate staff feedback into the discussions and outputs.

As a backdrop to the strategic plan, our risk environment is one where the global frequency of smaller terrorism events has increased fourfold over the last decade. In the past six months there has been considerable media and community discussion on terrorism threats within Australia. There is today a heightened level of awareness of the threat of a terrorist attack within Australia.

One of the main drivers for the strategic plan was to establish longer term objectives for ARPC to enhance value for money. Our view is that market failure of terrorism insurance exists and will continue to be a problem for the foreseeable future; a problem which ARPC fully addresses.

The Board and executive team are keen to ensure that ARPC demonstrates robust organisational capabilities, and this has driven a significant transformation of how ARPC manages its operations.

The second driving force was the imminent *Public Governance, Performance and Accountability Act 2013* (PGPA Act) that would replace the *Commonwealth Authorities and Companies Act 1997* (CAC Act) under which ARPC had operated.

The PGPA Act requires Commonwealth entities to provide to government an annual, rolling four-year Corporate Plan, establishing key performance indicators (KPIs). These KPIs would be monitored and reported in each entity's annual report. The ARPC strategic planning workshop will be an annual event in early December. This will ensure we are in a good position to fulfil future reporting requirements under the PGPA Act while also strengthening ARPC's capacity and reducing our risk.

As with any planning document, we are conscious that our strategic plan must remain a living document in order to remain relevant. Our strategic initiatives are reviewed for currency and monitored by regular management meetings, with progress reports provided to each Board meeting.

Purpose and role

ARPC redefined its purpose and role to better reflect our maturing position in the reinsurance market. Our statement of purpose clearly supports the original rationale for our establishment in 2003.

Purpose	*to protect Australia from economic losses caused by terrorism catastrophe.*

Our role statement demonstrates our commitment to protecting the nation's economy in the event of a terrorism incident.

Role	*by using our expertise we provide cost effective reinsurance to support the economic resilience of the nation.*

Values

It is widely acknowledged that the culture of an organisation is a critical factor in effective corporate governance practices. It is essential that ARPC's culture is modelled through the values and supporting behaviours of the Board, the CEO and the Executives in order to permeate throughout the organisation.

The draft values statement, produced at the strategic planning workshop, was refined by all ARPC employees during a subsequent staff planning session. The new Values statement is actively promoted today at staff gatherings and meetings and displayed throughout our offices and used as part of management decision making. Diagram 2.1 shows ARPC's values.

Diagram 2.1: Values statement

STAKEHOLDERS FIRST

- treat all stakeholders professionally
- understand stakeholder needs
- exceed client expectations
- focus on finding solutions for stakeholder problems
- commitment with integrity

EMPOWER OUR PEOPLE

- take personal accountability
- lead, empower and trust our colleagues
- collaborate with and respect each other
- communicate clear expectations
- value diversity

BE COURAGEOUS

- be transparent in communications
- speak up with positive intent
- be resilient and responsive
- have a go
- do the right thing

WORK SMART

- provide expertise in terrorism insurance
- promote our capability
- be active in advising the market
- identify gaps in the market place
- promote our expertise
- promote learning and best practice

CONTINUOUSLY IMPROVE

- coach, mentor and celebrate success
- challenge the status quo
- deliver outcomes effectively and efficiently
- be energetic
- seek, provide and act on feedback

Strategic priorities

For 2014 we have six strategic priorities, each building our capability to achieve our long term goal to become a trusted advisor in terrorism reinsurance. Although our focus will be on initiatives to 'enhance the core', activities in the other two 'horizons' have already begun in parallel. Each business area has developed initiatives under each priority to be completed in the 2014-15 financial year. When combined, these created the framework for ARPC's 2014-15 business plan and associated budget.

Having identified the type of organisation that ARPC wants to be in the future, we looked at ARPC's areas of operation to identify where improvement and potential expansion opportunities may exist in future years. Three areas of focus, or 'strategic horizons', were identified through which ARPC could direct its future initiatives.

Our first priority is to 'strengthen the core'. With an emphasis on enhancing our existing capabilities, we will invest in staff and core industry skills development, and undertake initiatives to strengthen our financial sustainability.

The second horizon is to 'expand within the Act'. We are looking at areas that our stakeholders have identified as requiring greater clarity. This includes determining the coverage of mixed-use residential and commercial buildings and high-rise residential buildings, and clarifying cover for biochemical attacks.

Our long term goal, or third horizon, is to become a 'trusted advisor' that can be relied upon by governments and the private sector for sound advice on terrorism risk insurance.

Using these horizons, six strategic priorities were identified, which will be undertaken over the forward years:

1. become a trusted advisor through building our data and insights
2. expand our coverage within the terms of the TI Act
3. reduce our risk through efficient and effective government reporting
4. maximise our financial performance to strengthen our financial position
5. increase stakeholder communication to identify and satisfy stakeholder needs
6. have a resilient and high performance people culture.

The following diagram illustrates ARPC'S journey to becoming a 'trusted advisor' to our key stakeholders.

Diagram 2.2: Strategic direction

Reporting against strategic priorities

The table below shows activity in 2013-14 financial year that progressed our six strategic priorities.

Strategic priority 1 *Become a trusted advisor through building our data and insights* 	▪ further development and refinement of the 3D blast model for CBD locations ▪ maintaining full knowledge of the aggregate exposures of the scheme ▪ maintaining sound knowledge of potential modes of terrorism and their potential financial impact on the scheme ▪ selection of COGNOS as ARPC business intelligence system, increasing our data analysis capability ▪ development of an electronic data records management system ▪ implementation of claims submission system for insurer clients ▪ providing input and support to the development of the next triennial review ▪ publications and presentations to clients and reinsurers.

Strategic priority 2

Expand our coverage within the terms of the Terrorism Insurance Act 2003

- identification of gaps in coverage in the terrorism insurance scheme. Information on these gaps will be provided to the triennial review for detailed independent assessment.

Strategic priority 3

Reduce our risk through efficient and effective government reporting

- development of a new risk appetite statement
- revising the risk register
- achieving a risk position substantially aligned with ARPC's risk appetite
- ensuring compliance to new PGPA Act, which came into effect from 1 July 2014
- ensuring delivery of the Whole of Government risk management framework which includes new government risk management elements
- maintaining a high standard of corporate governance to provide transparency and accountability
- providing annual compliance reporting of ARPC's legislative, regulatory and policy obligations
- completion of six internal audit reviews.

Strategic priority 4

Maximise our financial performance to strengthen our financial position

- premiums are 102.9 per cent of plan
- investment income is 114.9 per cent of plan
- expenses are 97.6 per cent of plan
- operating surplus is 110.9 per cent of plan
- renewal of retrocession reinsurance program
- all premiums collected in a timely manner, with minimal aged debtors
- management expenses as percentage of premium revenue of 7 per cent
- net assets of $573 million, which is 152.8 per cent of the amount of the retrocession deductible of $360 million
- payments to government for the Commonwealth guarantee revised in the 2014-15 Federal Budget
- completion of 34 insurer client reviews of their premium submissions to ARPC
- extension of reinsurance broker services agreement.

Strategic priority 5

Increase stakeholder communication to identify and satisfy stakeholder needs

- consultation with government about the scheme
- developed dividend policy framework
- regular meetings with agencies including the Treasury, Geoscience Australia (GA), and Attorney-General's Department (AGD)
- increased liaison with national security agencies
- consultation with peak industry bodies, the Insurance Council and the Property Council
- implementation of stakeholder communication plan
- meetings with insurer clients and reinsurers
- liaison with international terrorism insurance pools, Pool Re (UK) and GAREAT (France), as well as OECD High-Level Advisory Board on Financial Management of Catastrophes
- monitoring of the renewal of the USA Terrorism Risk Insurance Act, which expires on 31 December 2014.

Strategic priority 6

Have a resilient and high performance people culture

- implementation of a capability review including organisation structure and roles, with a reduction in positions from 26 to 20
- development of new organisational values
- staff involvement in business planning seminars
- regular lunch and learn training seminars for all staff
- all staff have opportunity to undertake continuing professional development
- annual performance reviews for all staff
- implementation of Prince2 project management framework.

Statistical highlights

Measure	2013-14
Premium revenue	$129.7m
Net premium revenue (after retrocession reinsurance expense)	$48m
Net claims incurred	$0m
Investment income	$26.5m
Operating result	$71.4m
Net assets	$573m
Return on net assets	12.5%
Management expenses as percentage of premium revenue	7.0%
Debtors greater than 30 days overdue	$0m
Number of insurer clients (or cedants)	226
Insurer clients (cedants) gross written premium	$3.7b
Aggregate sum insured	$3,300b
Number of insurer reviews completed	34
Number of retrocession reinsurers	57
Website visits unique users—estimate	9,460
Website, percentage returning users—estimate	57%
Publications online and print	12
Internal audit reviews	6
Number of staff	20

3. ABOUT ARPC

3. About ARPC

ARPC role and functions

ARPC is a statutory authority established under the TI Act, and is subject to the requirements under the CAC Act. From 1 July 2014, the CAC Act was replaced by the PGPA Act.

There was a global withdrawal of terrorism insurance following the terrorist attacks in the United States of America on 11 September 2001. This was of particular concern to the commercial property sector, both internationally and here in Australia. In response to this critical area of market failure, the Australian Government consulted widely with relevant stakeholders. These included the insurance and reinsurance sectors, the financial sector and representatives of the commercial property sector.

The government was concerned that the lack of comprehensive insurance cover for commercial property and infrastructure would lead to a reduction in financing and investment in the Australian commercial sector. This potential for wide economic ramifications led the government to conclude that market intervention was necessary, resulting in the establishment of ARPC.

When ARPC was established in 2003 the policy objectives, as outlined by the government at the time, were as follows:

- 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 DTI. Although not compulsory to do so, insurers may reinsure this additional risk with ARPC, or offer cover under their own capacity, or purchase from alternative insurance providers.

Defining market failure

ARPC exists to address 'market failure'—that is when the allocation of goods and services within a market is not efficient.

The Productivity Commission defines 'economic efficiency' as when individuals in society maximise their utility, given the resources available in the economy. In other words, an increase in economic efficiency improves the wellbeing of the members of the community.

Under specific conditions markets can be shown to allocate resources to the outputs most preferred by people in a way that maximises economic efficiency (for marketed goods and services, prices play the allocative role). The specific conditions are complete markets (which also requires full information and no externalities) and perfect competition (no producer or consumer market power). Market failure occurs when one or more of these conditions do not hold (Productivity Commission, 'On efficiency and effectiveness: some definitions', May 2013, Page 4).

For terrorism risk insurance, market failure occurs through specific market conditions including:

- unavailability of insurance cover for all participants in the economy
- level of insurance cover available to fund a probable maximum loss
- inaffordability of price for individual risks, particularly in high risk zones such as capital city central business districts and major regional infrastructure.

In Australia, market failure in terrorism risk insurance exists primarily due to insurers having terrorism exclusion clauses in commercial insurance contracts. This market failure is addressed through the terrorism insurance scheme (the scheme) which provides cover and overrides these exclusions. Insurers who are reinsured with ARPC are indemnified for a DTI, with losses being paid by ARPC, which currently has over $13.6 billion of available funds. Insurers pay on average 3.5 per cent of commercial insurance premiums to ARPC for this reinsurance cover.

The 'pooling of risks' through a terrorism insurance scheme addresses market failure by enabling all commercial property owners and commercial businesses to have access to affordable insurance cover. Such a scheme plays a role in supporting the wellbeing of the nation by supporting economic resilience following a DTI. This is because funds are available immediately following a DTI and there is payment infrastructure in place through ARPC and our reinsurance agreements with commercial insurers.

Threat levels

Market failure is driven by threat levels for terrorism risk. At the time of writing this report the Australian National Terrorism Public Alert System rates the threat of a terrorist attack as 'high'. The system is a range of four levels that communicate an assessed risk of terrorist threat to Australia. The four levels are:

- low—a terrorist attack is not expected
- medium—a terrorist attack could occur
- high—a terrorist attack is likely
- extreme—a terrorist attack is imminent or has occurred.

For more information on the National Terrorism Public Alert System and the current level of alert please visit:

http://www.nationalsecurity.gov.au/Securityandyourcommunity/Pages/NationalTerrorismPublicAlertSystem.aspx

The Australian Security Intelligence Organisation (ASIO) provides information on the threat environment. At the time of writing his report, the ASIO public website advises *'the potential for a terrorist attack in Australia is feasible and could well occur'*. ASIO also says:

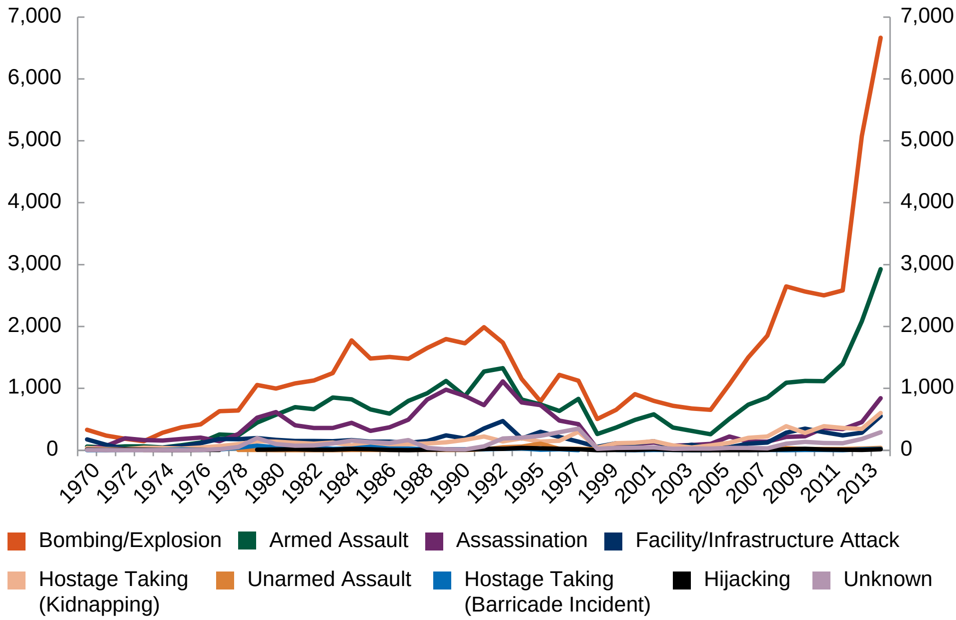
> *Australia will continue to face a persistent threat of terrorism, espionage, foreign interference, including cyber security threats.*
>
> *Terrorist groups have identified Australia as a target and Australians have been specifically attacked abroad. Persons in Australia have been charged with and convicted of terrorism offences and Australians travelling and working overseas continue to be caught up in attacks directed at others.*
>
> *Over recent years the threat of terrorism has had a profound impact on ASIO's work, particularly its volume, complexity and tempo.*
>
> *The next five years will be challenging both at home and abroad and will be characterised by:*
>
> - *the terrorist threat from Islamic extremists*
> - *the proliferation of weapons of mass destruction and attempts to procure technology and expertise in Australia*
> - *radicalisation trends internationally and in Australia, which will influence the evolution of terrorism*
> - *the potential for violent protest, nationalist/racist extremism and communal violence*
> - *continuing rapid changes in technology and telecommunications*
> - *an increased threat to Australia from Internet-mediated electronic attack*
> - *continuing growth in international arrivals, placing additional demands on our border control work*
> - *ongoing demands for ASIO to provide intelligence support to national counter-terrorism arrangements and law enforcement*
> - *and continuing high levels of attention to the security of special events.*

For more information on Australia's threat environment please visit:

http://www.asio.gov.au/ASIO-and-National-Security/Threat-Environment.html

The international threat environment for terrorist events has dramatically changed in recent years. The University of Maryland, USA, hosts a National Consortium for the Study of Terrorism and Responses to Terrorism (START) which publishes a Global Terrorism Database (GTD).

Figure 3.1: Number of International terrorism incidents by year

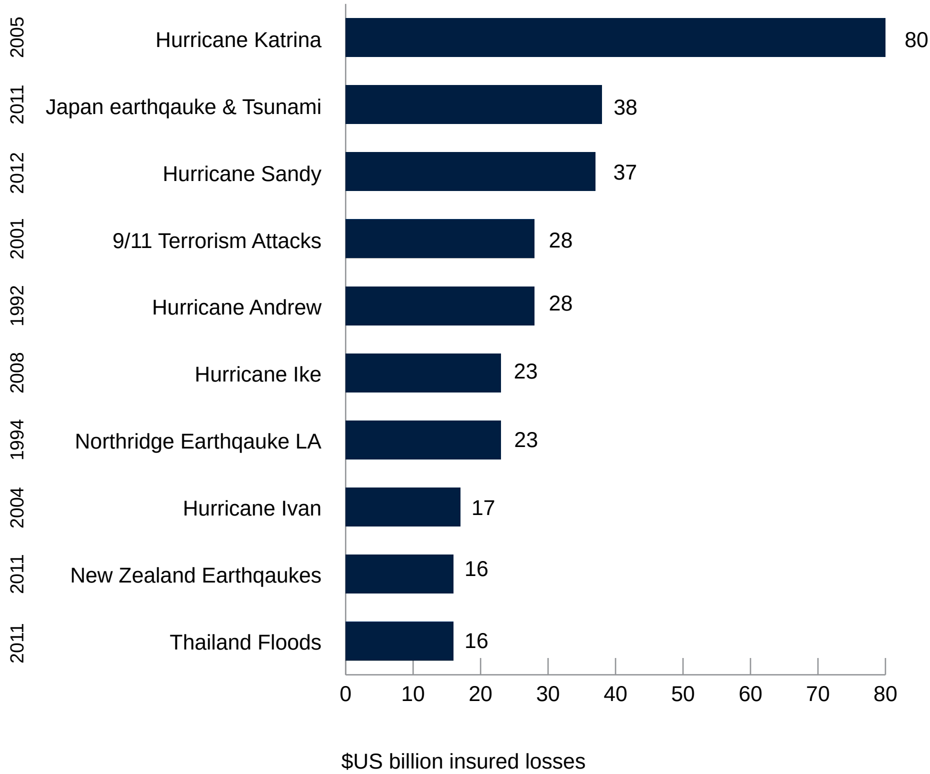


The GTD is an open-source database including information on terrorist events around the world from 1970 through 2013. The GTD includes systematic data on international terrorist incidents that have occurred during this time period and now includes more than 125,000 cases. Since the high seen in 1991, the number of terrorist incidents globally has more than tripled.

