Australian Government

Australian Reinsurance Pool Corporation

ARPC 2014 2015 ANNUAL REPORT

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Australian Government

Australian Reinsurance Pool Corporation

22 September 2015

The Hon Scott Morrison MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

I have pleasure in presenting to you the annual report of the Australian Reinsurance Pool Corporation for the year ended 30 June 2015. The report has been prepared under section 45 of the *Public Governance, Performance and Accountability Act 2013,* and in compliance with the Public Governance, Performance and Accountability (Financial Reporting) Rule 2015.

Yours sincerely

Signature Supplied

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

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OVERVIEW

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Report from the Chair

On behalf of the Australian Reinsurance Pool Corporation (ARPC), I am pleased to present the 2014–15 Annual Report.

ARPC plays a crucial role in protecting insurers and businesses with Australian commercial sector assets from losses caused by terrorism catastrophe. The organisation was 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.

Over the past year ARPC has significantly increased its interactions and engagement across the broad range of its stakeholders with the objective of ensuring that the organisation and the reinsurance cover that it provides is better understood. In addition, the triennial review process conducted by The Treasury was completed in the early part of the year. ARPC focussed on delivering all key objectives in our strategic and business plans throughout the year and I am pleased to report that we were successful in this endeavour.

Unfortunately, the organisation was called upon to perform its role in responding to the Lindt Café, Martin Place Sydney, declared terrorist incident (DTI). We are saddened by the events at the Lindt Café, and we again express our deepest condolences to everyone impacted by this terrible event.

Terrorism remains a persistent risk to Australia, and at the time of writing the national terrorism threat level remains ‘high’, which means that a terrorist attack is likely. ARPC’s loss modelling shows that probable maximum insured losses would exceed the reinsurance capacity available in the private insurance market, causing market failure to occur. The lack of an adequate private insurance market to cover all Australian commercial assets remains an ongoing problem, one that the ARPC addresses.

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

ARPC is considered a best practice terrorism reinsurance pool amongst the global pools. This is due to our deep experience with blast and plume loss modelling, and our strategic purchasing of retrocession reinsurance cover from Australian and global markets.

As mentioned earlier much of ARPC's efforts this year have focussed on explaining our purpose and role to not only our insurer customers and reinsurer suppliers, but also to federal and state/territory government police, security, and Treasury agencies.

An important milestone in the past year has been the decision by the ARPC Board to relocate our Canberra operations to Sydney. This move will strengthen our interactions by placing us in the same geographic market as most of our major insurers, reinsurers, banks, and property owners.

We have recently launched the ARPC Corporate Plan for the next four years. The plan focusses 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 also provided information to the triennial review of the *Terrorism Insurance Act 2003* (TI Act). As in previous years, the Treasury is responsible for undertaking a review of the TI Act and preparing a report to our responsible Minister. This review is currently with the Minister and its release is pending government approval. In the coming year, we look forward to working with our stakeholders to implement the recommendations of the triennial review.

ARPC completed the 2014–15 year with a weaker financial position than the previous year, with net assets decreasing from $573.0 million to $537.7 million. We delivered an operating surplus, however our operating surplus fell from $71.4 million last year to $22.2 million this year.

The reduction in net assets and operating surplus is due to an increase in our total fee and dividend payments to the government, which in the reporting period amounted to $112.5 million. In total, between FY2012–18, ARPC will have paid $0.8 billion in dividend and fee payments to the government.

In order to maintain our financial sustainability we have reduced our retrocession purchase (and retrocession capacity) as well as our operating expenses and workforce. Notwithstanding these reductions, ARPC was still able to report a surplus for the year. Nevertheless, financial sustainability remains a key concern for ARPC and our current outlook continues to show a reduction in future net assets over the next four years.

I would like to express my sincere thanks to the Board of ARPC, to the CEO Dr Christopher Wallace, to the executive team and staff for their commitment and hard work on behalf of the organisation. We have faced many challenges this year and I am very proud of the accomplishments of the whole team.

This is a particularly poignant time in ARPC's history, as we say farewell to staff members in Canberra who will not make the transition to Sydney. My deep gratitude goes to each of them for their hard work and professionalism throughout this period of change.

The term of our Board Member, Ms Jan Bowe, expired on 30 June 2015. We would like to sincerely thank Ms Bowe and acknowledge her valuable contribution to ARPC during her six-year tenure, which included being the Chair of the Audit and Compliance Committee for part of her tenure.

We recently welcomed three new members to the ARPC Board. Ms Elaine Collins, Mr John Peberdy and Ms Janet Torney have been appointed as part-time, non-executive Members of ARPC's Board, each for a three-year period from 1 July 2015 to 30 June 2018 inclusive. I know that they will be marvellous additions to the Board and will provide excellent direction and guidance as well as strong governance oversight.

They will join Mr Tom Karp and Ms Marian Micalizzi, long-term Board Members who have been reappointed as part-time, non-executive Members of the Board for a further one-year period to 30 June 2016.

With additions to our Board, and a move of our operations to Sydney, ARPC continues to be well positioned to be able to respond effectively and swiftly in the event of a DTI. We remain focussed on our primary purpose—delivering reinsurance support to our stakeholders while benefitting the Australian economy.

Signature Supplied

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

22 September 2015

Report from the Chief Executive Officer

I am pleased to report that ARPC is well positioned to support all our stakeholders. We have the financial capability, skills and expertise, and the planning and preparation in place to perform our role.

In 2014–15 we continued to deliver against our strategic priorities while responding to the Lindt Café, Martin Place Sydney, declared terrorist incident. We also provided assistance to the triennial review of the TI Act, which was undertaken by the Treasury, in conjunction with independent consultants.

Our role

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. The terrorism reinsurance scheme operated by ARPC is voluntary, but the vast majority of insurers participate. We are wholly self-funded.

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

Protect the Australian economy

$13.1 billion

Total funding for claims

Provide terrorism reinsurance cover to over $3.1 trillion in assets

$128.1 million

Premiums

Our customers

We provide reinsurance cover to 231 insurer customers, who themselves insure over $3.1 trillion in sums insured and collect around $3.7 billion in gross written premiums from commercial businesses. In 2014–15 ARPC collected $128.1 million in premiums from our insurer 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 funding available of $13.1 billion in reinsurance cover in the event of a DTI. Total capacity comprises industry retentions (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). We purchase $2.6 billion in private capacity through our retrocession reinsurance program placed with 60 reinsurers from within Australia and globally.