Please see http://www.start.umd.edu/gtd/.

The insured losses from a terrorist attack can be very large. The September 11 attacks in the USA are the fourth largest insured loss event. The figure following shows the top 10 global insured loss events.

Figure 3.2: Top 10 global insured loss events



Source: Swiss Re ‘Sigma’ Number 1/2014 (note dollars are indexed to 2013 and are in $US)

How the ARPC scheme operates

The TI Act includes 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.

Through the ARPC terrorism insurance pool (the scheme), insurance companies can choose to reinsure the risk of claims for eligible terrorism losses following a DTI by paying reinsurance premiums to ARPC (**see Premiums**).

Consequently, commercial businesses that are insured with those insurers and hold eligible insurance policies are then covered by the ARPC scheme in the event of a DTI. Insurers are then required to meet these claims in accordance with the other terms and conditions of individual policies.

The Minister responsible for ARPC, the Assistant Treasurer, in consultation with the Attorney-General, will determine whether a terrorist incident 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.

The scheme does not cover loss or liability arising from the hazardous properties of nuclear fuel, material or waste, residential property or the contents of residential property. However, farms can obtain cover if they hold insurance against business interruption (**see Coverage**).

Claims against the scheme will be met once an individual insurance company's risk retention (the deductible or excess) is exhausted. The scheme requires insurers to retain the first portion of any loss (**see Insurer and Industry Retentions**).

ARPC's pool of retained earnings in our claims reserve is then used to pay claims up until the agreed private retrocession reinsurance deductible of $360 million is reached. At this point claims are then funded by a combination of the retrocession reinsurance program and co-reinsurance by ARPC (paid from our claims reserve and Commonwealth guarantee). Co-reinsurance by ARPC means that part of the costs of a layer of our reinsurance cover is paid by ARPC.

Once retrocession is exhausted, claims continue to be paid by the Commonwealth guarantee which is limited to $10 billion. The limiting of the Commonwealth guarantee is legislated in the TI ACT and is only applicable to insurers who reinsure with ARPC (**see Reduction Percentage**). If insurers are not reinsured with ARPC then they are liable for the full cost of a DTI to the limit of the insurance policy sum insured.

The total value of the scheme currently stands at $13.6 billion including all sources of funding (**see Scheme Funding Capacity**).

Terrorism insurance pools similar to the ARPC scheme operate in all major western economies (**see Terrorism Reinsurance Pools**).

Pooling of risk for terrorism catastrophe is an efficient response when capacity is limited and prices are high, as occurred following the terrorism events in the USA in 2001. Since then, ARPC has begun the gradual transferral of risk to the reinsurance market in line with the incremental increase in global terrorism insurance capacity, reducing the reliance on the Commonwealth guarantee in the event of a DTI (**see Benefits of the ARPC Scheme**).

Premiums

ARPC's premium and investment income is used to fund its operations and build the claims reserve available to meet future claims. The premium charged by ARPC for reinsurance is determined by a Ministerial Direction. There has been no change to the level of premiums charged since the scheme was established in 2003, although has been considered by each triennial review (**see Triennial Review**).

The premiums have been set by postcode having regard to the population density in a postcode area. The table following illustrates the breakdown of the three premium tiers and the broad geographical location to which they relate.

Table 3.3: 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 and representing a physical address. 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 our insurer clients. This is attributed to eligible insurance contracts as shown in the following table of premium tiers. The scheme allows for the tier rates to be increased following a claim on the scheme, enabling ARPC to finance its liabilities and rebuild the claims reserve.

Table 3.4: ARPC premium rates per class and tier

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

ARPC's online reporting system, RISe, enables secure electronic submission by insurer clients of annual aggregate reports and premium returns. It also facilitates ARPC auditing of insurer client returns.

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.

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.

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 scheme covers eligible terrorism losses covered by an eligible insurance contract where the insurer has as reinsurance agreement with ARPC for any DTI. Insurers are required to meet eligible claims in accordance with other terms and condition of their policies.

Insurer and industry retentions

Insurers that reinsure their terrorism risks with ARPC retain part of the cost from a DTI. The retention is like an excess or deductible, and requires the insurer to pay the first part of any claim. Smaller insurers have smaller retentions (or excess/deductible) than larger insurers because larger insurers have a greater capacity to pay a larger amount of the claim.

Retentions are calculated as 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 insurer 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, ARPC's reinsurance agreement provides for maximum industry retention of $100 million. 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 further in the Governance, Risk and Assurance section.

Reduction percentage

If the Minister considers that the total amounts paid or payable by the Commonwealth under 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. However, this reduction percentage is only available to insurers who reinsure with ARPC.

The consequences of the reduction percentage, if applied, are that insurers are fully covered by ARPC and have no liability for any costs above their retention. However, commercial businesses will receive a reduced claim payment by the amount of the reduction percentage.

If an insurer is not reinsured with ARPC then they are liable for the full costs of a DTI. They will not be covered by the reduction percentage and must pay claims to the limit of the policy sum insured subject to the policy terms and conditions.

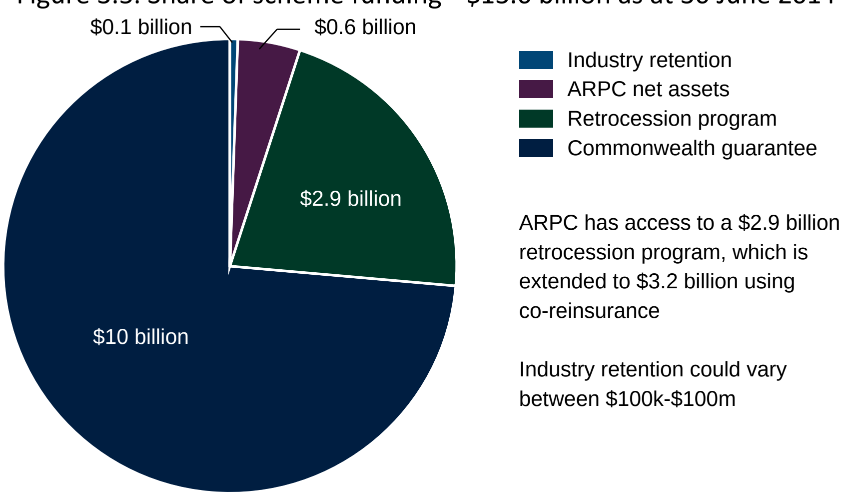
ARPC scheme funding capacity

ARPC currently provides its insurers with a tailored solution of $13.6 billion in reinsurance capacity, comprising industry retentions, ARPC net assets, retrocession reinsurance and the Commonwealth guarantee. Since 2009, ARPC has placed an annual retrocession program, purchasing around $2.9 billion in capacity through 57 reinsurers located mostly overseas, with some within Australia.

ARPC purchases almost all the global capacity available for Australian risks through reinsurers rated by Standard and Poor's as A– or better. Through its loss modelling capability, ARPC recognises that this private sector capacity is insufficient to cover a probable maximum loss. However, because ARPC has access to the $10 billion Commonwealth guarantee, ARPC's capacity actually covers 99 per cent of all probable maximum losses resulting from a conventional blast scenario in CBD locations.

The figure following shows the share of ARPC funding for claims from all sources.

Figure 3.5: Share of scheme funding—$13.6 billion as at 30 June 2014

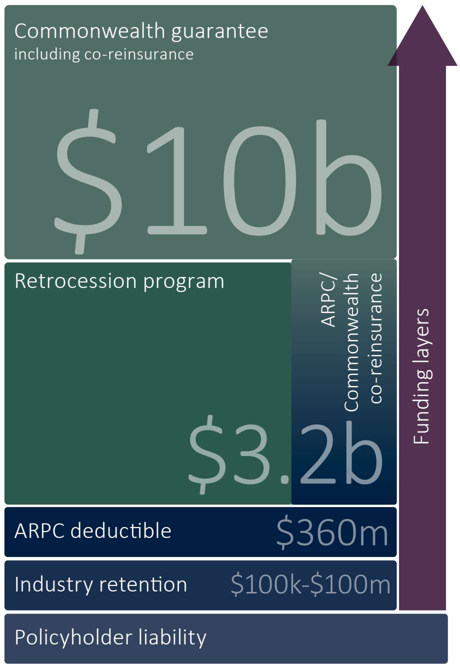


The order of funding of scheme claims is in layers as follows:

1. industry retention
2. ARPC net assets
3. retrocession reinsurance program
4. co-reinsurance with contributions from ARPC and the Commonwealth guarantee, in the retrocession program
5. Commonwealth guarantee.

The figure following shows the structure of the layers in funding order.

Figure 3.6: Structure of scheme funding



Benefits of the ARPC scheme

ARPC currently covers almost all private commercial property and private critical infrastructure in Australia, with an aggregate sum insured of over $3 trillion. ARPC continues to offer sound value for money to insurers. The average price of cover is currently 3.5 per cent of eligible policy premiums, which is a very favourable level when compared against other international terrorism insurance pools. The premiums charged for ARPC terrorism insurance are determined by the Minister and have remained unchanged since establishment in 2003—a further demonstration of value for money for our insurers.

The levels of retention held by insurers are also low, ranging from $100,000 to a maximum retention of $10 million for individual insurers, while the maximum industry retention is $100 million.

Insurers with ARPC also benefit from the capping of liability under the TI Act, which limits insurers' liability through the legislated reduction percentage for any loss exceeding the capacity of the Commonwealth guarantee. Through this reduction percentage, our insurers' capital is fully protected.

If an insurer is reinsured with ARPC then:

- ARPC is liable, and not the insurer
- eligible contracts of insurance are protected
- the Commonwealth guarantee is available
- the reduction percentage applies.

If an insurer is not reinsured with ARPC then:

- the insurer is liable, and not ARPC
- the Commonwealth guarantee is not available
- the reduction percentage is not applied.

Value delivered by ARPC:

- encourages private sector commercial assets to have insurance, which reduces risk to the economy
- protects the balance sheet of insurance companies
- reduces risk to the economy by providing critical funding to eligible insured commerical businesses and property owners, including funding for business interuption.

Reviews of the TI Act (triennial review)

The TI Act was drafted with the presumption that establishing ARPC and its associated terrorism reinsurance scheme would be a temporary measure. It would protect 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 to operate.

There have been three reviews to date, each examining the operation of the TI Act in the context of contemporary market trends, including responses of governments globally to the market failure. Each review recommended the continuation of the TI Act for a further three years. They also recommended that the premium rates remain at the 2003 level to encourage the reemergence of the private market. All recommendations within each of the three reviews have been accepted by the government. In addition to the level of premiums, there are three areas that have been closely examined in these previous reviews.

Retrocession

The 2006 review recommended that ARPC be given the discretion to determine whether to purchase retrocession once the premium pool reached $300 million. This provided ARPC with a mandate to purchase reinsurance for a share of its terrorism risk, according to the appetite of the private market. The first retrocession program commenced 31 December 2008, with the program subsequently renewed each year since.

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 our annual retrocession program. Industry participants involved in the 2012 review were unanimous in their support for the continuation of the retrocession program, commenting that the program represents a prudent use of ARPC's funds. Observations made in support of the retrocession program provided evidence that ARPC was clearly meeting the policy objectives at the time of the establishment of the scheme, but in particular that it:

- continues to encourage the return of the commercial terrorism insurance and reinsurance market for Australian risks
- continues to place the Commonwealth further from the risk of terrorism losses

In December 2013 ARPC purchased $2.9 billion in retrocession capacity through 57 reinsurers both within Australia and internationally. The question of retrocession will again be examined in the 2015 review.

Extending the scheme

A key recommendation of the 2009 review was to explore the effects of extending the scheme to include mixed-use residential and commercial buildings, and residential 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. Since the inception of the scheme, there has been an increasing prevalence of high-rise residential apartment complexes and new mixed-use building developments in most Australian cities' CBDs.

This issue remains a matter of interest within both the commercial and property industry sectors, and will be reviewed again in the upcoming triennial review.

Payments to government

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 recommended that ARPC pay a dividend of $400 million to the Commonwealth, spread over four years.

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.

In the May 2014 Budget, the government reversed the remaining dividends to be paid at that time and replaced these with a requirement that ARPC pays an annual fee of $55 million for the Commonwealth guarantee, plus a dividend of $57.5 million for the next four years.

2015 Triennial review

Although the next triennial review has a reporting deadline of June 2015, the government has advised ARPC that this review will be provided to the Minister by 23 January 2015. Following an appropriate tender process the government has engaged a private consultancy firm, Pottinger, to assist Treasury undertake the 2015 review; an amount of $1.2 million was allocated in the 2014-15 Budget to undertake this triennial review.

The Terms of Reference for the review have been determined, with consultation now occurring with key stakeholders.

Although the TI Act requires that the triennial review examine the need for the TI Act to continue in operation, the Terms of Reference indicate that the 2015 review will have a clear focus on also examining the current operating model for the scheme.

In line with our strategic direction, ARPC has made a concerted effort during 2014 to consult more widely and routinely with representatives of the commercial property, insurance and reinsurance market sectors. A recurring comment from our stakeholders is that the ARPC scheme, being a pooling arrangement, is the optimal model for insuring terrorism risk on Australian soil and that it continues to operate effectively.

The comments made by the CoA in April 2014, suggesting that ARPC should be abolished, caused high levels of concern with insurers, both locally and internationally.

Although ARPC is aware that this report was not government policy, this was not clear to the market at the time. ARPC believes that this market reaction provides the government with a clear indication that the continuation of the scheme is considered essential to the stability of the Australian commercial property and terrorism insurance markets.

2015 Terms of reference

Below are the 2015 triennial review terms of reference.

The Terrorism Insurance Act 2003 (the Act) established a scheme for replacement terrorism insurance coverage for commercial property and associated business interruption. The Act also established the Australian Reinsurance Pool Corporation (ARPC) as a statutory authority to administer the scheme. Both the scheme and the ARPC began operations on 1 July 2003.

The scheme was established as an interim measure to address a specific market failure in the private provision of terrorism insurance. The scheme is intended to operate only while terrorism cover is unavailable commercially on reasonable terms. As a result, s. 41 of the Act requires that: 'At least once every three years after the start-up time, the Minister must prepare a report that reviews the need for this Act to continue in operation.'

Previous reviews were completed in 2006, 2009 and 2012. Each review concluded that the Act should continue in operation, subject to further review in no more than three years.

Treasury will report to the Minister by 23 January 2015 on:

- whether there continues to be market failure in the private sector supply of terrorism insurance, and consequently whether there is a need for the Act to continue in operation
- options on the future of the Act, including if there are possible alternative modes of ownership of the ARPC available to the Government and the costs and benefits of each alternative
- whether the pricing of the scheme (the premium rates and tier structure); the level and structure of insurer and industry retentions; and the purchase of retrocession cover (including its level and cost) continue to be appropriate, and do not distort demand for insurance
- whether the operation of the scheme should be extended to include mixed commercial and residential use buildings, and high-rise residential buildings
- whether refinements to the scheme are necessary to clarify coverage for biochemical attacks, having regard to the effect of insurance policy exclusion clauses such as Chemical, Biological, and Pollution exclusions.

In conducting the review, Treasury will incorporate input from an expert external consultant. The consultant shall be instructed to provide a written report to Treasury.

The Treasury will seek submissions from and, where appropriate, consult further with, key stakeholders including: private sector insurers, reinsurers and brokers; peak bodies representing the general insurance, banking, broking and property industries; State and Territory governments; and other Australian Government agencies, including the ARPC.

International terrorism reinsurance pools

A large number of governments and insurance markets around the world have introduced terrorism insurance pools. Many were developed in response to the events of 11 September 2001, while others were established in response to specific terrorist threats within each country.

Terrorism insurance pools are the global standard approach to providing cost effective reinsurance for terrorism catastrophe.

The table below shows the international terrorism insurance pools in place today.

Table 3.7: Terrorism reinsurance pools

Country	Compulsory Pool (Y/N)	Terrorism reinsurance pool
Australia	N	Australian Reinsurance Pool Corporation (ARPC)
Austria	N	Osterreichisher Versicherungspool Zur Deckung (The Austrian Terror Pool)
Bahrain	N	The Arab War Risks Insurance Syndicate (AWRIS)
Belgium	N	Terrorism Reinsurance & Insurance Pool (TRIP)
Denmark	N	Danish Terrorism Insurance Scheme
Finland	N	Finnish Terrorism Pool
France	N	Gestion de L'assurance et de Reassurance des Risques D'attentats et Terrorism (Gareat)
Germany	N	Extremus Versicherungs-AG
Hong Kong-China	N	The Motor Insurance Bureau (MIB)
India	N	The General Insurance Corporation of India
Indonesia	N	Indonesian Terrorism Insurance Pool
Israel	Y	Terrorism (Intifada Risks)-The Victims of Hostile Actions
Namibia	N	Namibia Special Risks Insurance Association (NASRIA)
Netherlands	N	Nederlandse Herverzekeringsmaatschappij Voor Terrorismeschaden (NHT)
Northern Ireland	N	Criminal Damage Compensation Scheme Northern Ireland
Russia	N	Russian Anti-Terrorism Insurance Pool (RATIP)
South Africa	N	South African Special Risks Insurance Association (SASRIA)
Spain	Y	Consorcio de Compensacion de Seguros (CCS)
Sri Lanka	N	SRCC/ Terrorism Fund-Government
Switzerland	N	Terrorism Reinsurance Facility

Country	Compulsory Pool (Y/N)	Terrorism reinsurance pool
Taiwan	N	Taiwan Terrorism Insurance Pool
United Kingdom	N	Pool Reinurance Company Limited (Pool Re)
United States	N	Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA)

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Financial review

Summary of financial information

ARPC's financial highlights for 2010 through to 2014 are represented in table 4.1 below.