Protect the Government and encourage private sector participation

$2.6 billion

Private sector funding for claims

ARPC currently purchases a major share of the terrorism reinsurance global capacity for commercial property that is available for Australian risks through Standard & Poor's A- or better rated reinsurers. However, this private sector capacity is insufficient to cover a probable maximum loss. Therefore, we have access to the $10 billion Commonwealth guarantee. ARPC's total capacity covers most of the 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, including overseas-sourced funding, 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 capacity to offer uniform terrorism coverage at affordable prices to cover all commercial business risks in Australia. ARPC purchases retrocession reinsurance capacity in order to protect the government from paying the Commonwealth guarantee. This also encourages participation by Australian and global reinsurers in delivering private capacity to cover private commercial business assets.

Our experience in the reinsurance market is that there is only limited reinsurance capacity for terrorism and this capacity only exists mainly for individual risks.

The 2015 Triennial Review has undertaken independent expert analysis to test the current appetite for a return of the private market at the capacity level required to cover a possible maximum loss. We expect that the imminent report will include market opinion on this issue.

Payments to government

ARPC assists the sharing of risk between the private sector and government. To date, ARPC has paid the government fees and dividends of $437.5 million to compensate the government for the provision of the $10 billion Commonwealth guarantee. We are part-way through the current Federal Budget initiative to pay the government a total of $450 million in fees and dividends up until FY2017–18.

ARPC will have paid the government a total of fees and dividends of $775.0 million up until FY2017–18.

Compensate the Government

$112.5
million p.a.

Fees and Dividends

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. This 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 such that no more than the $10 billion Commonwealth guarantee is drawn. This means each of our insurer client's capital is fully protected, although commercial businesses may receive a reduced payment if the DTI exceeds the Commonwealth guarantee.

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 private reinsurance market and reduced reliance on the Commonwealth guarantee in the event of a terrorism catastrophe.

2015–2019 Corporate Plan

In August 2015, we published our 2015–2019 Corporate Plan, our first under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). The corporate plan reflects our strategic objective to continue to develop ARPC's capacity to be a trusted advisor on terrorism insurance.

ARPC is on the move

ARPC's operations are being consolidated into a single office in Sydney, with our Canberra office closing by 30 September 2015. This move will support improved efficiency in our operations by placing us closer to our insurer customers and reinsurer suppliers.

The process to relocate all roles and functions from Canberra to Sydney is in progress with a comprehensive plan in place to ensure our functions are not disrupted while maintaining the same level of service. At the time of reporting, five offers of appointment had been accepted with another five well advanced in the recruitment process.

From 1 October 2015, we will be operating from our existing Sydney office located at 56 Pitt Street, while our new office in Sydney is prepared.

Three-year review of the Act (triennial review)

Section 41 of the TI Act requires a review to be conducted at least once every three years, which we refer to as the triennial review. The review must examine and report on the need for the TI Act to continue in operation. The 2015 Triennial Review has been completed, with the final report currently with the Government, awaiting public release. Reports for the three previous triennial reviews are available on our website.

Financial result overview

Our overall financial performance in 2014–15 was better than plan. Our operating result for the year ended 30 June 2015 was $22.2 million and was $7.7 million (52.9 per cent) better than plan, and $49.2 million (69.0 per cent) less than last year. The better than plan operating result is primarily due to investment income of $21.3 million that is $6.7 million (46.1 per cent) better than plan, although being $5.2 million (19.6 per cent) less than last year due to the reduction in our net assets. Our operating result is lower than last year due to the fee payment to Government of $55.0 million paid from our expenses, in addition to the $57.5 million in dividend to Government that was paid from our net assets.

We received premium revenue of $128.1 million, which was $2.6 million (2.0 per cent) less than plan, and $1.6 million (1.2 per cent) lower than last year.

Our expenses (acquisition costs plus other operating expenses) were $8.0 million and were $0.1 million (1.3 per cent) better than plan, and $1.0 million (11.5 per cent) lower than last year.

Our net retrocession cost (after retrocession commission revenue) was $64.3 million and was $7.7 million (10.7 per cent) better than plan, and $9.8 million (13.3 per cent) lower than last year.

A lower balance of investment assets and lower interest rates is impacting investment income. Investment assets (including cash) are $560.1 million and are $36.7 million (6.1 per cent) less than last year due to fee and dividend payments to government that totalled $112.5 million.

Summary

ARPC has continued to support all our stakeholders. The 30 June 2015 results reflect the efforts of the Board, management and staff of ARPC. In particular, I thank our Canberra based staff who have diligently supported the relocation of services to the Sydney office. Most of our Canberra staff will not be transferring to Sydney and I thank them for their contribution and service to ARPC.

Sustain the pool

$538 million

Net Assets

Signature Supplied

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

22 September 2015

Report of operations declaration

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 2015. This report is made in accordance with a resolution of the Members.

The Members are responsible under section 45 of the *Public Governance, Performance and Accountability Act 2013* for the preparation and content of the report, which must also be in compliance with the Public Governance, Performance and Accountability (Financial Reporting) Rule 2015.

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

Signature Supplied

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

22 September 2015

Signature Supplied

Tom Karp BA (Hons), FIAA
Member and Chair of the Audit and Compliance Committee

22 September 2015

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1. STRATEGY AND ROLE

1. STRATEGY AND ROLE

Introduction

The Australian Reinsurance Pool Corporation (ARPC) is a statutory authority under the TI Act, established in response to the terrorist attacks in the United States of America (USA) on 11 September 2001. As a consequence of this attack, there was a global withdrawal of terrorism insurance cover, leaving commercial property in Australia uninsured against terrorism attacks and creating market failure. ARPC was set up by the Australian Government with the support of stakeholders in the property, banking, insurance, and reinsurance sectors.

Our purpose and role

ARPC was established with the singular function of providing insurance cover for eligible terrorism losses (section 10 of the TI Act) and the power to do all things necessary or convenient to be done for or in connection with performing our function (section 11 of the TI Act). In 2014–15 we continued to support ARPC's policy objectives through our terrorism insurance scheme. Using our purpose and role as guidance, we continued to strengthen our connection with all our stakeholders. As stated in ARPC's 2015-19 Corporate Plan, our overarching objective is to become a trusted advisor to government and stakeholders on terrorism risk insurance (and reinsurance) and through this to also advise on the financial management of catastrophes.

We have articulated our purpose and role as follows:

Purpose	to protect Australia from economic losses caused by terrorism catastrophe.
Role	we use our expertise to provide cost effective reinsurance to support the economic resilience of the nation.