Table 4.1: Financial highlights

	2014 $'000	2013 $'000	2012 $'000	2011 $'000	2010 $'000
Net premium revenue	**47,980**	45,900	37,523	24,534	25,293
Acquisition costs	**(1,089)**	(1,167)	(1,124)	(609)	(603)
Retrocession commission income	**7,606**	7,471	7,705	8,004	7,551
Investment income	**26,531**	35,912	40,886	36,180	28,351
Other income	**(1,660)**	(4,193)	5,484	(88)	(596)
Other operating expenses	**(7,962)**	(6,680)	(6,986)	(6,635)	(6,800)
Finance Charge (Dividend)	**(4)**	(4,793)	-	-	-
Operating result	**71,402**	72,450	83,488	61,386	53,196
Gross written premium	**129,642**	132,093	124,709	112,555	104,885
Outwards retrocession premium	**(81,728)**	(81,381)	(81,607)	(84,186)	(80,098)
Net expense ratio	**13.89%**	20.04%	14.56%	20.49%	26.89%
Gross expense ratio	**5.14%**	7.23%	4.59%	4.62%	6.45%
Cash and cash equivalents	**1,314**	4,953	8,299	14,660	41,668
Investments	**595,500**	666,230	757,363	665,648	576,334
Reserve for claims	**535,054**	408,252	338,400	665,846	604,460

The significant changes to ARPC's financial performance and achievements for 2014 measured against 2013 are:

- gross written premium (GWP) of $129.6 million for 2014 (2013: $132.1 million) represents a decrease of 1.9% per cent, consistent with decreases in primary insurance premiums.
- investment income decreased to $26.5 million (2013: $35.9 million) due to a period of sustained low interest rates, a very low risk investment profile, and the requirement to fund the two $75 million dividend payments to government which decreased the investment balance.
- ARPC renewed its retrocession program on 1 January 2014; the costs for the 2013-14 financial year increased to $81.7 million (2013: $81.4 million) while the cover reduced to $2.9 billion (2013: $3.0 billion).
- finance charges have returned to their trend levels following the removal for the need to unwind the discount on the future dividends payable. The Minister issued a direction to ARPC on 19 June 2014 which removed the requirement for ARPC to pay the remaining two instalments on the dividend determined in 2012.

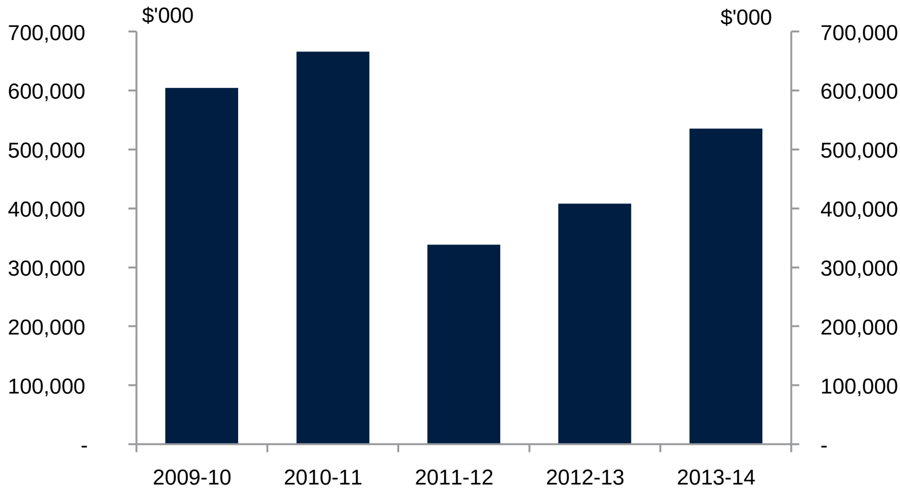
- operating expenses for 2014 have risen slightly; however:
  – the net expense ratio (which is acquisition cost plus direct and indirect underwriting cost divided by net premium revenue) has decreased to 13.89 per cent (2013: 20.04 per cent) due to the elimination of costs associated with future payments against our first dividend to the government.
  – the gross expense ratio (which is acquisition cost plus direct and indirect underwriting cost divided by gross premium revenue) of 5.14 per cent has decreased (2013: 7.23 per cent) due to the elimination of costs associated with future payments against our first dividend to the government.
- the reserve for claims now stands at $535.1 million (2013: $408.3 million).
- in June 2014 the government announced that ARPC will no longer have to make the remaining payments against the dividends as previously directed. New arrangements will be put in place during 2014-15.

Reserves

Total equity is $573.0 million (2013: $432.6 million) after allowing for the dividend payments of $150 million to the government and the reversal of the dividend payable for future years of $143.9 million. The reserve for claims is now $535.1 million (2013: $408.3 million) and the trend of reserves is illustrated in figure 4.2 below. The claim reserve is supported by additional funding for claims from the $2.9 billion retrocession reinsurance program, and the $10 billion Commonwealth guarantee.

During 2014, ARPC increased the claims handling reserve of $24.3 million to $37.9 million, as per 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.

Figure 4.2: ARPC reserve for claims



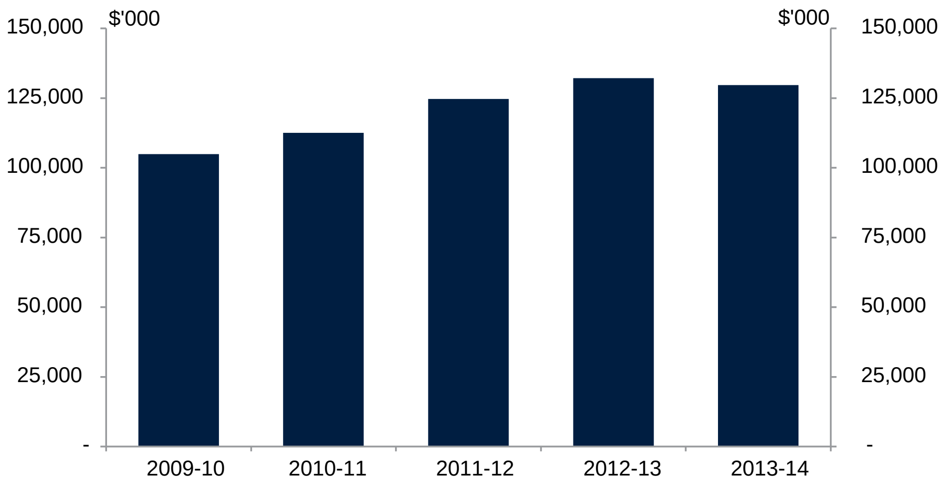
Gross written premium (GWP)

The movement in 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 premium rates in the insurance cycle. Due to competitive market forces, insurance premium rates tend to move up or down over a period of time.

During 2013-14, the major influence on GWP was the decrease in premiums charged by our insurer clients. The decreases resulted from a reassessment of exposures to principal risks resulting from a recent period of reduced natural disasters within Australia.

The trend of GWP growth is represented in figure 4.3 below.

Figure 4.3: ARPC gross written premium



Investment assets

ARPC managed investments internally and externally in 2013-14, however, during the course of the year the external portfolios were closed and all funds were returned to internal management. ARPC's investment strategy complies with the CAC Act. All investments are held in ARPC's name.

ARPC's investment funds are placed in cash deposits.

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 4.4 provides a breakdown of ARPC's cash and investment balances as at 30 June 2014.

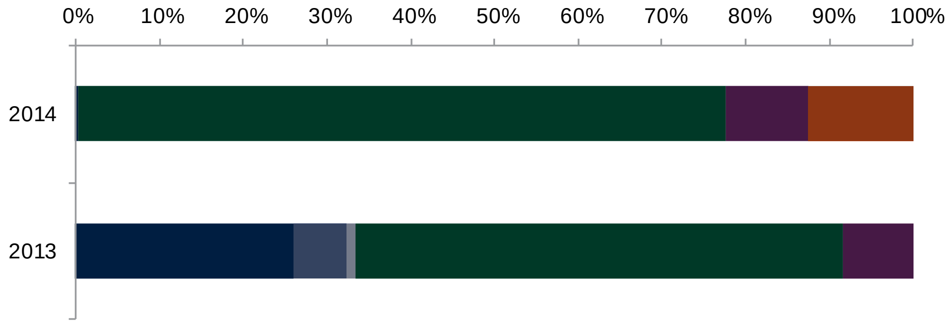
Table 4.4: Comparison of cash and investment balances as at 30 June 2014

	2014 $'000	2013 $'000
Internally managed		
Cash at bank	**1,314**	869
Fixed Interest Deposits	**595,500**	428,500
Total internally managed cash and investments	**596,814**	429,369
External fund managers		
Cash at bank	**-**	4,084
Fixed Interest Deposits	**-**	14,000
Government (guaranteed) securities	**-**	223,730
Total external fund manager cash and investments	**-**	241,814
Total cash and investments	**596,814**	671,183

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 that were managed by external fund managers.

ARPC's cash investments are held by Australian financial institutions with S&P credit ratings between A– and AAA.

Figure 4.5: Investments by credit rating 2014



	2013	2014
AAA	25.91%	0.22%
AA+	6.42%	0.00%
AA	1.13%	0.00%
AA–	58.19%	77.33%
A+	8.34%	9.97%
A	0.00%	0.00%
A–	0.00%	12.48%

Investment income

The investment income return for 2013-14 is a good result given the continued low interest rate environment experienced for the financial year.

The official cash rate was 2.50 per cent at 30 June 2014 compared to 2.75 per cent for last year. The medium-term outlook is for official interest rate to remain low which may have a downward impact on cash deposit interest rates over the coming year.

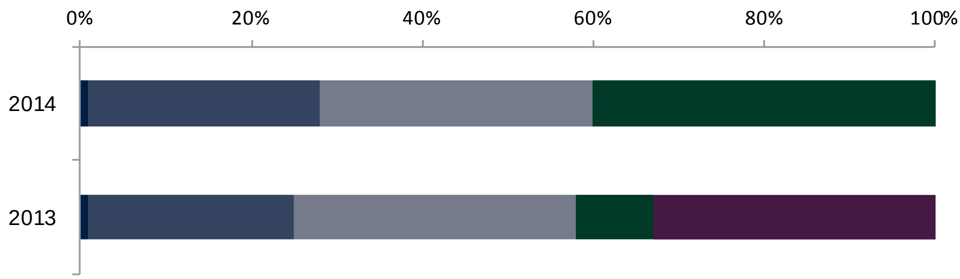
Table 4.6 provides a breakdown between internally and externally generated investment incomes as at 30 June 2014.

Table 4.6: Investment income for the period ended 30 June 2014

	2014 $'000	2013 $'000
Internally managed		
Cash at bank	**665**	529
Fixed interest deposits	**16,316**	20,483
Total internally managed income	**16,981**	21,012
External fund managers		
Cash at bank	**-**	37
Fixed Interest Deposits	**667**	2,193
Government (guaranteed) securities	**8,883**	12,670
Total external fund managers income	**9,550**	14,900
Total cash and investments	**26,531**	35,912

The maturity of funds invested is illustrated in figure 4.7.

Figure 4.7: Funds held at 30 June 2014 by maturity



	2013	2014
Cash	1%	1%
0-3 Mths	24%	27%
3-6 Mths	33%	32%
6-12 Mths	9%	40%
12-24 Mths	0%	0%
>24 Mths	33%	0%

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.

Reinsurance premiums charged by ARPC are expressed as a percentage of the insurer client's premiums. Therefore ARPC's overall premium income is subject to insurance market cycles, even though our rates remain stable. ARPC's reinsurance premiums and exposures have been increasing each year as a result of the growing stock of buildings and infrastructure in Australia. Since 2012 we have seen increased investment in the resources sector, which continues to lift tier C exposures.

ARPC continued to experience its largest growth in tier C risks during 2013-14 which grew by 8 per cent compared with stable exposure for tier A locations. Combined exposure for tiers A, B and C grew by 6.5 per cent to $3.3 trillion in 2014.

However, the rate of increase in original premium rates charged by our insurer clients has been lower and reducing during 2013-14, particularly for large corporate and infrastructure policies. This has resulted in only a 2 per cent increase in ARPC's gross written premium, from $127.3 million in 2012-13 to $129.7 million in 2013-14. We expect the original insurance market premium rates will continue to decrease in the immediate future should there continue to be few major natural catastrophe events, but offset by growth in assets or aggregate sum insureds.

ARPC's pool of retained earnings has fallen in recent years due to the requirement to pay dividends to government. Investment income is expected to plateau in the coming year as we remain in a period of sustained low interest rates and as a result of a reduction in the pool of retained earnings to meet dividend payment obligations.

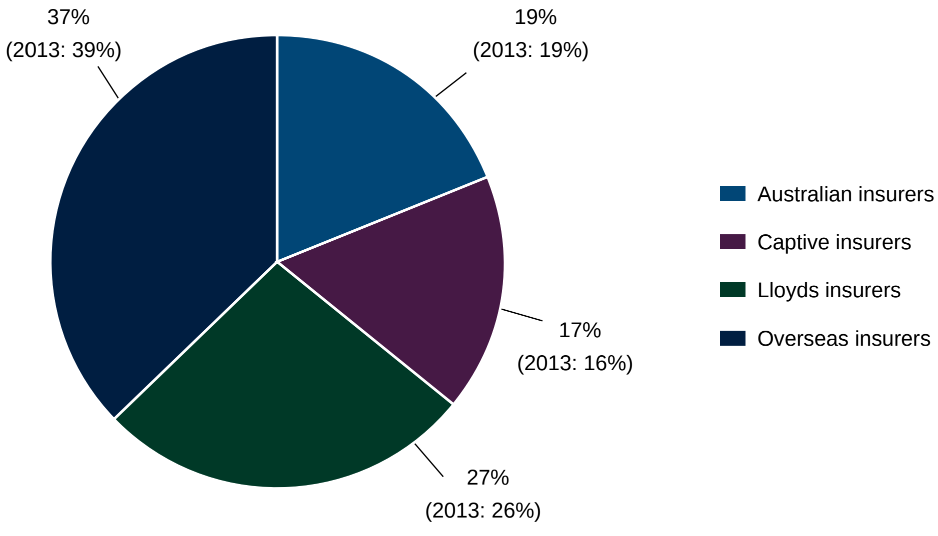
While the impact of dividends on retained earnings and future investment income is significant, the impact on the size of the scheme overall, at less than 5 per cent, is much less significant.

Active client reinsurance agreements

ARPC's active reinsurance agreements (or treaties) with insurer clients decreased during 2013-14 to 226 (2012-13: 231) as a result of industry consolidation. Australian insurer clients represent 19 per cent of the total active treaties and continue to contribute 90 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 figure 4.8 below.

Figure 4.8: Active client reinsurance agreements



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The trend of GWP is measured by insurer client type, premium by tier, premium by state and premium by business class. Figure 4.9 following illustrate the GWP by insurer client type.

Figure 4.9: ARPC gross written premium by insurer client type

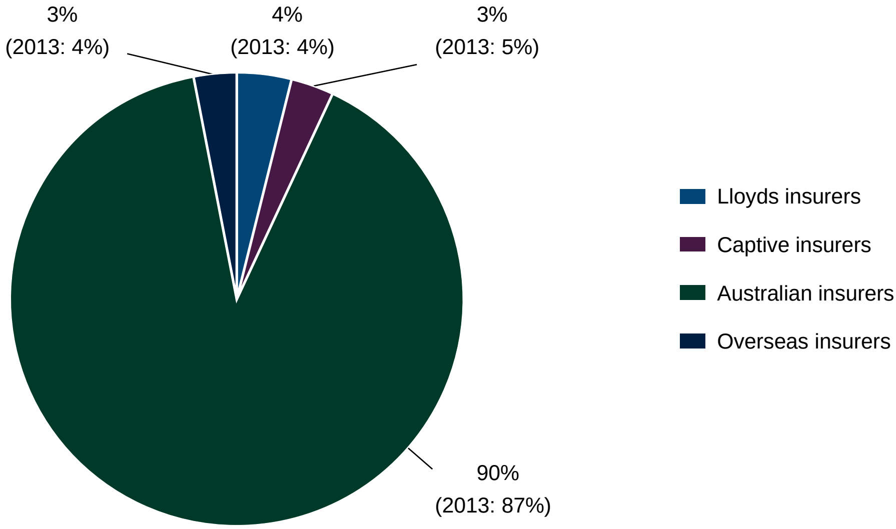


Table 4.8, 4.9 and 4.10 illustrate that the GWP by tier, state and business class between 2009 and 2013 has remained stable.

Table 4.10: Gross written premium by tier

	Actual				
	2013-14 %	2012-13 %	2011-12 %	2010-11 %	2009-10 %
Tier A	**20%**	20%	19%	19%	19%
Tier B	**51%**	51%	55%	56%	57%
Tier C	**29%**	29%	26%	25%	24%
Total GWP $ '000	**129,642**	132,093	124,709	112,555	104,885

Table 4.11: Gross written premium by state

	Actual				
	2013-14 $'000	2012-13 $'000	2011-12 $'000	2010-11 $'000	2009-10 $'000
NSW	**24%**	30%	32%	31%	31%
SA	**8%**	8%	8%	9%	9%
VIC	**24%**	21%	21%	23%	22%
TAS	**1%**	2%	2%	2%	2%
QLD	**24%**	22%	22%	20%	21%
NT	**2%**	1%	1%	1%	1%
WA	**16%**	15%	13%	13%	13%
ACT	**1%**	1%	1%	1%	1%
Total GWP	**129,642**	132,093	124,709	112,555	104,885
Cumulative Total	**1,064,547**	934,905	802,812	678,103	565,548

Table 4.12: Gross written premium by business class

	Actual				
	2013-14 $'000	2012-13 $'000	2011-12 $'000	2010-11 $'000	2009-10 $'000
Fire/ISR/BI	**82%**	83%	80%	80%	81%
Contract Works	**8%**	7%	9%	9%	7%
Burglary	**3%**	4%	5%	5%	5%
Miscellaneous Accident	**0%**	2%	2%	2%	3%
Mobile Plant	**4%**	3%	3%	3%	3%
Glass	**2%**	1%	1%	1%	1%
Farm*	**1%**	0%	0%	0%	0%
Total GWP	**129,642**	132,093	124,709	112,555	104,885
Cumulative Total	**1,064,547**	934,905	802,812	678,103	565,548

Significant events

On 1 July 2014, the substantive provisions of the PGPA Act along with supporting instruments and amendment legislation came into effect. The CAC Act was repealed on 30 June 2014 and replaced with the PGPA Act.

There have been no other developments since the end of the 2013-14 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.

Statistics

Table 4.13 shows the steady growth in premium revenue for ARPC since 2009, which is similar to the growth of our insurer clients' GWP and their aggregate sum insured. The steady growth is indicative of ARPC's portfolio that mainly consists of insurance policies covering commercial risks and small and medium enterprises (SME's) that are less affected by pricing fluctuations. This information also shows that the average price for terrorism reinsurance from ARPC has consistently been approximately 3.5 per cent, which when compared to other terrorism pools, is one of the cheapest.

Insurance risk report

Table 4.13 shows a snapshot of our insurance risks on an underwriting year basis as at 30 June 2014. This means all premiums for policies commencing within the financial year.

Table 4.13: Insurance risk report, as at 30 June 2014

Underwriting year	Premium revenue $million	Insurer client sum insured $million	Insurer client GWP $million	Premium as % of GWP
2008-09	105.7	2,526,346	2,996	3.5%
2009-10	107.4	2,658,205	2,971	3.6%
2010-11	112.0	2,963,560	3,159	3.5%
2011-12	124.7	3,080,062	3,517	3.5%
2012-13	130.2	3,009,662	3,717	3.5%
2013-14*	103.3	N/A **	2,965	3.5%

* Note that the premium revenue for 2013-14 underwriting year of $103.3 million is the amount received for three financial quarters.

** The 2013-14 risk reports are submitted onto RISe from July 2014 until September 2014. Therefore this information is not available as at 30 June 2014. This applies to tables 4.13, 4.14, 4.15 and 4.17.

Table 4.14 shows the breakdown of premium income and sum insured by tier, indicating that the majority of ARPC's exposure is located within tier B, closely followed by tier C. This is consistent with ARPC's portfolio being mainly commercial and industrial risks located in the suburban and rural areas.

Table 4.14: Insurance risk report for 2012-2013 by tier

Tier	Premium revenue $million	Insurer client sum insured $million	Insurer client GWP $million	Premium as % of GWP
A	24.3	341,571	203	12.00%
B	71.2	1,480,287	1,779	4.00%
C	34.7	1,187,804	1,735	2.00%
Total	130.2	3,009,662	3,717	3.5%

Table 4.15 indicates that the vast majority of ARPC's exposure is located in New South Wales, followed by Victoria, Queensland and Western Australia. This matches the expected exposure due to population density and major infrastructure assets located within each State.

Table 4.15: Insurance risk report for 2012-2013 by state

State	Premium revenue $million	Insurer client sum insured $million	Insurer client GWP $million	Premium as % of GWP
ACT	1.5	46,311	41	3.7%
NSW	39.3	977,355	1,026	3.8%
NT	2.0	43,173	78	2.6%
QLD	28.1	608,008	889	3.2%
SA	10.0	186,095	261	3.8%
TAS	2.0	68,426	82	2.4%
VIC	27.8	641,603	709	3.9%
WA	19.4	438,690	631	3.1%
Total	130.2	3,009,662	3,717	3.5%

Retrocession

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.

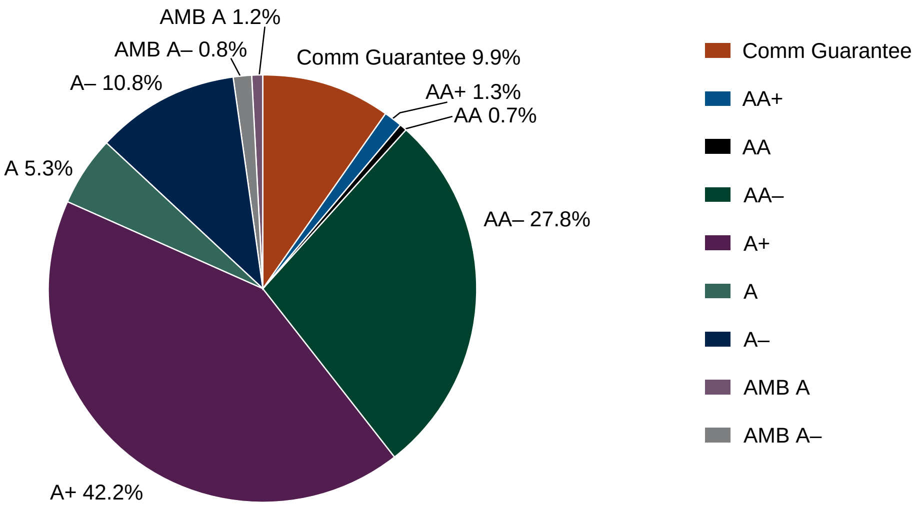
The last review of the TI Act recommended that an assessment of the appropriate capacity of the scheme should be undertaken as part of the next review, which must be completed by 30 June 2015. The 2015 triennial review will report on whether the purchase of retrocession cover including its level and cost continue to be appropriate and do not distort demand for insurance.

Retrocession placement

The retrocession reinsurance program is placed on a calendar year (CY) basis. There are currently 57 participants in the retrocession program drawn from the Australian, Lloyds, European, Bermudan, USA and Asian markets. The number of participants has reduced from 63 in 2013 in order to remain within our reduced budget and to optimise the average financial rating of our retrocession panel.

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.

Figure 4.16: Retrocession program counterparty S&P credit rating CY 2014.



The 2014 CY retrocession program of $2.9 billion (2013: $3.0 billion) was placed in six layers in excess of $360 million (2013: $375 million). All layers of the retrocession program are coreinsured by ARPC and the Commonwealth guarantee. Losses in excess of the retrocession program are covered by the Commonwealth guarantee. Please see Chapter 3 'About ARPC' for illustration of the scheme's funding capacity.

Retrocession program cost

The retrocession program starts on 1 January each year. Retrocession expense is recognised using the 365th method, with the expense incurred for the 12 months to 30 June 2014 totalling $81.7 million for the 2013-14 period (2012-13: $81.4 million). The total retrocession commission income recognised by ARPC for 2013-14 was $7.6 million (2012-13: $7.5 million). The cost of the retrocession program that began on 1 January 2014 is cheaper than the 2013 program on a CY basis. This reduction in cost was achieved through reduced rates charged by retrocessionaires from 1 January 2014 and by increasing the coreinsurance, where ARPC and the Commonwealth guarantee retain a share of the retrocession.

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

Aggregate sum insured reports

ARPC's reinsurance agreement requires each insurer client to provide an annual aggregate sum insured report. The report summarises our insurer clients' aggregate sum insured amounts at postcode level. The information is uploaded by our clients directly into ARPC's RISe system, which enables ARPC to analyse the distribution of exposure risk across Australia. The analysis includes the ability to report aggregate sum insured exposures.

Table 4.17 and figures 4.18 and 4.19 provide an overview of ARPC's total exposure based on information provided by insurer clients in reports for 30 June 2014.

Table 4.17: Aggregate sum insured amounts by tier

	2012-13 $ trillion	2011-12 $ trillion	2010-11 $ trillion	2009-10 $ trillion
Tier A	0.3	0.4	0.4	0.3
Tier B	1.5	1.5	1.5	1.2
Tier C	1.2	1.2	1.1	1.2
Total aggregate sum insured $ '000	3.0	3.1	3.0	2.7

Figure 4.18: Percentage of aggregate sum insured held as at 30 June 2014

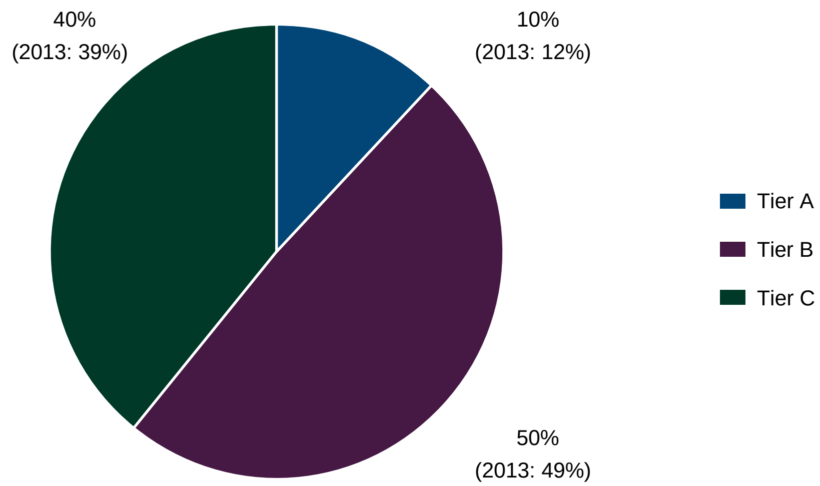
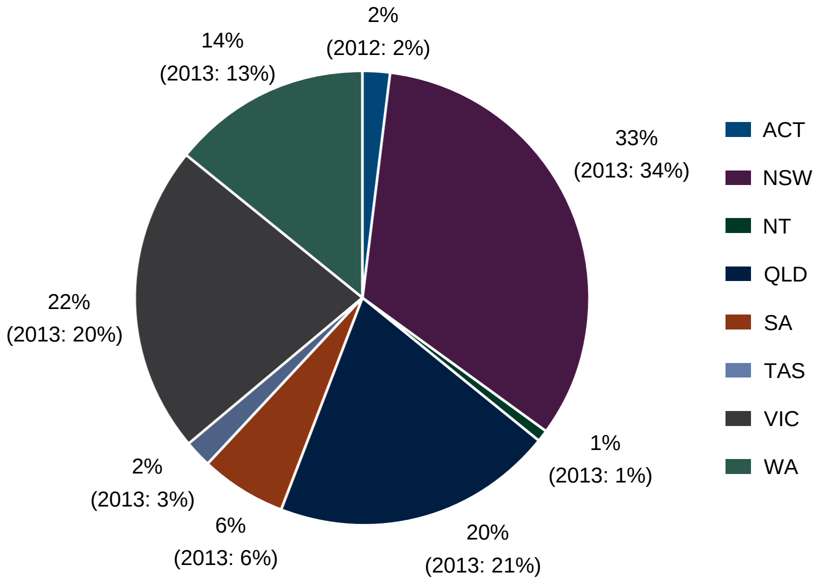


Figure 4.19: Aggregate sum insured by state as at 30 June 2014



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 sum insured information received from insurer clients 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 insurer clients 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 quickly 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 CBD buildings and the development of blast, plume and ventilation schema and modelling frameworks.

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 was built by GA and a fully automated version for the Sydney CBD was demonstrated in March 2014. Continued improvements of the 3D blast model are currently being undertaken.

This project experienced substantial delays due to the difficult task of creating up-to-date computerised models of all CBD buildings. These problems have now been overcome and the 3D blast model is due to be fully commissioned in late 2014.

Plume report

ARPC, in conjunction with GA, maintains its capability to analyse exposure and potential damage from the release of a biological or chemical agent within tier A locations. This capability draws 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.

System development

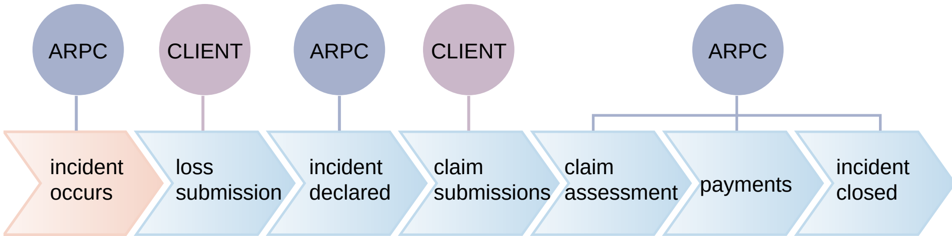
Claims system

In 2013-14 ARPC upgraded its claims handling capabilities and developed a bespoke claims system.

The new claims system integrates with ARPC's core business system RISe and provides ARPC with an automated end to end claims processing facility. ARPC's reinsured can lodge their claims online and see in real time the approval and payment status of their claims. The upgraded capability has also provided ARPC with additional internal analytics capability in the event of a DTI.

The claims system went live on 1 July 2014.

Figure 4.20: Claims process illustration



Records management

In response to the Australian Government Digital Transition Policy, ARPC is progressing to meet the challenge of digital recordkeeping by improving its information management capability.

A project has been established to implement an Electronic Document and Records Management System with supporting policy, procedures and training. This project is being managed within the ARPC Project Management Framework.

An improved information management capability will enable the effective management of ARPC information into the future, achieve compliance with the Digital Transition Policy and embed records management into information processes. The project is scheduled for completion in the 2014-15 financial year.

5. STAKEHOLDER ENGAGEMENT

5. Stakeholder engagement

Communications

ARPC is committed to open and timely communications with our stakeholders. We strive to understand their needs and exceed their expectations.

Stakeholder engagement

During 2013-14 we have increased our level of interaction with our stakeholders. This is part of our ongoing approach to work effectively with clients, to share information and continue to improve our performance.

We engage with our stakeholders with face-to-face meetings, print and electronic publications and through our insurer client review program.

ARPC's relationships with public sector stakeholders during the year were cooperative and effective. We have regular interactions with our portfolio agency The Treasury, the AGD and GA. We also liaise with national security agencies in relation to our DTI response.

Communicating with insurers

ARPC interacts with insurers regularly and provides customer service on reinsurance agreements and insurer premium submissions.

We distribute an electronic quarterly newsletter to insurers and other subscribers to communicate information which impacts their reinsurance cover with ARPC. This can include postcode updates for reporting of exposures and other information regarding their reinsurance agreement obligations.

Our Canberra office is responsible for interactions with public sector agencies and our Sydney office is responsible for service to our insurer clients and our retrocession reinsurers.

Sharing our knowledge

Active engagement with our stakeholders enables ARPC to contribute to knowledge-sharing activities. It also enhances existing relationships and develops partnerships across the spectrum of reinsurance activities.

During the 2013-14 financial year ARPC undertook:

- discussions and presentations with GAREAT (the French terrorism insurance scheme) and Pool Re (the UK terrorism insurance scheme).
- ARPC's CEO Dr Christopher Wallace was interviewed by the Asia Insurance Review magazine. The article discussed the ARPC scheme, the retrocession program and the three-dimensional blast model (loss estimation model).

- met with insurers, reinsurers, and property sector representatives on our strategic plan and services.
- a market update was provided to insurers, reinsurers, and property sector representatives following the National Commission of Audit and the Federal Budget in May 2014. This market update was presented in insurance industry news media.
- attended a blast demonstration with insurer clients held by the Australian Federal Police.

Supporting our teams and internal projects

The Communication team supports ARPC teams and internal projects by:

- developing and implementing communication plans for IT related projects and stakeholder engagement
- monitoring the media on issues affecting the insurance industry and ARPC's business
- launching an intranet and implementing improvements to make this shared tool work efficiently and effectively for its users.

Publications and online information

We maintain hard copy publications and online information to inform stakeholders of the services available from ARPC and how to access them. In 2013-14 we engaged stakeholders with publication and online information, including:

- an advertisement in the Asia Insurance Review magazine informing insurers with eligible Australian exposures, that they have the option to reinsure their terrorism risk with ARPC
- ongoing maintenance to our web and continuing to maintain our website accessibility compliance
- market updates to stakeholders regarding ARPC and the benefits of utilising our scheme.

Industry involvement

ARPC engages with the Australian and the international insurance industry through a number of forums. We participate in industry events in order to raise awareness with stakeholders on the scheme and to stay informed on industry developments in insurance and terrorism risk insurance.

During 2013-14 ARPC attended industry conferences and events including:

- Regulatory Briefing—Insurance Council of Australia
- Catastrophe Risk Seminar—Institute of Actuaries
- Reinsurance Rendezvous Conference—Australian and New Zealand Institute of Insurance and Finance
- Annual Dinner—Insurance Council of Australia

- Beat the Boss's, Insurance Industry Event—Create Foundation
- National Congress—Financial Services Accounting Association.

In September 2014, ARPC will attend the OECD Third International Meeting on Terrorism Risk Insurance, hosted by the U.S. Department of Treasury in Washington DC in September 2014. This biennial event brings together the heads of international terrorism insurance pools under the aegis of the OECD High-Level Advisory Board on Financial Management of Catastrophes.