Our strategy

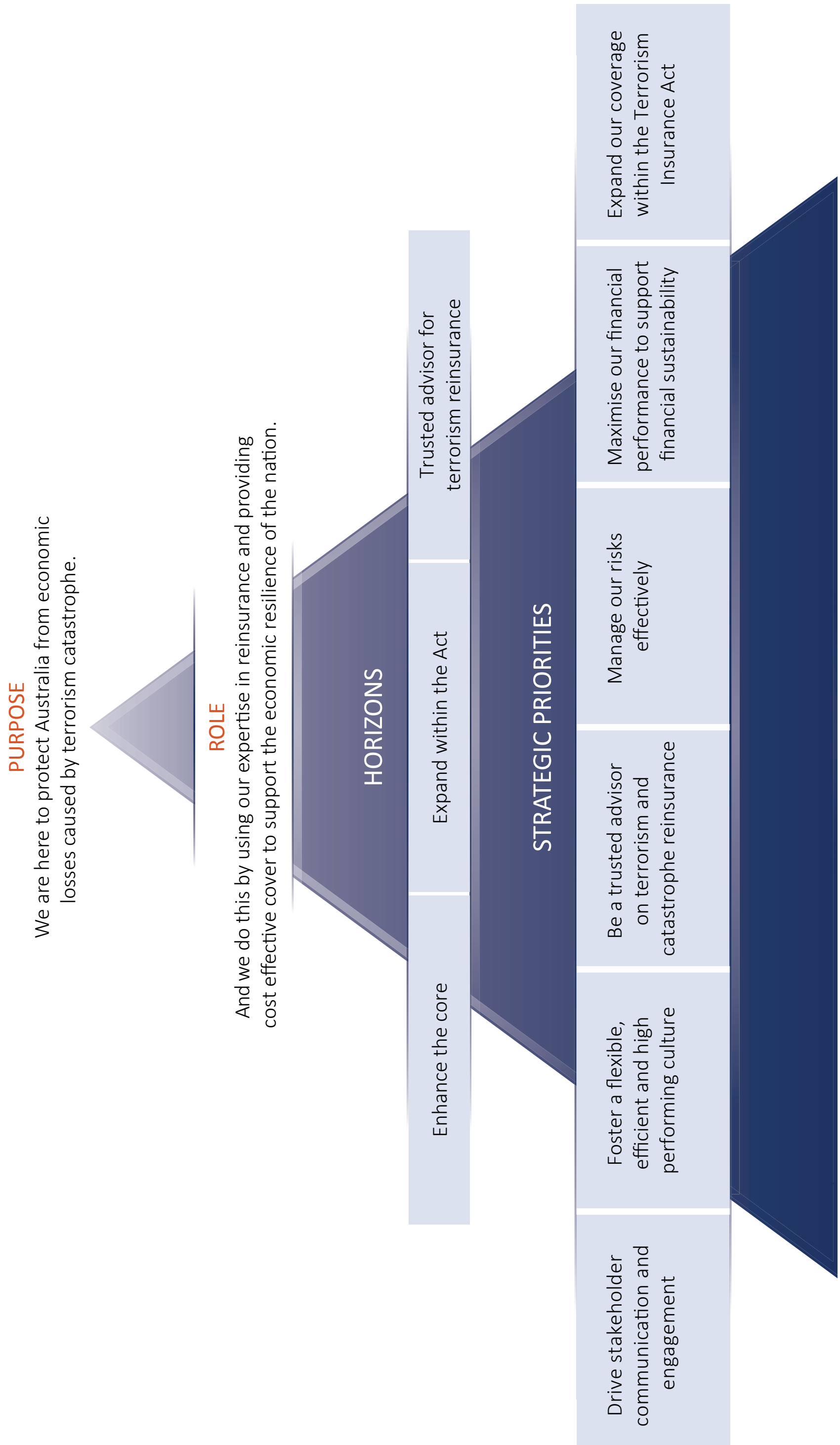
ARPC's corporate plan details our strategic initiatives over our short, medium and long-term horizons. In the short-term, our focus is on enhancing our core operations. The medium-term focus is on providing expanded coverage within the TI Act.

We have six broad strategic priorities that support these initiatives and our purpose and role. These strategic priorities were further refined during 2014–15 and are as follows:

1	drive stakeholder communication and engagement
2	foster a flexible, efficient, and high performing culture
3	be a trusted advisor on terrorism and catastrophe reinsurance
4	manage our risks effectively
5	maximise our financial performance to support our financial sustainability
6	expand our coverage within the Terrorism Insurance Act.

ARPC's strategic vision for our future is underpinned by our Values. Our strategic vision and our values are illustrated on the next two pages.

Figure 1.1: ARPC Strategic Plan 2015-2019



Our values

Our values support our strategic objectives by influencing the decision making and behaviour in all our activities. These values also support the ARPC Code of Conduct.

Figure 1.2: Values statement

Strategic priorities

The table below shows the activity undertaken in 2014–15 to progress our strategic priorities.

Table 1.3: Report against strategic priorities

Strategic priority	What we did in 2014-15
Drive stakeholder communication and engagement	ARPC undertook a process of continuous improvement on stakeholder engagement activity. We acknowledge that both our internal (Commonwealth Government) and external stakeholders are central to our operations, service delivery and delivering on our key policy objectives. We implemented a new customer relationship management system using Microsoft Dynamics to track stakeholder interactions. We developed and implemented a stakeholder communication plan. We developed and provided industry presentations at the OECD Third International Meeting on Terrorism Risk Insurance; the Institute of Actuaries of the Australian General Insurance Seminar; the Reinsurance Discussion Group; the Australian and New Zealand Institute of Insurance and Finance (ANZIIF) Reinsurance Rendezvous; and the ANZIIF Sunshine Seminar. We also conducted an ARPC Terrorism Risk Insurance Seminar for insurers in Sydney and in Melbourne.
Foster a flexible, efficient and high performing culture	ARPC undertook a comprehensive staff engagement survey and an organisational culture survey during 2014 15. Staff and executive workshops were held to review the results and to advance and engender ARPC values. Regular training sessions were conducted for all staff on operational areas and on organisational policy. All staff participated in insurance skills training provided by Ernst & Young Actuarial Services; and reinsurance training provided by ANZIIF. Job descriptions were updated and work level measurements were completed for all roles. All executive and staff underwent performance appraisals including informal mid-year and formal end of year appraisals. We have undertaken work on the expired enterprise agreement, but have not yet resolved a renewed agreement.

Strategic priority	What we did in 2014-15
Be a trusted advisor on terrorism and catastrophe reinsurance	During the reporting period ARPC participated in national and international forums on terrorism and catastrophe insurance and financing (see details under Stakeholder engagement in this chapter). We responded to a range of requests for advice and input, including from The Treasury and government. Notably, we were invited to provide technical input to the Northern Australia Insurance Affordability Taskforce, in particular for the option of a storm reinsurance pool. We continued our collaboration with Geoscience Australia on the 3D blast exposure modelling. We implemented Cognos business intelligence analysis software to improve our analysis capability.
Manage our risks effectively	ARPC formalised its enterprise risk management framework and underlying control systems that identify, rate and quantify our risks, and enable their ongoing mitigation. As part of our enterprise risk management framework, ARPC has developed a comprehensive risk appetite statement and further refined its risk register. We continued to work in partnership with actuarial advisers to better understand and manage the global fluctuations in premiums that impact on our revenue forecasting ability.
Maximise our financial performance to support our financial sustainability	ARPC maximises its financial performance by recording and monitoring its net assets and operating surplus. The purchase of retrocession reinsurance by ARPC also increases our capability to pay claims and protects the government from having to pay initial claims. The 2015 retrocession program was adjusted, giving due consideration to ensuring financial sustainability in light of the pending government fees and dividends payable. We continued our program of auditing reinsured clients (called our Reinsured Review Program) to ensure our reinsureds clients submit accurate premiums to us. We implemented balanced scorecard key performance indicators reporting. Operational efficiency was one of the drivers in the decision to consolidate our operations into our Sydney CBD office.

Strategic priority	What we did in 2014-15
Expand our coverage within the Terrorism Insurance Act	In 2014–15, ARPC identified gaps in coverage for terrorism insurance, which was provided as input to the triennial review process. In particular this focussed on mixed-use commercial and residential property and high-rise residential property, and focused also on cover provided for biochemical incidents. Another focus in 2014-15 was addressing gaps in cover in state and territory government schemes (which are not included in the ARPC scheme). Discussions are being held in each state and territory to identify gaps and provide recommendations.

What we do

Section 9 of the TI Act established ARPC as a statutory authority, while section 10 prescribed the key function of ARPC, which is to 'provide insurance cover for eligible terrorism losses (whether by entering into contracts or by other means).' ARPC is a corporate Commonwealth entity under the PGPA Act, subject to the PGPA Act's financial and non financial reporting requirements.

ARPC provides reinsurance cover of up to $13.1 billion for a DTI, protecting private commercial assets that have an aggregate sum insured exposure of over $3.0 trillion. Through the scheme, ARPC draws on international funds through our purchase of retrocession reinsurance for rebuilding and re establishing commercial business activity.

Addressing market failure

ARPC enables the sharing and mitigation of risk caused by market failure, which led to inadequate capacity to cover the Australian commercial market for terrorism insurance. After 13 years of operation, there is still no whole-of-market, sustainable, alternative provider of terrorism reinsurance. The reinsurance market still has insufficient capacity to offer uniform terrorism coverage at affordable prices, a situation that is unlikely to change in the next few years.

Market failure is evidenced by the fact that the 2015 retrocession program purchased by ARPC was close to the total available global capacity for Australia, yet only about 30 per cent of the $10 billion cover provided by the Commonwealth guarantee.

National threat level

Market failure is sustained by the threat levels for terrorism risk. In September 2014 the Australian National Terrorism Public Alert System raised the threat of a terrorist attack from 'low' to 'high'. At the time of reporting, the alert system comprised 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 nation's threat environment. At the time of writing this report, the ASIO public website advised that Australia will continue to face a persistent threat of terrorism, espionage, foreign interference, including cyber security threats.

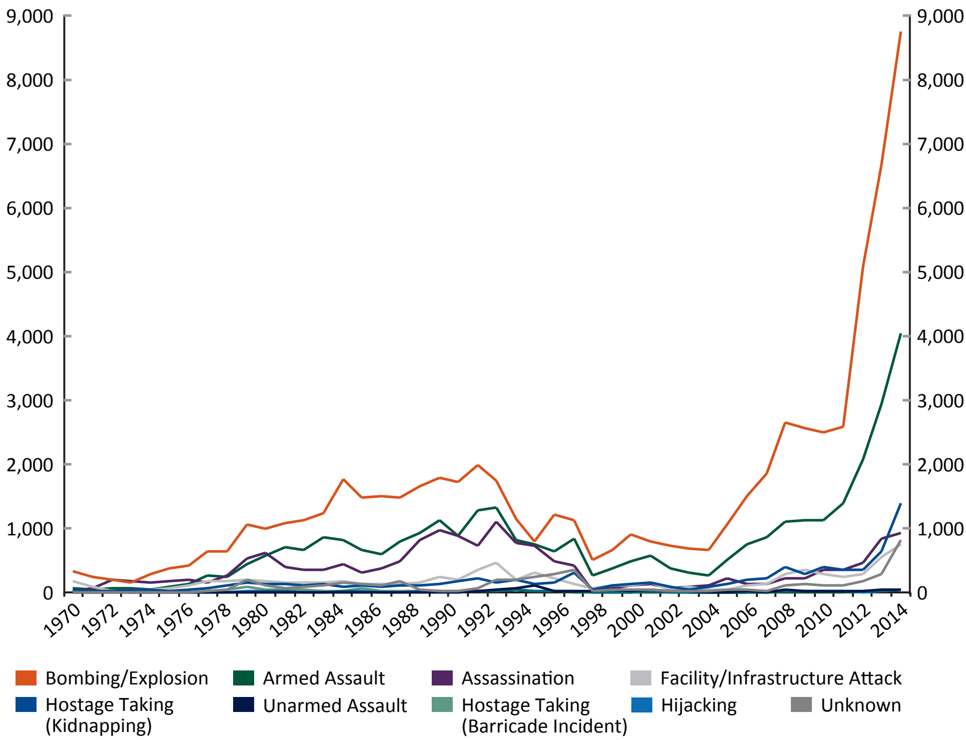
For more information on Australia's threat environment please visit:

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

International threat environment

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 1.4: Number of international terrorism incidents by year 1970–2014



The GTD is an open-source database containing information on terrorist events around the world from 1970 to 2014. The GTD includes systematic data on over 140,000 international terrorist incidents that have occurred during this time period. Since 1991, the number of terrorist incidents globally has more than tripled.

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

Working with our stakeholders

Stakeholder engagement

ARPC is committed to open and timely communication with stakeholders and we strive to understand their needs and exceed their expectations. During 2014–15 we continued to develop and sustain our stakeholder relationships. We met regularly with insurers and provided customer service on reinsurance agreements and insurer premium submissions.

Face-to face meetings were held during the reporting period with the following:

- reinsureds
- retrocessionaires
- industry bodies
- local government
- state government
- federal government
- state insurance corporations.

In 2014-15 we implemented an online Customer Relationship Management system to improve stakeholder management and communication tracking capabilities.

The new system enables ARPC to record all its client information in a central repository and provides organisation-wide visibility over the various interactions we have with our stakeholders.