Insurer client review program

Background

ARPC's insurer client review program was introduced in 2005 to assist our insurer clients to meet their obligations under the reinsurance agreement. This is achieved by assisting 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 insurer clients to improve their processes. However, some still operate with old system technology, which limits improvements in certain areas such as the elimination of back calculating of gross written premium. Due to insurer client staff turnover, ARPC is often required to undertake refresher training of the reinsurance obligations. Conversely, a few insurer clients have introduced new or updated technology in their systems, which have 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 insurer clients. The insurer client review program will remain active as it continues to prove its worth in many ways. For example:

- ARPC is in a position to advise insurer clients on many issues to enable them to comply with the terms of the reinsurance agreement
- it contributes greatly to maintaining good relationships with insurer clients
- it enables insurer clients to provide feedback on various issues, which in turn, forms part of ARPC's input into the triennial review process.

Insurer client reviews

ARPC undertakes reviews of insurer clients on a regular basis. This year the number of reviews increased by 40 per cent over the previous year as it included a visit to Singapore. Singapore is home to many Australian captive insurance companies administered by the major brokers. The following table details the number of insurer client visits conducted over the past five years.

Table 5.1: Number of insurer client reviews undertaken by ARPC

Type of review	2013-14	2012-13	2011-12	2010-11	2009-10
Full reviews	28	12	14	20	15
Follow up reviews	6	12	13	9	6
Total	34	24	27	29	21

Insurer client review trends

From insurer client 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
- miscoding for premium purposes. This has recently started trending and ARPC observes that a minor error in coding can cause major administrative issues for ARPC as well as the insurer client. In some cases the insurer client is entitled to a partial premium refund due to coding errors. While these have been ascertained on their own merits, all future requests for premium refunds will have to follow the newly introduced ARPC Premium Refund Policy, available on the website.

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

6. GOVERNANCE, RISK AND ASSURANCE

6. Governance, risk and assurance

Governance framework

Established under the TI Act, ARPC is a corporate Commonwealth agency within the Treasury Portfolio, being subject also to requirements under the 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.

Since 19 March 2014, ARPC's responsible Minister has been Senator the Hon Mathias Cormann. From 18 September 2013 until 18 March 2014, ARPC's responsible Minister was the Assistant Treasurer, Senator the Hon Arthur Sinodinos AO. The Hon David Bradbury was responsible Minister from 1 July 2013 until 18 September 2013.

ARPC Board appointment and remuneration

Part three 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 part-time 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 Board members is determined by the Remuneration Tribunal, under Determination 2014-03.

Members

At the time of reporting, the Board comprised the Chair and four directors, with two vacancies existing. Ms Joan Fitzpatrick continued as Chair across the 2013-14 financial year. Board membership changes during the year included the resignation of Mr Jim Murphy in July 2013 (as reported in ARPC's 2012-13 Annual Report) and Ms Melinda Howes in February 2014. In addition, Ms Patricia Azarias appointment expired in April 2014. Ms Jan Harris was appointed as temporary director for three months in April 2014; this period was subsequently extended from 15 July 2014 until 30 June 2015.

The names and details of the ARPC Board members that held office during the 2013-14 financial year follow, including their tenure.

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

Ms Fitzpatrick was appointed as Chair from 1 January 2013. Her current term expires on 31 December 2015.

Ms Fitzpatrick has an extensive record of achieving successful business outcomes in complex change environments. Originally qualified as a barrister, she was attracted to a management career which began at 20th Century Fox's fast moving consumer goods factory in Europe. Joan went on to hold management roles in manufacturing and large building projects, and international insurance operations in Asia. Joan completed 16 years as CEO and Director of the Australian and New Zealand Institute of Insurance and Finance (ANZIIF) in 2013.

Ms Fitzpatrick is an executive director with the Bevington Group and is a Graduate of the Australian Institute of Company Directors. She holds several concurrent non-executive directorships including: Director, Victorian Managed Insurance Authority (VMIA) since 2005, Chair Remuneration & Capability Committee, Member, Audit & Risk Committee; Member, World Vision Business Advisory Council and Greenfleet Advisory Board and Director and Deputy Chair, CREATE Foundation, a charity organisation helping children and young people in care in Australia since 2001.

Ms Jan Bowe
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, specialising in Corporate Strategy, Mergers and Acquisitions and Organisation Design. 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 management consultant with Bendelta with a portfolio of Board non-executive director appointments. Ms Bowe is a Director on the Board of QT Mutual Bank and is the Chair of the Sydney-based Pharmacy Group, Combined Dispensaries Friendly Society.

Ms Bowe is the Chair of ARPC's Audit and Compliance Committee.

Ms Jan Harris
BEc (Hons)

Ms Harris was appointed on 15 April 2014; her term expires on 30 June 2015.

Ms Harris is the Executive Director, Markets Group in the Treasury, with responsibility for policy relating to the financial system, small business, competition and consumers, capital markets, retail investment, foreign investment and deregulation. She has spent most of her career in the Treasury working on budget policy issues, international financial and economic issues, Commonwealth-State financial issues, competition policy, monetary policy, financial markets and taxation policy.

Ms Harris has been a member of the Audit and Compliance Committee since 20 May 2014.

Mr Tom Karp
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.

Mr Karp has been a member of the Audit and Compliance Committee since February 2014.

Ms Marian Micalizzi
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.

Ms Patricia Azarias
BA (Hons) MA MPA

Ms Azarias was first appointed on 22 April 2008; her final term expired 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.

During her term, Ms Azarias was a member of the Audit and Compliance Committee.

Ms Melinda Howes
BEc, FASFA, FIAA, GAICD,

Ms Howes was appointed on 1 January 2013. She resigned as a director on 14 February 2014, shortly after taking on an executive role with AMP.

Ms Howes' career in financial services spans policy, strategy, consulting, product and sales work in superannuation, wealth management, insurance and not for profit entities.

At the time of her appointment, Ms Howes was the CEO of the Actuaries Institute. She was previously 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.

During her tenure, Ms Howes was a member of the Audit and Compliance Committee.

Mr James Murphy PSM
BA (Econ & History) LLB MPubLaw

Mr Murphy was appointed as an inaugural member of the Board on 1 July 2003, and resigned 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 convened seven meetings during the 2013-14 financial year, comprising six meetings for general business and one two-day strategic planning workshop. Table 6.1 lists the number of meetings attended by each member during the reporting period.

Table 6.1: Number of meetings attended by each Member of the Board

Name	Number of meetings entitled to attend	Number of meetings attended
Ms Joan Fitzpatrick	7	7
Ms Patricia Azarias	6	4
Ms Jan Bowe	7	7
Ms Jan Harris	1	1
Ms Melinda Howes	5	4
Mr Tom Karp	7	6
Ms Marian Micalizzi	7	7

Audit and Compliance Committee

The Board established the Audit and Compliance Committee to support the administration and sound governance of ARPC. The Audit and Compliance Committee operates in accordance with the terms of reference approved and adopted by Members.

The terms of reference for the Audit and Compliance Committee, which are reviewed annually, govern the powers, composition, duties and responsibilities of the committee and the conduct of committee meetings.

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 monitored the implementation of internal audit recommendations, and reviewed and accepted the terms of engagement of ANAO. It also reviewed the financial statements to assist the Board in making the statements required by the Finance Minister's Orders (FMO).

The members of the committee who have held office during the financial year were:

- Ms Jan Bowe (Chair)
- Ms Jan Harris
- Mr Tom Karp
- Ms Patricia Azarias (past member)
- Ms Melinda Howes (past member)
- Ms Marian Micalizzi (past member, previous Chair)

Mr James Murphy resigned effective 11 July 2013. There were four meetings of the committee held during 2013-14 financial year, with the number of meetings attended by each committee member listed in table 6.2.

Table 6.2: 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 Jan Bowe	4	4
Ms Patricia Azarias	4	2
Ms Melinda Howes	3	3
Mr Tom Karp	1	1
Ms Marian Micalizzi	1	1

Corporate governance practices

The Board and ARPC's leadership remain committed to maintaining the highest standard of corporate governance. ARPC's corporate governance framework is fundamentally underpinned by the Board Charter, the Audit and Compliance Committee Terms of Reference, the Enterprise Risk Management Framework, and supporting control frameworks providing financial management, fraud control, compliance management, security, project management and continuity planning.

ARPC continues to monitor governance trends across a range of sources throughout government and the private sector. Although not regulated by the Australian Prudential Regulation Authority (APRA), ARPC draws on prudential standards as a benchmark for best practice across the industry.

Operationally, ARPC formally recognises and reports against the Australian Stock Exchange's (ASX's) Principles of Good Corporate Governance and Best Practice Recommendations. 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 while the Board was also reviewed by an external contractor. Senior management performance reviews were undertaken in 2013-14 by the CEO, in accordance with the documented Performance Management System. All ARPC Board Directors and senior managers hold appropriate qualifications and levels of experience.

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 and provide an annual declaration. 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 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. The ARPC Grievance Policy and the *Public Interest Disclosure Act 2013* (PID Act) provides guidance on 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 (now Chief Operating Officer) 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. During the reporting period, the CEO also published a market update in response to international enquiries regarding ARPC's future direction.

Principle 6: Respect the rights of shareholders

Being a CAC Act agency, ARPC has a responsible Minister rather than a shareholder Minister. However, it maintains open communications with key stakeholders, including our responsible Minister, through regular meetings with insurer clients, reinsurers, industry associations and representatives from state and federal governments.

Principle 7: Recognise and manage risk

ARPC maintains an enterprise risk register that is regularly reviewed by management. Risk reports highlighting ARPC top ten enterprise risks and associated management approaches are provided to the Board at each meeting. The ARPC Board and executive team engage in the annual review and formulation of ARPC's risk appetite and tolerance levels, with the risk register reviewed and updated as required.

The Board remains responsible for risk oversight, with risk a prioritised standing agenda item at each Board meeting. The Audit and Compliance Committee meets at least three times each year and ensures any issues identified during audits are recorded and monitored on the issue logs until fully remediated.

Principle 8: Remunerate fairly and responsibly

Remuneration for Board members is determined by the Remuneration Tribunal, under Determination 2014/03. 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. This agreement 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 2013-14, 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 2013-14 was $47,790 ($48,647 in 2012-13).

Judicial and administrative decisions and review

During the 2013-14 financial year, 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 gave ARPC a written direction to make a payment to the Commonwealth of $75 million in March 2014.

On 19 June 2014, the Hon. Joseph Hockey, Treasurer, gave a written direction to ARPC amending the 2012 Minister to Australia Reinsurance Pool Corporation (Payments to the Commonwealth) Direction. The amendment effectively cancelled the requirement for ARPC to make the remaining payments to the Commonwealth under the 2012 Ministerial Direction, being $75 million in January 2015 and a $75 million payment in January 2016. A separate direction will be issued in 2014-15 financial year for ARPC to make payments to the government as compensation for the $10 billion guarantee.

Two previous Ministerial Directions remain in force: they relate to risk retention by reinsured (effective from 1 July 2007), with the other in respect to premiums (effective from 1 July 2011).

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, there were no GPOs applicable to ARPC.

Risk management

Organisational risk oversight is the responsibility of the ARPC Board and is managed as a priority standing agenda item at each Board meeting. During 2013-14 financial year, the ARPC Board also revised ARPC's risk appetite and tolerance position to align the organisational enterprise risk management practices with more contemporary approaches.

An annual review of the enterprise risk register was undertaken by ARPC's senior executive team along with representatives from the organisation's outsourced internal audit provider. Operationally, risk management processes were significantly enhanced with the introduction of improved reporting to the Board. ARPC also introduced regular management meetings incorporating the review and discussion of the organisation's risks. ARPC's control frameworks for fraud management, business continuity, security management and audit continued to be refined and implemented based on a risk managed approach.

Internal audit

ARPC's internal audit is delivered under a charter approved by the ARPC Audit and Compliance Committee. Resourcing for the reporting period was provided by expert internal audit service provider, Protiviti, with some additional in-house assistance. Internal audit partners closely with management to identify and analyse business risks, and the annual internal audit program of work is primarily focused on key business risk areas. Improvements identified through audits are agreed with management and reported and tracked to completion through the ARPC Audit and Compliance Committee. Internal audit has routine discussion with external audit in order to avoid any duplication of work and external audit has full access to internal audit work.

2013-2014 program

The following audits and reviews were conducted by internal audit in 2013-14:

- Audit of Consultancy Expenditure
- Review of Information Technology General Controls
- Review of Declared Terrorism Incident Planning and Management
- Health Check of the Overall ARPC Control Framework (using the COSO framework)
- Review of Governance, Risk and Compliance
- Review of Retrocession Contract Management.

Legislative compliance

To ensure staff understood their compliance obligations during 2013-14, they were kept informed of changes to legislation relevant to business operations. This included regular updates on the PGPA Act, the PID Act and changes to the *Privacy Act 1998*.

Public interest disclosure

The PID Act came into effect on 15 January 2014, promoting integrity and accountability in the Australian public sector by encouraging the disclosure of information about suspected wrongdoings, protecting people who make disclosures and requiring agencies to take action.

In accordance with requirements under the PID Act, ARPC has created a PID Policy, access to which has been made available on our webpage. Comprehensive staff training was conducted over two sessions, including an introductory session conducted on site by the Senior Assistant Ombudsman.

During the reporting period, ARPC received no public interest disclosure notifications.

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.

During the reporting period, ARPC received one FOI request; this was subsequently withdrawn due to the fact that the material sought was already available on the ARPC website.

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 the ARPC Freedom of Information Officer:

General Manager Governance, Risk and Compliance
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 (FOI) officer.

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

Business continuity

In 2013-14 ARPC's corporate governance team completed their review and redesign of the business continuity management framework. This leverages greater efficiency within the program through the alignment of other like-incident response processes. As a result, the business continuity management framework was expanded to incorporate ARPC's response following a potential DTI. The new framework is scheduled for official release in the 2014-15 financial year, together with improved toolsets to support the ARPC Board and management decision processes.

During 2013-14, ARPC continued the implementation of a comprehensive list of recommendations for response improvements, which were the outcome of end-to-end testing of the DTI capabilities performed in May 2013.

Fraud prevention and control

During reporting period, ARPC continued to implement recommendations within the 2012 Fraud Control Plan, (the Plan). The Plan incorporates ANAO's Elements of Better Practice Fraud Control 2011, and is also consistent with the Commonwealth Fraud Control Guidelines 2011. ARPC continues its risk-based approach to fraud control.

In April 2014 ARPC engaged a contractor to undertake the biennial fraud risk assessment, as required by the Plan. At the time of reporting, the 2014-16 Fraud Control Plan was in final draft, awaiting endorsement from the Audit and Compliance Committee and final approval by the Board.

The 2014-16 Fraud Control 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. ARPC has retained the four key fraud control strategies from the previous Plan, which are:

- prevention
- detection
- response and monitoring
- reporting.

The 2014-16 Fraud Control Plan has streamlined the categorisation of ARPC's fraud risks, with senior management consulted and involved in the fraud risk assessment process. The Plan also takes into consideration requirements that came into force on 1 July 2014 under the PGPA Act.

Consultation arrangements

People and organisations outside ARPC may assist 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 insurers, industry bodies, and other interested parties outside the Australian Government for discussions on various matters.

Consultancies

ARPC utilises consultants to provide specialist skills to assist with key projects and tasks. During 2013-14 consultants were engaged to assist in the following areas:

- facilitation of strategic planning
- specialist technical projects and maintenance
- independent review/advice on legal, policy and accounting issues
- workforce capability, work health and safety, recruitment and career management
- independent quality assessments.

Ecologically sustainable development

ARPC's premises in Canberra and Sydney have a 4.5 star energy rating. ARPC continues to pursue initiatives designed to conserve energy and minimise waste and water usage.

The following table lists the strategies used by the building owners and ARPC to assist in reducing our carbon footprint.

Table 6.3: 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.
	Use of electronic meeting papers.	
	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.	

7. PEOPLE AND CULTURE

7. People and culture

Leadership

ARPC's is headed by the CEO who is appointed by the Board under the provisions of the TI Act.

Dr Christopher Wallace
BEc (Hons) PhD(Econ), ANZIIF (Fellow), CIP
Chief Executive Officer

Term: 9 December 2013-8 December 2016

Dr Wallace has over 30 years experience in general insurance, workers' compensation, and health insurance. Dr Wallace has worked extensively in insurance underwriting and claims management roles within insurers, and as a consultant to the insurance industry. Previous roles include being General Manager Workers Compensation at GIO, Executive Director at Ernst & Young, and most recently as General Manager Benefits Management at HCF. He has a doctorate in economics, specialising in general insurance pricing and general insurance strategy. He is a fellow of the Australian and New Zealand Institute of Insurance and Finance and is a Certified Insurance Professional.

David Matcham
Previous Chief Executive Officer

Term: 5 October 2010-4 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. He is a director of Hollard Insurance. David is the former Chair of the CREATE Foundation, the peak body which advocates for children in care. He previously held a position on the Board of the Insurance Council of Australia (ICA).

Following the expiry of Mr Matcham's term, the Board appointed Ms Marianne Cavanagh as acting Chief Executive Officer, commencing 8 October until Dr Wallace commenced his term.

Executive team

The executive team provides strategic and financial guidance for the organisation, making recommendations to the Board on strategic and operational plans, as well as investment and reinsurance strategies. The team also promotes effective communication and the strategic direction across all areas of operations within ARPC.

Alison Kelly
GAICD, GIA (Cert)
General Manager Governance, Risk and Compliance

Alison 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. As ARPC's Board Secretary, Alison also provides support to the Board and to the Audit and Compliance Committee, while also being the key touch point for liaison with the Department of the Treasury, the Minister's office and other government stakeholder agencies.

Michael Pennell
BE, ANZIIF Fellow, CIP, MIE Aust
Chief Underwriting Officer

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.

Fran Raymond
BCom MBA, AFAIM, FAICD, FCA, FSAA, GDPPM, MAMI
Chief Operating Officer

Fran commenced working with ARPC in January 2014 and brought with her significant experience in the Australian Public Service and a strong network in government finance. Fran is responsible for finance, communications, human resources and information communication technology. This includes related functions such as investments, annual report, records management, administration and work health and safety. Fran is responsible for ensuring ARPC complies with all financial legislation, policy and reporting requirements of government, while maintaining the assets of the corporation.