Sharing our knowledge

Sharing our knowledge with stakeholders enhances existing relationships and develops partnerships across the spectrum of reinsurance activities. During the 2014-15 financial year, ARPC representatives attended industry forums as delegates and presenters. This included presentations by the CEO, Dr Christopher Wallace and the Chair, Ms Joan Fitzpatrick at the Organisation for Economic Cooperation and Development's (OECD) Third International Meeting on Terrorism Risk Insurance in September 2014, hosted by the USA Department of Treasury in Washington DC.

Publications

ARPC published a quarterly electronic newsletter for insurers and other subscribers to communicate information relating to their insurance cover with ARPC. This included postcode updates for reporting exposures and other information regarding their reinsurance agreement obligations.

Our periodic Market Update publication provided information on the triennial review and the raising of the National Terrorism Public Alert level in September 2014, the 2013–14 ARPC Annual Report in November 2014, and an update in June 2015 on the relocation of our Canberra office to Sydney. ARPC also published three media releases and a media fact sheet during the reporting period.

Three articles featuring ARPC were published in the wake of the Lindt Café incident in the following publications:

- ANZIIF's 'Journal' magazine (March 2015 edition)
- Insurance Matters (Sparke Helmore Lawyers, March 2015)
- Asia Insurance Review magazine (May 2015 edition)

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 the awareness of our stakeholders on the scheme and to stay informed on global industry developments in insurance and terrorism risk insurance.

During 2014–15 ARPC attended industry conferences and events including:

- Insurance Council of Australia, Regulatory Briefing
- Institute of Actuaries, Catastrophe Risk Seminar
- Institute of Actuaries, General Insurance Seminar
- Insurance Council of Australia, Annual Dinner
- CREATE Foundation, Beat the Boss's, Insurance Industry Event
- Financial Services Accounting Association, National Congress
- Australian and New Zealand Institute of Insurance and Finance, Claims Convention
- Australian and New Zealand Institute of Insurance and Finance, Reinsurance Rendezvous
- Australian and New Zealand Institute of Insurance and Finance, Insurance Awards dinner.

Reinsured review program

We undertake reviews of our reinsureds on a regular basis. The reviews provide verification that reinsureds are meeting all their obligations under ARPC's reinsurance agreement. The following table details the number of visits to reinsureds conducted over the past five years.

Table 1.5: Number of reinsured reviews undertaken by ARPC

Type of review	2014-15	2013–14	2012–13	2011–12	2010–11	2009–10
Full reviews	10	28	12	14	20	15
Follow up reviews	12	6	12	13	9	6
Total	**22**	**34**	**24**	**27**	**29**	**21**

Reinsured review trends

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

- postcode tables not being updated. This is important as the ARPC premium rating is based on location of eligible risk by postcode.
- back-calculating of gross written premium. This issue is generally observed in companies with overseas parent companies, which are restricted by the computer systems they are able to use.
- terrorism exclusion clauses that are ambiguous or could have unintended consequences. It is essential that eligible insurance policies have a straightforward terrorism exclusion clause in the policy exclusions section in accordance with the TI Act.
- miscoding for premium purposes; this has shown a recent increase in occurrence. A minor error in coding can cause major administrative issues for ARPC as well as the reinsured. In some cases the reinsured is entitled to a partial premium refund due to coding errors. All requests for premium refunds are considered in line with the ARPC Premium Refund Policy, available on the website.

We will continue to work with reinsureds through our reinsured review program to reduce the incidence of these issues.

2.
THE SCHEME

2. THE SCHEME

Background

In July 2003, the ARPC terrorism insurance pool (the scheme) was established. When a DTI is declared, the TI Act renders invalid any terrorism exclusion clause in an eligible insurance contract.

Although insurers remain liable for commercial terrorism risks, the scheme is not compulsory. Insurers can choose to carry the risk of terrorism losses following a DTI, reinsure the risk through the commercial insurance market, or choose to reinsure with ARPC by paying the scheme premiums.

ARPC's policy objectives are outlined in an explanatory memorandum of the TI Act (Revised Explanatory Memorandum of the Terrorism Insurance Bill 2002). These objectives are that intervention would need to be consistent with:

- the need to maintain, to the greatest extent possible, private sector involvement
- ensuring risk transferred to the Commonwealth is appropriately priced and that the Commonwealth is compensated by those benefiting from the assistance
- allowing the re-emergence of the commercial markets for terrorism risk cover
- global solutions.

How the scheme operates

Through 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).

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

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.

The total value of the scheme currently stands at $13.1 billion including capacity from retrocession funding (see Scheme funding capacity).

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 reduction percentage is only available to insurers who reinsure with ARPC, with the effect being to reduce the amounts payable for terrorism losses under eligible insurance contracts. The reduction percentage may subsequently be varied by the government, but only by making it smaller.

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 commensurate with 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 claim. 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.

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, despite this being reviewed 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 2.6: 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 reinsured that 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. ARPC provides reinsurance cover of up to $13.1 billion for a DTI, protecting private commercial assets that have an aggregate sum insured exposure of over $3.1 trillion. Through the scheme, ARPC draws on international funds through our purchase of retrocession reinsurance for rebuilding and re-establishing commercial business activity.

Table 2.7: Number of reinsured reviews undertaken by ARPC

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

Scheme funding capacity

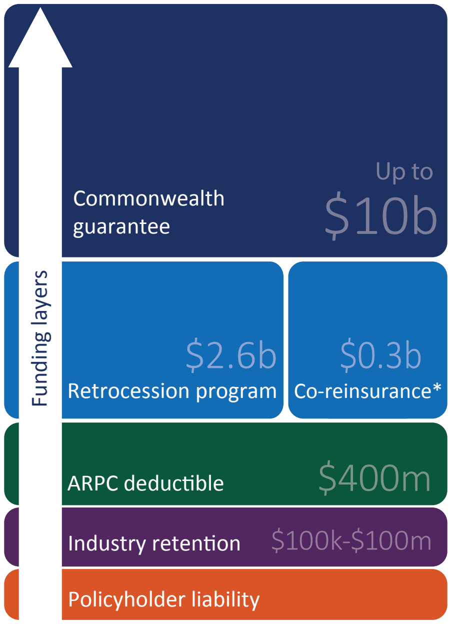
ARPC currently provides its insurers with a tailored solution of $13.1 billion in reinsurance capacity, comprising industry retentions, ARPC retention, retrocession reinsurance and the Commonwealth guarantee. Since 2009, ARPC has placed an annual retrocession program, purchasing around $2.9 billion in capacity through 60 reinsurers, most of which are located overseas.

ARPC purchases almost all the global terrorism reinsurance capacity available for Australian risks through reinsurers, all of which must be 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 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 2.8: ARPC 2015 Scheme diagram



*Co-reinsurance will be funded by ARPC reserves and Commonwealth guarantee.

The order of funding for claims against the scheme is in layers, as follows:

1. policy holder liability (e.g. amount of excess or retention stated in the policy)
2. industry retention up to $100 million
3. ARPC deductible
4. retrocession reinsurance program
5. co-reinsurance in the retrocession program, with contributions from ARPC and the Commonwealth guarantee
6. Commonwealth guarantee.

Scheme benefits

ARPC covers almost all private commercial property and private critical infrastructure in Australia, with an aggregate sum insured of over $3.1 trillion. We continue 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. As mentioned, the premiums charged for ARPC terrorism insurance 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 capped at $100 million.

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

Global terrorism reinsurance pools

A large number of governments and insurance markets around the world have introduced terrorism reinsurance 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 reinsurance pools are the global standard approach to providing cost effective reinsurance for terrorism catastrophe.

The table following shows the international terrorism reinsurance pools in place today.

Table 2.9: 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)

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

Reviews of the TI Act (triennial reviews)

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 property sector from terrorism risks 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.

The terms of reference for each review conducted to date have included that the Treasury was to seek submissions from, and consult widely with, ARPC's key stakeholders. These include:

- private sector insurers, reinsurers and brokers
- peak bodies representing the general insurance, banking, broking and property industries
- state and territory governments
- other Australian Government agencies, including ARPC.

There have been three reviews published, 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.

In each published review, there was close scrutiny of four key operational factors of the scheme. The premium rates charged by ARPC are the key source of revenue for the scheme. Each of the first three reviews left premiums charged by ARPC unchanged; three other key factors examined at each review are outlined below.

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 to cover a share of its terrorism risk, according to the appetite of the private market, consequently encouraging the re-emergence of the private market. The first retrocession program commenced 31 December 2008, with the program subsequently renewed each year.

The capacity of ARPC to respond to a terrorism incident is strongly underpinned by 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. The support of the retrocession program provided evidence that ARPC continues to meet the policy objectives set during the establishment of the scheme; in particular to:

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

In December 2014, ARPC's retrocession program renewal provided total retrocession capacity for the 2015 underwriting year of AUD 2.925 billion in excess of a deductible of AUD 400 million. We obtained support from 60 reinsurance entities, (2014: 56 entities), each of which have appropriate counterparty credit ratings.

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.

Due to the increasing prevalence of high-rise residential apartment complexes and new mixed-use building developments in most Australian city CBDs, the 2012 review recommended this issue be closely examined in 2015. This issue remains a matter of interest within both the commercial and residential property industry sectors.

Payments to government

Since its inception, the terrorism insurance scheme has been backed by a Commonwealth guarantee 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 replaced the remaining dividends to be paid at that time 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. The first of these payments was made to the government in May 2015.

2015 Triennial Review

In 2014 the government engaged a private consultancy firm, Pottinger, to assist the Treasury with the 2015 Triennial Review. The government announced the terms of reference, stating that the Treasury was to report to the Minster 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 TI Act to continue in operation
- options on the future of the TI 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.

Late in 2014 Pottinger undertook a series of market ‘soundings’ to ascertain the view of market participants on the operation of the scheme and potential alternative ownership models. The Treasury has taken the Pottinger review into consideration as it drafted its report to the Minister.

At the time of reporting, the government had not approved the release of the Treasury’s report on the triennial review of the operation of the *Terrorism Insurance Act 2003*. However, the Treasury has already consulted with representatives of the Insurance Council of Australia and the Property Council of Australia in relation to the key findings of the report.

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Lindt Café incident

Unfortunately ARPC was called upon to respond to Australia's first DTI under the TI Act. Our ability to respond appropriately as the incident evolved demonstrated that our DTI response plan had been well considered and staff were well prepared.

Our response

Once alerted to the unfolding events at the Lindt Café in Martin Place Sydney on the morning of 15 December 2014, ARPC monitored the situation closely and briefed the Treasury on the potential for this to become a DTI.

Actions undertaken during the first few weeks of our DTI response plan included:

- early communications with government and industry on requirements under the TI Act and the potential for claims
- daily updates to the Treasury and the Minister in initial stages
- DTI Response Team mobilised and on 24/7 stand-by
- briefings to the Board and staff
- ongoing assessment of potential losses
- loss estimates communicated to Minister
- early engagement of insurers potentially affected
- communication with all reinsured clients
- preparation of response to media
- event and media logs initiated.

Claims

On 15 January 2015, the (then) Treasurer, the Hon Joe Hockey MP, announced that the Lindt Café incident was a DTI for the purposes of the TI Act, and that there would be no reduction percentage to any eligible claims. As a result terrorism exclusions in insurance contracts were rendered ineffective, with insurers liable to pay eligible claims.

Insurers are required to notify ARPC as soon as possible and within 12 months of the reinsured being notified of an eligible terrorism loss. It is important the insurers notify us of any paid or outstanding claims, which can then be deducted against any future declared terrorist incident.

At the time of reporting ARPC had been notified of 66 claims from 11 primary insurers for material damage of buildings and contents, and associated business interruption and prevention of access. Most claims were for business interruption caused by prevention of access to the businesses in close proximity to the Lindt Café. So far there have been no claims reported for public liability.

The TI Act does not cover policies for risks such as residential property, workers compensation, marine, aviation, motor vehicle, life, health, private mortgage, medical indemnity and professional indemnity.

ARPC's response was greatly assisted by strong cooperation from insurers, who were very supportive of both their policy holders and ARPC.

What we learned

In May 2015 we conducted a review of our DTI Response Plan. It was reassuring that our protocols and processes worked as anticipated.

Since December 2014, we have answered many questions from stakeholders on the extent of cover afforded by the TI Act. Some policy holders were under the misunderstanding that any loss was covered once a DTI was announced. That is not the case—coverage is in accordance with the terms and conditions of the insurance policy covering eligible property. It also extends to the building, contents, associated business interruption, and public liability as an owner or occupier of the eligible property.

Other key learnings were:

- ARPC has a good understanding of insurers and businesses impacted
- due to the exclusion zone enforced post incident, business disruption to the CBD was significant, despite there being only minor damage to the Lindt Café itself and none to other surrounding businesses
- prevention of access for businesses is a significant issue once the policy excess period has elapsed
- businesses may underestimate their risk of terrorism events
- most businesses have a workable business continuity plan
- there was extensive international media/internet coverage of the actual unfolding risks of the event.

Looking ahead

ARPC will continue to develop and test its procedures and processes to fulfil its obligations in protecting Australia from economic losses caused by terrorist attack. Businesses are encouraged to review their business continuity plans to determine whether they are adequately insured for property damage and business interruption.