Michael Stallworthy
MBA, ANZIIF Fellow, CIP
General Manager Insurance Audit 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 to three year period to conduct audits on cedant compliance within the terms of their reinsurance agreement.

Managers

Photo (from left to right): Norris Robertson, Samual Roberts, Sujit Mukherjee and Garry Boyd.

Garry Boyd
CISA, CISSP
Manager Governance and Secretariat

Garry is responsible for providing operational support to the Manager Corporate Governance role in the daily management of the team providing services for; risk and compliance management, fraud control, business continuity, annual report production, project management, contract management and Board secretariat functions. Garry is also the security coordinator fulfilling the roles of Agency Security Advisor and IT Security Advisor.

Sujit Mukherjee
Manager Finance

Sujit is responsible for all aspects of financial management at ARPC. This includes budgeting, reporting, and cash and investment management. Sujit is responsible for the oversight of cedant receivables, all payables and management and statutory reporting.

Norris Robertson
BSc (Hons) GDip Education GDip Computing, MIIA
Manager Insurance Audit and Research

Norris assists with the performance of ARPC's rolling cycle of insurer client reviews. These reviews assess compliance with ARPC's reinsurance agreement and in particular that ARPC. Norris also undertakes key research projects.

Samual Roberts
Manager Information Technology

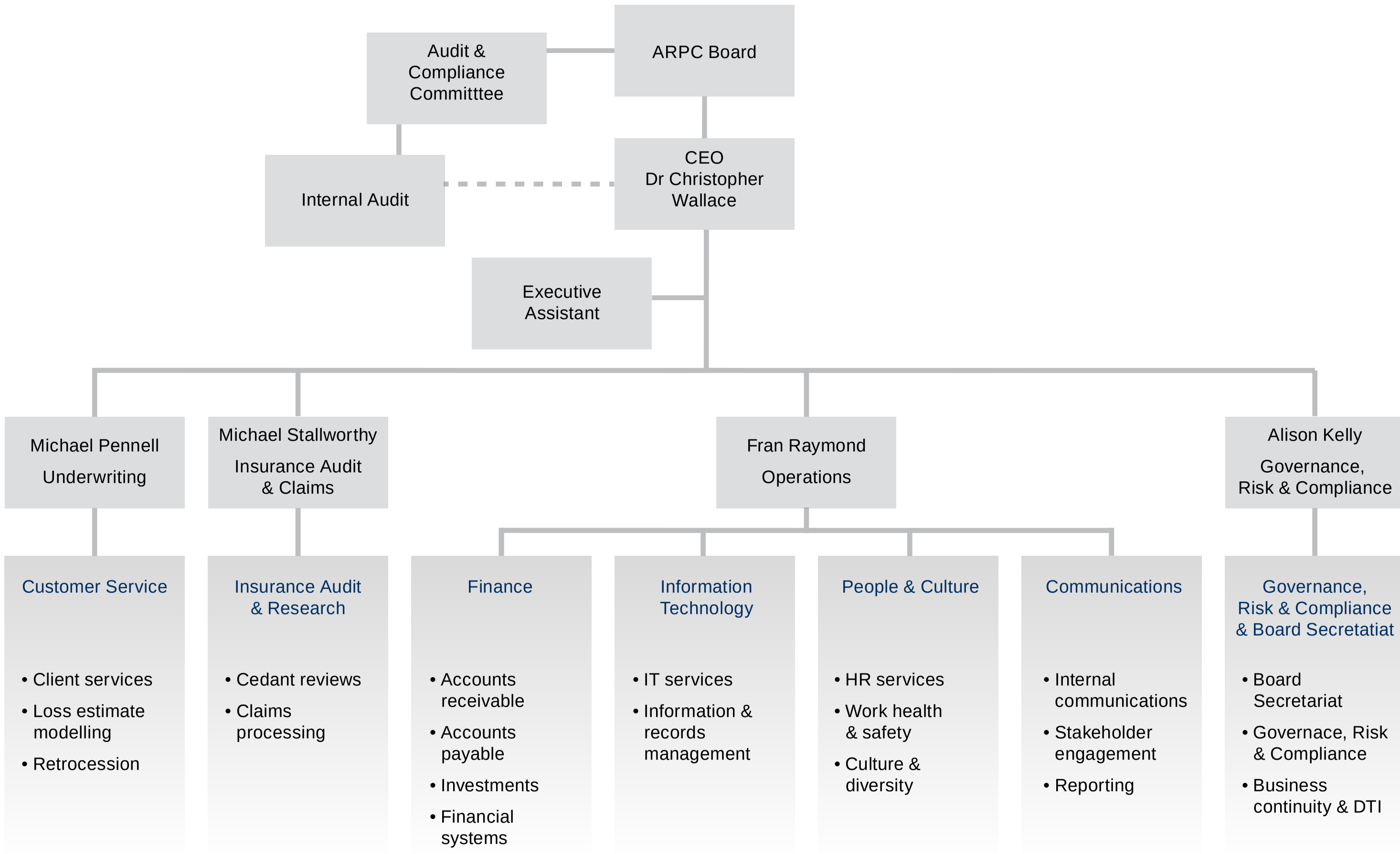
Samual is responsible for all IT functions, all network, applications, intranet, internet, systems support and IT Purchasing. He is also responsible for ARPC's core business system RISe including its maintenance and incremental development.

Organisation structure

As at 30 June 2014, ARPC had twenty staff including the Chief Executive Officer. Seventeen are full-time permanent staff, two are part-time permanent staff and one is a non-ongoing staff. Eighteen staff are located in ARPC's Canberra office and two are located in the Sydney office. The Canberra office is responsible for the operations, corporate governance and risk and compliance functions. The Sydney office is responsible for insurance audit, claims, underwriting and retrocession.

The organisational chart at 7.1 illustrates functional responsibilities of ARPC.

Chart 7.1: ARPC's organisational chart



Staffing information

ARPC enjoys a blend of experienced staff across all levels, with a mixture of technical and specialised skills that work in collaboration.

The following three tables illustrate classification, gender and length of service of staff, as at 30 June 2014.

Table 7.2: Number of permanent on-going employees by classification and gender

Classification	Male	Female	Total
ARPC level 3	-	-	-
ARPC level 4	-	2	2
ARPC level 5	-	3	3
ARPC level 6	-	4	4
Executive Level 1	-	1	1
Executive Level 2	4	-	4
Senior executive staff (SES)	3	2	5
Total	7	12	19

Table 7.3: Number of non-on-going employees by classification and gender

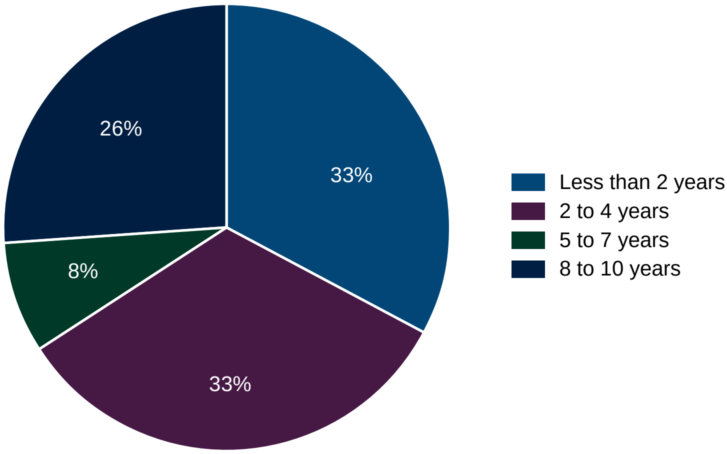
Classification	Male	Female	Total
ARPC level 3	-	-	-
ARPC level 4	-	-	-
ARPC level 5	-	-	-
ARPC level 6	-	-	-
Executive Level 1	1	-	1
Executive Level 2	-	-	-
Senior executive staff (SES)	-	-	-
Total	1	-	1

Table 7.4: Length of service by team

Staff Group	< 2 years	2- 4 years	5- 7 years	8-10 years
Underwriting	0	0	0	2
Insurance Audit & Claims	0	1	0	1
Operations	4	4	1	1
Governance, Risk & Compliance	1	2	1	0
CEO	1	1	0	0
Total	6	8	2	4

Figure 7.5: Length of service

The following figure shows the length of service for ARPC staff as at 30 June 2014.



The following table provides the salary scales for all non-SES staff as at 30 June 2014.

Table 7.6: 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

Capability review

During 2013-14, an organisation-wide capability review was undertaken as outlined in the Strategic Plan. The objective of the review was to identify skills required within the organisation to enable ARPC to deliver its strategic objectives.

The organisation has implemented a new structure in support of ARPC's strategic priorities through changes in individual roles and responsibilities and an overall reduction in the number of positions from 26 to 20. This reduction was achieved through a mixture of natural attrition and voluntary redundancies.

People and Culture area

People and Culture area provides a range of human resources (HR) and administrative support to ARPC and its staff. The area develops, implements and monitors HR strategies and policies to deliver business outcomes. The area also manages:

- learning and development
- recruitment and selection
- performance management system
- employment contracts and remuneration
- Work Health and Safety (WHS).

ARPC's payroll functions are managed by Treasury through a Memorandum of Understanding (MoU).

Employment Agreement

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.

Although ARPC's Enterprise Agreement 2010-14 (the Agreement) nominally expired on 22 February 2014, the Agreement continues to provide the terms and conditions of employment for non-SES staff until a new agreement is formalised and implemented.

The release and implementation of the new Australian Government Public Sector Workplace Bargaining Policy (the Bargaining Policy) occurred in late March 2014. ARPC subsequently began preparations to negotiate a new agreement with staff within the parameters of the bargaining policy.

Performance management system

ARPC's performance management system (PMS) provides the framework for managers and staff to collaborate on performance and development.

All employees participate in the PMS, with the exception of the CEO. The PMS facilitates discussions between managers and staff on working standards and development goals. It is also designed to promote two-way, fair and objective performance feedback in accordance with ARPC's Enterprise Agreement 2010-14. The PMS provides a tool for recognition of staff for their performance and achievements over the preceding 12 months in addition to assisting managing cases of underperformance.

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 started reviewing its PMS in 2014 to align it with the Australian Public Service Commission (APSC) Integrated Leadership System (ILS). ARPC's new PMS will also complement the new position descriptions that came out the Capability review, which are also in alignment with the ILS. This enables further clarification and understanding between managers and staff on specific requirements within each classification, adding further value to the annual performance appraisal process.

Learning and development

ARPC is committed to the ongoing professional development of all staff including providing opportunities for staff to expand their professional skills.

Staff are able to partake in a wide array of training including industry specific, role specific and personal career development training opportunities. The annual performance appraisal process is instrumental for managers and employees to identify further areas of development and training.

During the year employees attended a variety of development programs including:

- Continuity Forum Summit
- SharePoint 2013
- Financial Services Accountants Association national conference
- Finance and Treasury Association Congress
- Technical Writing
- Ethics training
- Australian Institute of Corporate Directors

Study assistance

To further the development of staff, ARPC offers a study assistance program for all permanent ongoing staff. Study leave and financial assistance are available to staff undertaking part-time study to enhance their skills in areas relevant to ARPC's operational requirements.

During 2013-14 study assistance participation included courses for:

- Graduate Certificate in Management (Information Technology)
- Bachelor of Business Informatics
- Certificate IV in Accounting

Work health and safety

ARPC is committed to providing a safe and healthy workplace for all of its workers.

In previous years ARPC has participated in a Health and Safety Committee established by Treasury to address Work Health and Safety (WHS) matters. Over 2013-14 WHS responsibilities for ARPC were reassigned in-house with ARPC. A new WHS policy was developed in accordance with the *Work Health and Safety Act 2011* and implemented following Board approval. The policy outlines the WHS roles and responsibilities of ARPC and its workers. It also shows the steps to report an incident or a hazard and provides an outline of the related policies for the information of workers. The Executive considers WHS updates weekly and the Board receives regular reports.

Further to the WHS Act requirements, the ARPC maintains Health and Safety Representatives (HSR) and First Aid Officers within the workplace across both the Canberra and Sydney offices. Both HSRs and First Aid Officers are provided with formal training to enable understanding of their responsibilities and effective carriage of their duties.

Incidents

If an incident occurs, ARPC is committed to supporting its workers and providing 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.

ARPC is currently seeking review for one compensation claim received during 2013-14.

No other serious injuries, prescribed incapacities or dangerous occurrences that resulted in a compensations claim were reported during 2013-14.

Wellbeing

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

Employee assistance program

Counselling and support is available to staff and immediate family members through ARPC's employee assistance program. All services provided through the employee assistance program are strictly confidential.

Wellbeing program

ARPC developed and implemented a wellbeing program tailored to staff in 2013-14. The program began with Fruit Box deliveries and installation of sit-stand workstations in both the Canberra and Sydney offices. Other activities of the program include activities such as health checks, nutritional seminars and steps challenges.

Lifestyle payment

ARPC's Enterprise Agreement provides for an annual payment towards positive lifestyle expenses. This program has 100 per cent participation from eligible staff and is used by staff to participate in activities such as gymnasium and swimming pool fees and sporting equipment.

Staff inclusion

ARPC conducts monthly all-staff meetings to promote an information sharing environment for staff. These meetings provide the opportunity for staff to have a greater knowledge of ARPC's business and gain an understanding of internal and external factors that may affect ARPC and its operations.

Workplace diversity program

ARPC's workplace diversity and equal employment opportunity policies are covered by its MoU.

ARPC has a range of strategies and initiatives in place in accordance with Treasury's workplace diversity program. These strategies and initiatives strive to foster an environment that attracts, develops, values and retains people from varying cultural backgrounds, as well as those of different ages, genders, skills and experiences. Through this 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 lifestyle choices
- encourage and support a safe and healthy working environment

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

Team building

Lunch and Learn

ARPC's lunch and learn sessions provide an informal and relaxed environment to deliver training to all staff. The bimonthly sessions provide training and development programs to address ARPC specific as well as legislative training requirements. The sessions are held in Canberra and provide the opportunity for Canberra and Sydney staff to get 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 2013-14 included:

- Corporate Governance—what is it?
- PID Act
- *Privacy Act 1988*

- Procurement and contract management framework
- PGPA compliance.

Promoting an ethical working environment

ARPC is committed to promoting an ethical working environment for all staff. This can be demonstrated by the formal documentation of its values and conduct to which staff are required to adhere. This was further strengthened with ARPC's new values as developed by all staff and implemented in 2014.

Values

In line with developing and implementing a new Strategic Plan, Purpose and Role, ARPC also developed and implemented a new set of values to reflect the new and future culture of the organisation. All staff within the organisation contributed to the selection of the new values set.

As noted in '2. Strategy and outlook', the new values consist of the following five categories:

- stakeholders first
- empower our people
- be courageous
- work smart
- continuously improve

Code of conduct

In addition to developing and implementing new values, ARPC is moving to align its Code of Conduct to the APS Code of Conduct. This will further strengthen and connect ARPC's core principals surrounding its values, Code of Conduct and the PMS and their alignment with the APSC ILS.

Under the ARPC Code of Conduct, our employees must at all times behave in a manner that upholds the ARPC Values and Employment Policy principles, and the integrity and good reputation of Australia and of ARPC.

In addition, whilst undertaking any role or activity in connection with our employment, all ARPC employees must:

- behave honestly and with integrity
- act with care and diligence
- treat everyone with respect, courtesy and without harassment and discrimination
- strive to achieve ARPC's key objectives, working collaboratively and collegiately within their team, across ARPC and with all government and other external stakeholders

- comply with their Employment Contract/Enterprise Agreement
- comply with all applicable Australian laws and regulations
- comply with any reasonable and lawful direction given by someone who has authority to give that direction
- maintain appropriate confidentiality regarding dealings with any Minister or the Minister's member of staff
- disclose and take reasonable steps to avoid any conflict of interest (real or apparent) in relation to employment with ARPC, and disclose details of any material personal interests
- use all Commonwealth resources in a proper manner
- not provide false or misleading information in response to a request for information that is made for official purposes
- not make improper use of information, duties, status, power or authority to:
  - gain or seek to gain any benefit or advantage, or
  - cause or seek to cause detriment to ARPC, the Commonwealth or any other person
- while on duty overseas, behave in a manner that upholds the good reputation of ARPC Australia.
-

8. FINANCIAL STATEMENTS

8. Financial statements

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

I have audited the accompanying financial statements of the Australian Reinsurance Pool Corporation for the year ended 30 June 2014, 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; Schedule of Contingencies; 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 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 conduc d 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.

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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 2014 and its financial performance and cash flows for the year then ended.