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3.

OUR PERFORMANCE

3. OUR PERFORMANCE

Financial review

Summary of financial information

ARPC's financial highlights for 2010 through to 2015 are represented in Table 3.10 below.

Table 3.10: Financial highlights by financial year

	2015 $'000	2014 $'000	2013 $'000	2012 $'000	2011 $'000	2010 $'000
Net premium revenue	**56,885**	47,980	45,900	37,523	24,534	25,293
Acquisition costs	**(1,035)**	(1,089)	(1,167)	(1,124)	(609)	(603)
Retrocession commission income	**6,956**	7,606	7,471	7,705	8,004	7,551
Investment income	**21,337**	26,531	35,912	40,886	36,180	28,351
Other income	-	(1,660)	(4,193)	5,484	(88)	(596)
Other operating expenses	**(6,973)**	(7,962)	(6,680)	(6,986)	(6,635)	(6,800)
Finance Charge	**(55,004)**	(4)	(4,793)	-	-	-
Operating result	**22,166**	71,402	72,450	83,488	61,386	53,196
Gross written premium	**126,568**	129,642	132,093	124,709	112,555	104,885
Outwards retrocession premium	**(71,249)**	(81,728)	(81,381)	(81,607)	(84,186)	(80,098)
Net expense ratio	**10.41%**	13.89%	20.04%	14.56%	20.49%	26.89%
Gross expense ratio	**4.62%**	5.14%	7.23%	4.59%	4.62%	6.45%
Cash and cash equivalents	**643**	1,314	4,953	8,299	14,660	41,668
Investments	**559,500**	595,500	666,230	757,363	665,648	576,334
Reserve for claims	**510,475**	535,054	408,252	338,400	665,846	604,460

The significant changes to ARPC's financial performance and achievements for 2015 measured against 2014 are:

- gross written premium (GWP) of $126.6 million for 2015 (2014: $129.6 million) represents a decrease of 2.3 per cent, consistent with decreases in primary insurance premiums.
- investment income decreased to $21.3 million (2014: $26.5 million) due to a period of sustained low interest rates, a very low risk investment profile, and the requirement to fund $112.5 million dividend and payments to government which decreased the investment balance.
- ARPC renewed its retrocession program on 1 January 2015; the gross costs for the 2014–15 financial year decreased to $71.2 million (2014: $81.7 million) while the cover reduced to $2.6 billion (2014: $2.9 billion).
- finance charges increased significantly due to the $55.0 million fee to government.

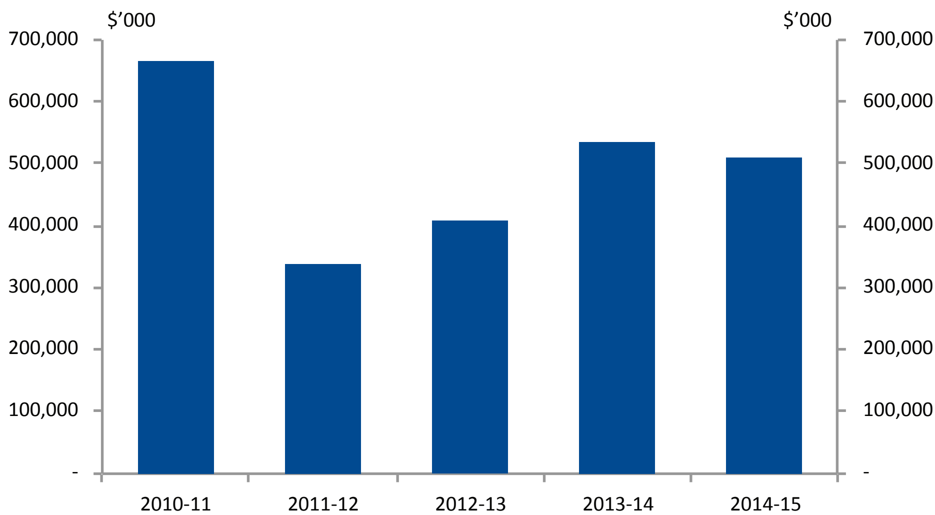
- operating expenses for 2015 have been reduced; however:
  - the net expense ratio (which is acquisition cost plus direct and indirect underwriting cost divided by net premium revenue) has decreased to 10.41 per cent (2014: 13.89 per cent) due to reduction of overall costs for the year.
  - the gross expense ratio (which is acquisition cost plus direct and indirect underwriting cost divided by gross premium revenue) of 4.62 per cent has decreased (2014: 5.14 per cent) due reduction of overall costs for the year.
- the reserve for claims now stands at $510.5 million (2014: $535.1 million).
- in June 2014 the government announced that ARPC would make a fee payment of $55.0 million and a $57.5 million dividend payment during 2014-15.

Reserves

Total equity is $537.7 million (2014: $573.0 million) after dividend payments of $57.5 million and an operating surplus of $22.2 million. The reserve for claims is now $510.5 million (2014: $535.1 million) and the trend of reserves is illustrated in figure 3.10 below. The claim reserve is supported by additional funding for claims from the $2.6 billion retrocession reinsurance program, and the $10 billion Commonwealth guarantee.

During 2015, ARPC reduced the claims handling reserve of $37.9 million to $27.2 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 3.11: ARPC reserve for claims by financial year



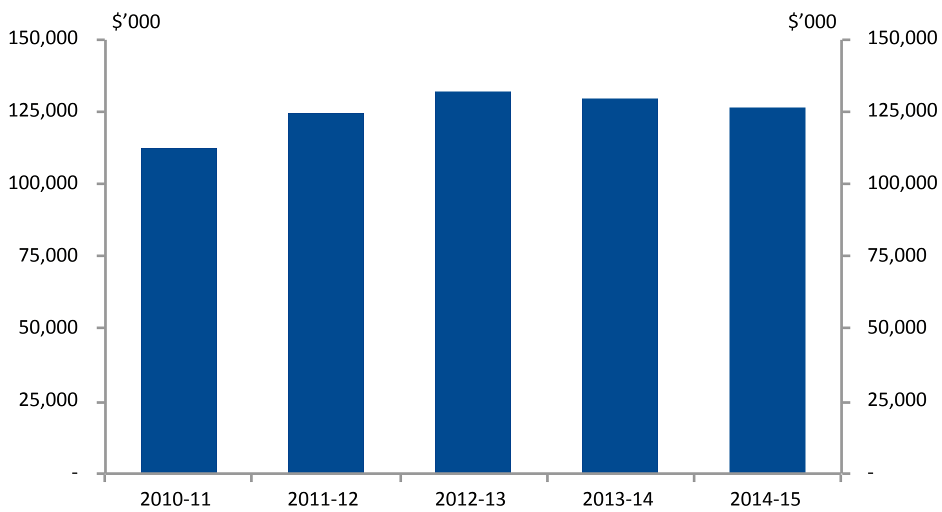
Gross written premium

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 2014–15, 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 3.12 below.