Australian National Audit Office

Michael J Watson
Group Executive Director
Delegate of the Auditor-General
Canberra
24 September 2014

Statement by Members, Chief Executive and Chief Financial Officer

In our opinion, the attached financial statements for the year ended 30 June 2014 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	C Wallace	F Raymond
Chair	Chief Executive Officer	Chief Financial Officer
24 September 2014	24 September 2014	24 September 2014

Statement of comprehensive income
for the year ended 30 June 2014

	Notes	2014 $'000	2013 $'000
Premium revenue		**129,708**	127,281
Outwards retrocession premium expense		**(81,728)**	(81,381)
Net premium revenue	5(a)	**47,980**	45,900
Claims expense		**-**	-
Retrocession and other recoveries revenue		**-**	-
Net claims incurred		**-**	-
Acquisition costs	6(b)	**(1,089)**	(1,167)
Underwriting result		**46,891**	44,733
Retrocession commission revenue	5(b)	**7,606**	7,471
Investment income	5(c)	**26,531**	35,912
Other loss	5(d)	**(1,660)**	(4,193)
Other operating expenses	6(b)	**(7,962)**	(6,680)
Finance charges	6(a)	**(4)**	(4,793)
Operating result		**71,402**	72,450

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

Balance sheet
as at 30 June 2014

		Notes	2014 $'000	2013 $'000
Assets				
	Current assets			
	Cash and cash equivalents	7	**1,314**	4,953
	Receivables	8	**42,011**	45,874
	Investments	9	**595,500**	666,230
	Deferred insurance assets	10(a)	**40,685**	42,752
	Other non-financial assets	11	**36**	56
	Total current assets		**679,546**	759,865
	Non-current assets			
	Property plant and equipment	12	**505**	739
	Intangibles	12	**1,330**	1,695
	Total non-current assets		**1,835**	2,434
Total assets			**681,381**	762,299
Liabilities				
	Current liabilities			
	Unearned liability	13(a)	**66,386**	66,263
	Payables	14(a)	**41,099**	43,495
	Dividend payable	14(b)	**-**	75,000
	Other interest bearing liabilities	15	**85**	54
	Employee provisions	16(a)	**253**	220
	Total current liabilities		**107,823**	185,032
	Non-current liabilities			
	Dividend payable	14(b)	**-**	143,990
	Other interest bearing liabilities	15	**162**	247
	Employee provisions	16(a)	**310**	337
	Other provisions	16(b)	**52**	51
	Total non-current liabilities		**524**	144,625
Total liabilities			**108,347**	329,657
Net assets			**573,034**	432,642
Equity				
	Accumulated reserves		**-**	-
	Asset revaluation reserve		**60**	60
	Claims handling reserve		**37,920**	24,330
	Reserve for claims		**535,054**	408,252
Total equity			**573,034**	432,642

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

Statement of changes in equity
as at 30 June 2014

	Notes	Accumulated reserves		Asset revaluation reserve		Claims handling reserve		Reserve for claims		Total equity	
		2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
		$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Opening balance at 1 July		**-**	-	**60**	60	**24,330**	21,732	**408,252**	338,400	**432,642**	360,192
Income and expenses											
Net operating result		**71,402**	72,450	**-**	-	**-**	-	**-**	-	**71,402**	72,450
Total income and expenses		**71,402**	72,450	**-**	-	**-**	-	**-**	-	**71,402**	72,450
Asset revaluation reserve		**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Transfers between equity components											
Transfer to reserve for claims	1(j)	**(71,402)**	(72,450)	**-**	-	**-**	-	**-**	-	**(71,402)**	(72,450)
Claims handling reserve		**-**	-	**-**	-	**13,590**	2,598	**-**	-	**13,590**	2,598
Transfer to reserve for claims from accumulated reserves		**-**	-	**-**	-	**-**	-	**57,812**	69,852	**57,812**	69,852
Transactions with owners											
Distributions to owners		**-**	-	**-**	-	**-**	-	**68,990**	-	**68,990**	-
Closing balance at 30 June		**-**	**-**	**60**	60	**37,920**	24,330	**535,054**	408,252	**573,034**	432,642

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

Cash flow statement
for the year ended 30 June 2014

	Notes	2014 $'000	2013 $'000
Operating activities			
Cash received			
Premiums		**142,811**	138,129
Commission		**8,368**	8,229
Interest		**28,017**	34,360
Total cash received		**179,196**	180,718
Cash used			
Retrocession payments		**84,992**	84,497
Creditors and employees		**8,388**	8,157
Net goods and services tax paid to ATO		**10,059**	7,437
Total cash used		**103,439**	100,091
Net cash from operating activities	17	**75,757**	80,627
Investing activities			
Cash received			
Proceeds from sale of investments (bonds)		**720,045**	519,645
Proceeds from maturities of term deposits		**791,500**	1,076,500
Total cash received		**1,511,545**	1,596,145
Cash used			
Purchase of property, plant and equipment		4	67
Purchase of intangibles		**122**	40
Purchase of investments (bonds)		**486,315**	507,011
Placement of term deposits		**954,500**	998,000
Total cash used		**1,440,941**	1,505,118
Net cash from investing activities		**70,604**	91,027
Financing activities			
Cash used			
Distributions to owners		**150,000**	175,000
Total cash used		**150,000**	175,000
Net cash (used by) financing activities		**(150,000)**	(175,000)
Net (decrease) in cash held		**(3,639)**	(3,346)
Cash and cash equivalents at the beginning of the reporting period		**4,953**	8,299
Cash and cash equivalents at the end of the reporting period	7	**1,314**	4,953

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

EIGHT FINANCIAL STATEMENTS

Schedule of commitments
as at 30 June 2014

	2014	2013
	$'000	$'000
By type		
Other commitments		
Service level agreements*	**578**	1,585
Software license agreement**	**-**	-
Software development agreement***	**273**	408
Operating leases****	**1,997**	2,796
Total other commitments	**2,848**	4,789
Commitments receivable	**(237)**	(435)
Net commitments by type	**2,611**	4,354
By maturity		
Service level agreements commitments		
One year or less	**578**	920
From one to five years	**-**	665
Total service level agreements commitments	**578**	1,585
Software licence agreement commitments		
One year or less	**-**	-
From one to five years	**-**	-
Total software licence agreement commitments	**-**	-
Software support and development agreement commitments		
One year or less	**273**	268
From one to five years	**-**	140
Total software support and developement agreement commitments	**273**	408
Operating lease commitments		
One year or less	**830**	799
From one to five years	**1,167**	1,997
More than five years	**-**	-
Total operating lease commitments	**1,997**	2,796
Commitments receivable		
One year or less	**(131)**	(180)
From one to five years	**(106)**	(255)
More than five years	**-**	-
Total commitments receivable	**(237)**	(435)
Net commitments by maturity	**2,611**	4,354

The above statement 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.

Schedule of contingencies
as at 30 June 2014

	2014 $'000	2013 $'000
Contingent assets		
Guarantees	**-**	-
Indemnities	**-**	-
Claims for damages or costs	**-**	-
Total contingent assets	**-**	-
Contingent liabilities		
Guarantees	**-**	-
Indemnities	**-**	-
Claims for damages or costs	**40**	-
Total contingent liabilities	**40**	-
Net contingent assets/(liabilities)	**(40)**	-

Details of each class of contingent liabilities and contingent assets listed above are disclosed in Note 18, along with information on significant remote contingencies and contingencies that cannot be quantified.

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

Notes to and forming part of the financial statements for the year ended 30 June 2014

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 2013 to 30 June 2014.

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 2014.

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 1.5(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 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 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.

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 2013; 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 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 1.5(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 2014 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 retrocession expenses incurred.

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 (2013: $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 (2013: $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 in the comparative year represented the contractual maturities of these securities. These securities were classified as current on the Balance sheet due to the intention to realise within twelve months. ARPC no longer holds investments in the form of Government (guaranteed) securities.

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.

ARPC has made payments to the Commonwealth during 2013 and 2014. A direction was given by the Minister, 19 June 2014, to amend the previous direction issued on 21 June 2012. The effect of the amendment is to omit the obligation for ARPC to make $75 million payments to the Commonwealth in January 2015 and January 2016.

(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 both annual and long service leave has been determined by reference to standard parameters provided by the Department of Finance. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and general pay increases.

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 2014.

(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 non-current assets. An operating lease is a lease that is not a finance lease. In operating leases, the lessor effectively retains substantially all such risks and benefits.

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 (2013: $0).

(o) Financial liabilities

Financial liabilities are classified as 'other financial liabilities' for the purposes of AASB 139 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.

(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 straight-line method of depreciation. Leasehold improvements are depreciated on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

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

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

	2014	2013
Leasehold improvements	**Lease term**	Lease term
Plant & 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 2014. 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 (2013: $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 straight-line basis over its anticipated useful life. The useful life of ARPC's externally purchased and internally developed software is 4 years (2013: 4 years).

All software assets were assessed for indications of impairment as at 30 June 2014. There has been no impairment write-off recognised in these financial statements (2013: $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); or
- 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 no significant events occurring after the Balance sheet date that would significantly affect these financial statements.

Note 3: Risk management

ARPC's approach to managing risk is consistent with the Australian/New Zealand Standard for Risk Management (AS/NZS IS0 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 non-financial, which ARPC has identified it might face.

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

The broad risk categories discussed below are:

- insurance risk
- operational risk
- 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 cash needs of the entity
- ARPC maintains 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 2014 is $37.92 million (2013: $24.33 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 non-APRA authorised participants in the program.

The following tables provide information about the quality of ARPC's credit risk exposure in respect of its retrocession program. The analysis classifies the counterparty risk according to counterparty credit ratings.

	Retrocession program counter party credit rating			
	AAA	**AA+**	**AA**	**AA-**
	2014	**2014**	**2014**	**2014**
	$'000	**$'000**	**$'000**	**$'000**
ARPC				
Total exposure	**-**	**42,500**	**21,600**	**902,850**
	A+	**A**	**A-**	**Total**
	2014	**2014**	**2014**	**2014**
	$'000	**$'000**	**$'000**	**$'000**
ARPC				
Total exposure	**1,368,319**	**171,450**	**411,942**	**2,918,661**

	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

Operational risk

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

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

- effective staff recruitment and retention policies
- the segregation of duties including access controls, delegated authorisation levels and accounting reconciliations controls
- maintenance and use of sophisticated information systems which provide up to date and reliable data to assist in managing the risk to which the business is exposed to at any point in time
- 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 $535 million
- in the event of a DTI ARPC would be required to pay $360 million before claiming on its retrocession program
- ARPC has access to a $2.919 billion retrocession program, which is extended to $3.240 billion using co-reinsurance, in excess of $360 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 (2013: $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**	
	Notes	**2014 $'000**	**2014 $'000**	**2014 $'000**	**2014 $'000**	**2014 $'000**
Interest bearing financial assets						
Cash and cash equivalents	7	**1,314**	**-**	**-**	**-**	**1,314**
Fixed term deposits	9	**-**	**595,500**	**-**	**-**	**595,500**
Government securities	9	**-**	**-**	**-**	**-**	**-**
Total		**1,314**	**595,500**	**-**	**-**	**596,814**
Weighted average interest rate		**2.23%**	**3.57%**	**0.00%**	**0.00%**	**3.56%**

		Floating interest rate	Fixed interest rate maturing in			Total
		1 year or less	1 year or less	1-5 years	> 5 years	
	Notes	2013 $'000	2013 $'000	2013 $'000	2013 $'000	2013 $'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%

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

	Movement in variable		**Financial impact**			
			Profit / (Loss)		Equity	
	2014 %	2013 %	**2014 $'000**	2013 $'000	**2014 $'000**	2013 $'000
Interest rate movement						
- interest bearing	**+0.60**	+1.20	**3,581**	9,847	**3,581**	9,847
Financial assets	**-0.60**	-1.20	**(3,581)**	(9,847)	**(3,581)**	(9,847)

The method used to arrive at the possible risk of 60 basis points was based on both statistical and non-statistical analysis. The statistical analysis has been based on the cash rate for the past five years issued by the RBA as the underlying dataset. This information is then revised and adjusted for reasonableness under the current economic circumstances.

The Department of Finance considers 60 basis points is reasonable because it is reasonably possible that there will be less 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 deemed a 60 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.

4) 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 counterparty credit ratings.

	Notes	AAA 2014 $'000	AA+ 2014 $'000	AA 2014 $'000	AA- 2014 $'000	A+ 2014 $'000	A- 2014 $'000	Unrated 2014 $'000	Total 2014 $'000
		Credit Rating							
ARPC									
Cash and cash equivalents	7	**1,314**	**-**	**-**	**-**	**-**	**-**	**-**	**1,314**
Fixed term deposits	9	**-**	**-**	**-**	**461,500**	**59,500**	**74,500**	**-**	**595,500**
Government securities	9	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Receivables	8	**-**	**-**	**-**	**-**	**-**	**-**	**41,986**	**41,986**
Total		**1,314**	**-**	**-**	**461,500**	**59,500**	**74,500**	**41,986**	**638,800**

	Notes	AAA 2013 $'000	AA+ 2013 $'000	AA 2013 $'000	AA- 2013 $'000	A+ 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

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 **2014** **$'000**	Neither past due nor impaired 2013 $'000	Past due but not impaired 0 to 3 months **2014** **$'000**	Past due but not impaired 0 to 3 months 2013 $'000	Total **2014** **$'000**	Total 2013 $'000
Financial assets							
Premium receivables	8	**32,072**	32,654	**23**	377	**32,095**	33,031
Commission receivables	8	**3,898**	3,710	**-**	-	**3,898**	3,710
Interest receivable	8	**5,993**	9,133	**-**	-	**5,993**	9,133
Total		**41,963**	45,497	**23**	377	**41,986**	45,874

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	
		2014	2013	**2014**	2013	**2014**	2013
	Notes	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Financial liabilities							
Payables	14(a)	**41,099**	43,495	-	-	**41,099**	43,495
Dividend payable	14(b)	**-**	75,000	**-**	143,990	**-**	218,990
Other interest bearing liabilities	15	**85**	54	**162**	247	**247**	301
Total		**41,184**	118,549	**162**	144,237	**41,346**	262,786

Note 5: Revenue

		2014 $'000	2013 $'000
(a)	**Net premium revenue**		
	Gross written premium	**129,642**	132,093
	Movement in unearned premium reserve	**66**	(4,812)
	Total premium revenue	**129,708**	127,281
	Outwards retrocession premium	**(81,728)**	(81,381)
	Net premium revenue	**47,980**	45,900
(b)	**Retrocession commission income**	**7,606**	7,471
	Total retrocession commission income	**7,606**	7,471
(c)	**Investment income from**		
	Cash at bank	**665**	566
	Term deposits	**16,983**	22,676
	Government securities	**8,883**	12,670
	Total investment income	**26,531**	35,912
(d)	**Other Income / (losses)**		
	Realised gain/(losses) recognised through the Statement of comprehensive income	**(2,876)**	1,695
	Unrealised gain/(losses) recognised through the Statement of comprehensive income	**1,216**	(5,888)
	Total other loss	**(1,660)**	(4,193)
(e)	**Total revenue**	**162,186**	166,471

Note 6: Other operating expenses

		2014 $'000	2013 $'000
(a)	**Expenses by nature**		
	Employee expenses	**3,584**	3,462
	Services from related entities	**931**	582
	Goods from external entities	**37**	37
	Services from external entities	**3,040**	2,695
	Operating lease rentals	**734**	729
	Depreciation and amortisation	**725**	342
	Finance charges[1]	**4**	4,793
	Total expenses by nature	**9,055**	12,640
(b)	**Expenses by function**		
	Acquisition costs	**1,089**	1,167
	General and administration expenses[2]	**7,386**	10,981
	Investment expense	**580**	492
	Total expenses by function	**9,055**	12,640
(c)	**Employee expenses**		
	Wages and salaries	**2,640**	2,673
	Superannuation	**383**	399
	Leave and other entitlements	**358**	382
	Other employee expenses	**203**	8
	Total employee expenses	**3,584**	3,462

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

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

	2014 $'000	2013 $'000
General and administration expenses	**7,386**	10,981
Add: Investment expense	**580**	492
Less: Finance charges	**4**	4,793
Other operating expenses	**7,962**	6,680

Note 7: Cash and cash equivalents

	2014 $'000	2013 $'000
Cash at bank	**1,314**	4,953
Total cash and cash equivalents	**1,314**	4,953

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

	2014 $'000	2013 $'000
Premium receivable	**32,095**	33,031
Commission receivable	**3,898**	3,710
Interest receivable	**5,993**	9,133
Net GST Receivable/(Payable) from the Australian Taxation Office	**25**	-
Total receivables	**42,011**	45,874

All receivables are with entities external to ARPC. Credit terms are net 30 days (2013: 30 days). Trade debtors are non-interest bearing.

Receivables (gross) are aged as follows:		
Not overdue	**41,988**	45,497
Overdue by:		
Less than 30 days	**-**	97
30 to 60 days	**21**	-
60 to 90 days	**-**	-
More than 90 days	**2**	280
	42,011	45,874

Interest receivable

The interest rate ranges from 1.90% to 3.70% (2013: 2.15% to 8.00%) and the frequency of payment is monthly for cash accounts and on maturity for term deposits.

Note 9: Investments under s.18 of the CAC Act

	2014	2013
	$'000	$'000
Term deposits	**595,500**	442,500
Government securities	**-**	223,730
Total investments	**595,500**	666,230

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, Suncorp Metway Ltd, Bendigo and Adelaide Bank, Rural Bank and Bank of Queensland. These deposits earn an effective rate of interest of 3.57% (2013: 4.08%). 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 between 30 and 365 days (2013: 30 and 365 days).

Government (guaranteed) securities

During the year to 30 June 2014, ARPC liquidated its bond portfolios and placed all funds into Term Deposits.

Note 10: Deferred insurance assets

		2014	2013
		$'000	$'000
(a) **Deferred insurance assets as at 1 July**			
Deferred retrocession premium	10(b)	**40,217**	42,166
Deferred acquisition costs	10(c)	**468**	586
Total deferred insurance assets		**40,685**	42,752
(b) **Deferred retrocession premium as at 1 July**			
Deferred retrocession premium as at 1 July		**42,166**	42,139
Retrocession premium deferred		**40,217**	42,166
Amortisation charged to expense		**(42,166)**	(42,139)
Deferred retrocession premium as at 30 June		**40,217**	42,166
(c) **Deferred acquisition costs as at 1 July**			
Deferred acquisition costs as at 1 July		**586**	525
Acquisition costs deferred		**468**	586
Amortisation charged to expense		**(586)**	(525)
Deferred acquisition costs as at 30 June		**468**	586

Note 11: Other non-financial assets

	2014 $'000	2013 $'000
Prepayments	**36**	56
Total other non-financial assets	**36**	56

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 2012	1,041	113	2,428	3,582
Additions				
- by purchase	49	18	40	107
- internally developed - in progress	-	-	-	-
- internally developed	-	-	-	-
Disposals	-	(2)	-	(2)
Balance at 30 June 2013	1,090	129	2,468	3,687
Balance at 1 July 2013	1,090	129	2,468	3,687
Additions				
- by purchase	-	4	-	4
- internally developed - in progress	-	-	75	75
- internally developed	-	-	47	47
Disposals	-	-	-	-
Revaluation increment/(decrement)	-	-	-	-
Balance at 30 June 2014	1,090	133	2,590	3,813

	Leasehold improvements $'000	Plant and equipment $'000	Intangibles $'000	Total $'000
Depreciation/amortisation				
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)
Balance at 1 July 2013	(415)	(65)	(773)	(1,253)
Revaluation increment/(decrement)	-	-	-	-
Depreciation for the year	(214)	(24)	(486)	(725)
Disposals	-	-	-	-
Balance at 30 June 2014	(629)	(89)	(1,259)	(1,978)
Carrying amounts				
At 1 July 2012	840	76	1,755	2,671
At 30 June 2013	675	64	1,695	2,434
At 1 July 2013	675	64	1,695	2,434
At 30 June 2014	461	44	1,330	1,835

All valuations are independent and are conducted in accordance with the revaluation policy stated at Note 1.5(r).

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, plant and equipment or intangibles in 2014 (2013: Nil).

Note 13: Unearned liability

			2014 $'000	2013 $'000
(a)	**Unearned liability**			
	Unearned premium liability	13(b)	**62,456**	62,522
	Unearned commission liability	13(c)	**3,930**	3,741
	Total unearned liability		**66,386**	66,263
(b)	**Unearned premium liability as at 1 July**		**62,522**	57,710
	Deferral of premiums on contracts written in the period		**62,456**	62,522
	Earning of premiums written in the previous periods		**(62,522)**	(57,710)
	Unearned premium liability as at 30 June		**62,456**	62,522
(c)	**Unearned commission liability as at 1 July**		**3,741**	3,792
	Deferral of commissions on contracts written in the period		**3,930**	3,741
	Earning of commissions written in the previous periods		**(3,741)**	(3,792)
	Unearned commission liability as at 30 June		**3,930**	3,741

Note 14(a): Payables

	2014 $'000	2013 $'000
Retrocessionaire creditors	**39,890**	41,825
Trade creditors	**27**	9
Net GST Payable/(Receivable) from the Australian Taxation Office	**-**	1,192
Accruals	**734**	469
Other payables	**448**	-
Total payables	**41,099**	43,495

Retrocessionaire creditors:

In accordance with ARPC's reinsurance treaty expiring 31 December 2014 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

	2014	2013
	$'000	$'000
Payable to the Australian Government	**-**	218,990
Dividends payable are represented by:		
Current	**-**	75,000
Non-current	**-**	143,990
Total dividends	**-**	218,990

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.

On 19 June 2014 a further Direction was made by the Treasurer with the effect of removing the requirement for ARPC to pay the remaining two installments of the dividend.

Note 15: Other interest bearing liabilities

	2014	2013
	$'000	$'000
Lease incentive	**247**	301
Other interest bearing liabilities are represented by:		
Current	**85**	54
Non-current	**162**	247
Total other interest bearing liabilities	**247**	301

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

		2014 $'000	2013 $'000
(a)	**Employee provisions**		
	Salaries and wages	**8**	74
	Leave	**555**	473
	Other	**-**	10
	Total employee provisions	**563**	557
	Current / non-current		
	Current	**253**	220
	Non-current	**310**	337
	Total employee provisions	**563**	557
(b)	**Other provisions**		
	Make good provision	**52**	51
	Total other provisions	**52**	51

	Provision for make good $'000	Total $'000
Carrying amount at beginning of period	**51**	-
Additional provisions made	-	51
Write back of provision	**1**	-
Amount owing at end of period	**52**	51

All other provisions are non-current liabilities

Note 17: Cash flow reconciliation

	2014 $'000	2013 $'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	**1,314**	4,953
Balance sheet	**1,314**	4,953
Difference	-	-
Reconciliation of operating result to net cash from operating activities:		
Operating result	**71,402**	72,450
Depreciation/amortisation expense	**725**	342
(Increase)/decrease in receivables	**2,500**	(2,656)
(Increase)/decrease in other non-financial assets	**20**	(22)
(Increase)/decrease in deferred insurance assets	**2,066**	(2,334)
Increase/(decrease) in unearned liability	**123**	4,761
Increase/(decrease) in payables[1]	**(1,032)**	7,980
Increase/(decrease) in other interest bearing liabilities	**(54)**	(24)
Increase/(decrease) in provisions	**7**	130
Net cash from / (used by) operating activities	**75,757**	80,627

1 The movement in the payables for 2013 includes $4.788 million for the unwinding of the discount on the dividend payable.

Note 18: Contingent assets and liabilities

	Guarantees		Indemnities		Claims for damages or costs		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Contingent assets								
Balance from previous period	**-**	-	**-**	-	**-**	-	**-**	-
New contingent assets recognised	**-**	-	**-**	-	**-**	-	**-**	-
Re-measurement	**-**	-	**-**	-	**-**	-	**-**	-
Assets realised	**-**	-	**-**	-	**-**	-	**-**	-
Rights expired	**-**	-	**-**	-	**-**	-	**-**	-
Total contingent assets	**-**	-	**-**	-	**-**	-	**-**	-
Contingent liabilities								
Balance from previous period	**-**	-	**-**	-	**-**	-	**-**	-
New contingent liabilities recognised	**-**	-	**-**	-	**40**	-	**40**	-
Re-measurement	**-**	-	**-**	-	**-**	-	**-**	-
Liabilities realised	**-**	-	**-**	-	**-**	-	**-**	-
Obligations expired	**-**	-	**-**	-	**-**	-	**-**	-
Total contingent liabilities	**-**	-	**-**	-	**40**	-	**40**	-
Net contingent assets/(liabilities)	**-**	-	**-**	-	**(40)**	-	**(40)**	-

Quantifiable Contingencies

The Schedule of contingencies reports $40,000 of contingent liabilities disclosure in respect to claims for damages or costs (2013: nil). The amount represents an estimate of the entity's liability based on precedent in such cases and advice from entity's solicitors. The entity is defending the claims.

Unquantifiable Contingencies

The entity had no unquantifiable contingencies.

Significant Remote Contingencies

The entity had no significant remote contingencies.

Note 19: Average staffing levels

	2014	2013
The average staffing levels for ARPC during the year were:	**24**	24

Note 20: Executive remuneration

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

	2014	2013
	$	$
Short-term employee benefits:		
Salary	**1,067,954**	1,102,464
Performance bonuses	**3,000**	34,685
Total short-term employee benefits	**1,070,954**	1,137,149
Post-employment benefits		
Superannuation	**147,121**	148,376
Total post-employment benefits	**147,121**	148,376
Other long-term benefits		
Long-service leave	**42,471**	31,457
Annual leave accrued	**89,151**	100,324
Total other long-term benefits	**131,622**	131,781
Termination benefits		
Voluntary redundancy payments	**91,089**	-
Total termination benefits	**91,089**	-
Total senior executive remuneration expense	**1,440,786**	1,417,306

Notes:

1. Note 20(a) was prepared on an accrual basis.
2. Note 20(a) excludes acting arrangements and part-year service where remuneration expensed for a senior executive was less than $195,000.

Note 20: Executive remuneration (continued)

(b) Average annual reportable remuneration paid to substantive senior executives in 2014.

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 $195,000	**5**	**109,717**	**12,273**	**-**	**-**	**121,990**
$195,000 to $224,999	**3**	**182,516**	**26,038**	**-**	**-**	**208,554**
$255,000 to $284,999	**1**	**241,645**	**32,301**	**-**	**3,000**	**276,946**
$285,000 to $314,999	**-**	**-**	**-**	**-**	**-**	**-**
Total number of substantive senior executives	**9**					

(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 $195,000	3	106,383	13,117	-	-	119,500
$195,000 to $224,999	1	179,636	23,608	-	12,257	215,501
$225,000 to $254,999	1	199,312	26,194	-	19,428	244,934
$255,000 to $284,999	1	230,189	31,335	-	3,000	264,524
$375,000 to $404,999	1	341,659	46,726	-	-	388,385
Total number of substantive senior executives	7					

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) reportable employer superannuation contributions; and
   (d) exempt foreign employment income
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 20: Executive remuneration (continued)

(c) **Average annual reportable remuneration paid to other highly paid staff in 2014**

During the reporting period there were nil employees (2013: nil) with total reportable remuneration greater than $195,000.

Note 21: Members' remuneration

	2014 $	2013 $
	95,109	75,778

The number of Members of ARPC included in these figures are shown below in the relevant remuneration bands:		
$ Nil - $14,999	**5**	7
$ 15,000 - $29,999	**3**	1
Total number of Members of ARPC	**8**	8

A review was undertaken by the Remuneration Tribunal which resulted in increased salary arrangements for Members effective March 2014.

Note 22: Auditor's remuneration

	2014 $	2013 $
The cost of financial statement audit services provided to ARPC:	**125,000**	145,000

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. KMPG provided other services to the value of $9,500 in 2013-14 (2012-13: Nil)

Note 23: Related party disclosures

Members

The names of persons who were Members of ARPC during the financial year were:
Ms J Fitzpatrick, Ms P Azarias, Ms J Bowe, Ms J Harris, Mr T Karp, Ms M Micalizzi, Mr J Murphy, Ms M Howes.

Changes in membership during the year:

Mr J Murphy resigned on 11 July 2013.
Ms M Howes resigned on 14 February 2014.
Ms P Azarias' term expired on 24 April 2014.
Ms J Harris was appointed on 15 April 2014.

Information on remuneration of Members is disclosed in Note 21.

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 $388,511 (2013: $501,540). These transactions were made on terms equivalent to those that prevail on arms length transactions.

Joan Fitzpatrick was the CEO and a Director of the Australian and New Zealand Institute of Insurance and Finance (ANZIIF), transactions to the value of $9,484 with ANZIIF are deemed related party transactions. Staff and executives are members and attend professional development engagements with the ANZIIF. These transactions were made on terms equivalent to those that prevail on arms length transactions (2013: $10,848).

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 24: Financial instruments

		Note	2014 $'000	2013 $'000
(a)	**Categories of financial instruments**			
	Financial assets			
	Cash and cash equivalents	7	**1,314**	4,953
	Loans and receivables financial assets			
	Receivables (gross)	8	**41,986**	45,874
	Fair value through profit and loss			
	Fixed term deposits	9	**595,500**	442,500
	Government securities	9	**-**	223,730
	Carrying amount of financial assets		**638,800**	717,057
	Financial liabilities			
	At amortised cost			
	Payables	14(a)	**41,086**	42,303
	Dividends	14(b)	**-**	218,990
	Other interest bearing liabilities	15	**247**	301
	Carrying amount of financial liabilities		**41,333**	261,594
(b)	**Net income and expense from financial assets / liabilities**			
	Investment income	5(c)	**26,531**	35,912
	Net gain/(loss) from financial assets		**26,531**	35,912

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Note 24: Financial instruments (continued)

	Notes	**Carrying amount 2014 $'000**	**Fair value 2014 $'000**	Carrying amount 2013 $'000	Fair value 2013 $'000
Financial assets					
Cash and cash equivalents	7	**1,314**	**1,314**	4,953	4,953
Receivables (gross)	8	**41,986**	**41,986**	45,874	45,874
Fixed term deposits *	9	**595,500**	**595,500**	442,500	442,500
Government securities *	9	**-**	**-**	223,730	223,730
Total financial assets		**638,800**	**638,800**	717,057	717,057
Financial liabilities					
Payables	14(a)	**41,086**	**41,086**	43,495	43,495
Dividend payable	14(b)	**-**	**-**	218,990	218,990
Other interest bearing liabilities	15	**247**	**247**	301	301
Total financial liabilities		**41,333**	**41,333**	262,786	262,786

* 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
APSC	Australian Public Service Commission
ARPC	Australian Reinsurance Pool Corporation
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
CIPMA	Critical Infrastructure Protection Modelling and Analysis
COO	Chief Operating Officer
CY	Calendar year
DTI	Declared terrorist incident
FMO	Finance Minister's Orders
FOI Act	*Freedom of Information Act 1982*
GA	Geoscience Australia
GST	Goods and services tax
GWP	Gross written premium
HR	Human resources
ILS	Integrated Leadership System
IPS	Information Publication Scheme
OECD	Organisation for Economic Co-operation and Development
PGPA	*Public Governance, Performance and Accountability Act 2013*
PID	*Public Interest Disclosure Act 2013*
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*
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

Glossary

Aggregate sums insured	The total of all a reinsured's property sums in a reporting zone, such as ARPC's tiers.
Calendar year	Refers to 1 January to 31 December of a particular year.
Capacity	The ability of an insurer, reinsurer, syndicate or market to absorb risk.
Captive insurer	An insurance company that is wholly owned by one or more entities (parent organisations), and who's the main purpose of insuring the parent company's risks
Co-reinsurance	A 'co-reinsurance' warranty may be imposed on some catastrophe excess of loss and stop loss contracts. The effect is to require the reinsured to retain net and unprotected a specified percentage of a layer in order to ensure that it maintains an interest in economical loss settlement once the deductible has been exceeded.
Deductible	The amount of loss the reinsured assumes for its own account in non-proportional reinsurance.
Insurer clients	An insurer that transfers all or part of a risk to a reinsurer
Reinsurance	The practice whereby one party, the reinsurer, in consideration, of premiums paid, agrees to indemnify another party, the reinsured, for part or all of the liability assumed by the reinsured under a policy (or policies) of insurance.
Retention	The amount retained by a reinsured after placing reinsurance.
Retrocession	A reinsurer that accepts retrocession business.
Triennial review	A review which examines the need for the TI Act to continue to operate and occurs every three years.

Source: Glossary of reinsurance terms, The Australian and New Zealand Institute of Insurance and Finance (ANZIIF).

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 9.1.

Table 9.1: 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	9
s.9(1)(b)	Presentation to the Responsible Minister within the time line	Transmittal letter	iii
Sch. 1, cl.1(a)	Report of Operation prepared by the directors as per FMOs 2011	Report of operations	9
Sch. 1, cl.1(b)	Financial Statement prepared by the directors under Cl.2	Statement of Members, Chief Executive and Chief Financial Officer	105
Sch. 1, cl.1(c)	Auditor-General's report on financial statement under Part 2 of Schedule 1	Independent Auditor's Report	103
Sch. 1, cl.2(3)	Statement on financial statement by the directors	Statement of Members, Chief Executive and Chief Financial Officer	105
Sch. 1, cl.3(1)	Auditor-General's statement; whether the statements comply with the Finance Minister's orders	Independent Auditor's Report	103

ii. Commonwealth Authorities (annual reporting) Orders 2011

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Cl. 9(a)	Heading and spacing	Contents page	v
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Cl.10	Enabling legislation—objectives and functions	ARPC role and function	25
Cl.11	Responsible Minister	Governance framework	69
Cl.12 (a)	Ministerial Directions	Ministerial Directions	78
Cl.12(b)	General Policies issued under s.28 of CAC Act (as in force before 1 July 2008)	General Policy Orders	78
Cl.12(c)	General Policy Order under s.48A of CAC Act	Not applicable	N/A
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Cl.14	Organisational structure (a) outline of organisational structure	Organisation structure	88-89
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16(b)	—operational and financial results	Financial review Financial statements	43 105
16(c)	Changes to state of affairs or principle activities	Not applicable	N/A
17	Judicial decisions and reviews by outside bodies	Judicial and administrative decisions and reviews	77
18	Obtaining information from subsidiaries	Not applicable	N/A
19	Indemnities and insurance premiums for officers	Indemnities and insurance policies	77-78
21	Index of annual report requirement	Index of annual report requirement	155

Part B: includes *Terrorism Insurance Act 2003*, *Environment Protection and Biodiversity Conservation Act 1999*, *Work Health and Safety Act 2011*, *Freedom of Information Act 1982* and *Public Interest Disclosure Act 2013*

iii. Terrorism Insurance Act 2003

Section	Requirements	Annual report location	Page
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s.6(7)	Reduction percentage	Reduction percentage	32-33
s.7	Eligible insurance contracts	Coverage	31-32
s.8	Effect of terrorism exclusions in eligible insurance contracts	ARPC role and function	25
		Coverage	31-32
s.9	Establishment of Corporation	ARPC role and function	25
s.10	Functions of Corporation	How the ARPC scheme operates	29
s.11	Power of Corporation	How the ARPC scheme operates	29
s.12(1)	Corporation members	How the ARPC scheme operates	29
s.13(1)	Appointment of members	ARPC Board appointment and remunerations	69
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s.17	Remunerations and allowances for members	ARPC Board appointment and remunerations	69
s.24	Chief Executive	Leadership	85
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s.34	Application of money	Summary of significant accounting policies	115
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s.38	Minister may give directions to Corporation	Premiums	30
		Insurer and Industry retentions	32
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s.41	Review of Act	Reviews of the TI Act (triennial review)	36
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iv. Environment Protection and Biodiversity Conservation Act 1999.

Section	Requirements	Annual report location	Page
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v. Work Health and Safety Act 2011

Section	Requirements	Annual report location	Page
Schedule 2 Part 4 Cl.4(2)	Other persons—Work health safety initiatives, outcomes, statistics and investigations	Work health and safety	93-94

vi. Freedom of Information Act 1982

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s.8(e)	Information in Annual reports	Freedom of information	80

vii. Public Interest Disclosure Act 2013

Section	Requirements	Annual report location	Page
s.76, Standard Cl.15	Annual Report—Information and assistance required by the Ombudsman	Public interest disclosure	79

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