Figure 3.12: ARPC gross written premium by financial year



Investment assets

ARPC managed investments internally in 2014–15. ARPC's investment strategy complies with the PGPA 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 3.13 provides a breakdown of ARPC's cash and investment balances as at 30 June 2015.

Table 3.13: Comparison of cash and investment balances as at 30 June 2015

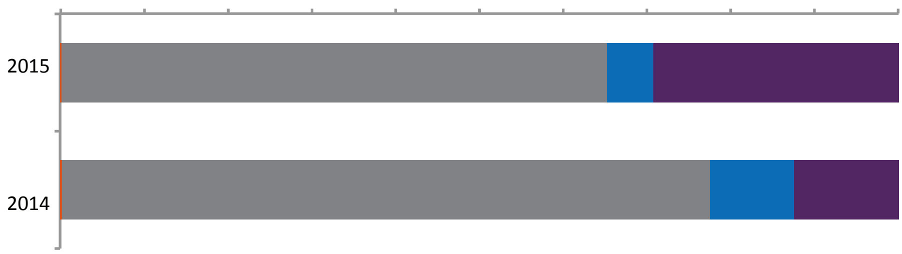
	2015 $'000	2014 $'000
Internally managed		
Cash at bank	**643**	1,314
Fixed Interest Deposits	**559,500**	595,500
Total internally managed cash and investments	**560,143**	596,814

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

ARPC's cash investments are held by Australian financial institutions with Standard and Poor's credit ratings between A- and AAA.

Figure 3.14 illustrates ARPC's investments by credit rating category.

Figure 3.14: Investments by credit rating 2015



	2014	2015
AAA	0.22%	0.12%
AA+	0.00%	0.00%
AA	0.00%	0.00%
AA–	77.33%	65.34%
A+	9.97%	5.62%
A	0.00%	0.00%
A–	12.48%	28.92%

Investment income

The investment income return for 2014–15 is a good result given the continued low interest rate environment experienced for the financial year.

The official cash rate was 2.0 per cent at 30 June 2015 compared to 2.5 per cent for last year. The medium-term outlook is for official interest rates to remain low which may have a downward impact on cash deposit interest rates over the coming year.

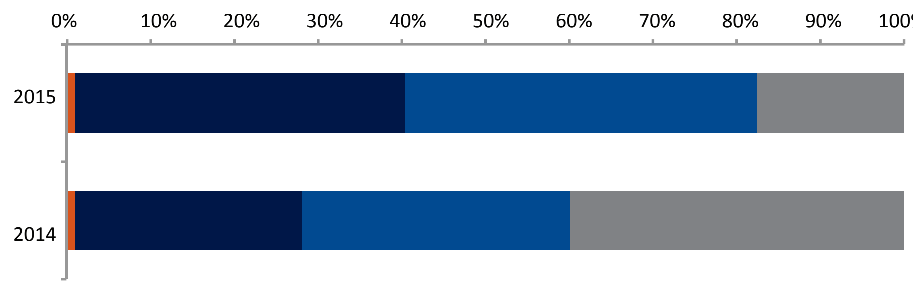
Table 3.15 provides a breakdown between internally and externally generated investment incomes as at 30 June 2015.

Table 3.15: Investment income for the period ended 30 June 2015

	2015 $'000	2014 $'000
Internally managed		
Cash at bank	**380**	665
Fixed Interest Deposits	**20,957**	16,316
Total internally managed income	**21,337**	16,981
External fund managers		
Cash at bank	**-**	-
Fixed Interest Deposits	**-**	667
Government (guaranteed) securities	**-**	8,883
Total external fund managers income	**-**	9,550
Total cash and investments	**21,337**	26,531

The maturity of funds invested is illustrated in Figure 3.16.

Figure 3.16: Funds held at 30 June 2014 by maturity



	2014	2015
Cash	1%	1%
0-3 months	27%	39%
3-6 months	32%	42%
6-12 months	40%	18%
12-24 months	0%	0%
> 24 months	0%	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 reinsured's premiums. Therefore ARPC's overall premium income is subject to insurance market cycles, even though our rates remain stable.

We expect the original insurance market premium rates will decrease in the immediate future should there continue to be few major natural catastrophe events.

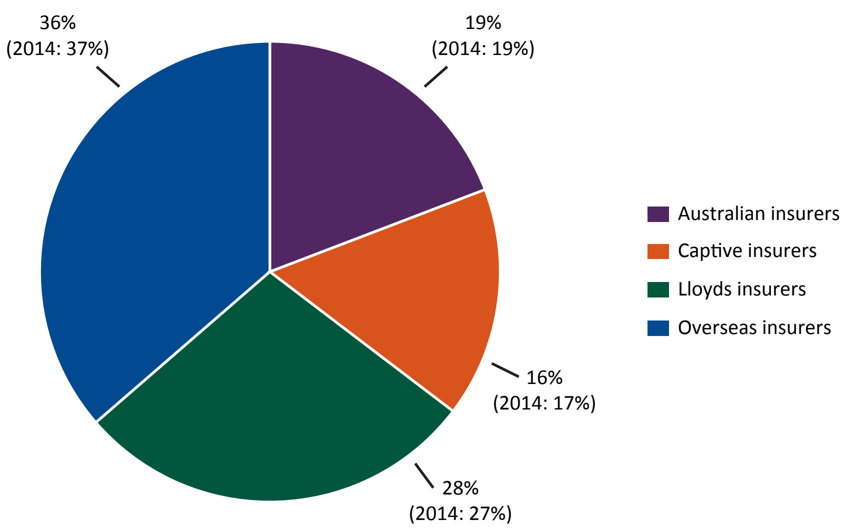
ARPC's pool of retained earnings has fallen in recent years due to the requirement to pay dividends and fees to government. Investment income is expected to plateau or fall in the coming year as we remain in a period of sustained low interest rates and as a result of a reduction in the pool of retained earnings to meet dividend payment obligations. On this basis, ARPC's pool of retained earnings will continue to decrease in the medium term.

Active client reinsurance agreements

ARPC's active reinsurance agreements (or treaties) with reinsureds increased during 2014–15 to 232 (2013–14: 226) as a result of requests for terrorism reinsurance from several Asian insurers with new risks in Australia. Australian reinsureds represent 19 per cent of the total active treaties and continue to contribute 87 per cent of the premium received. This has been a consistent occurrence since ARPC's commencement.

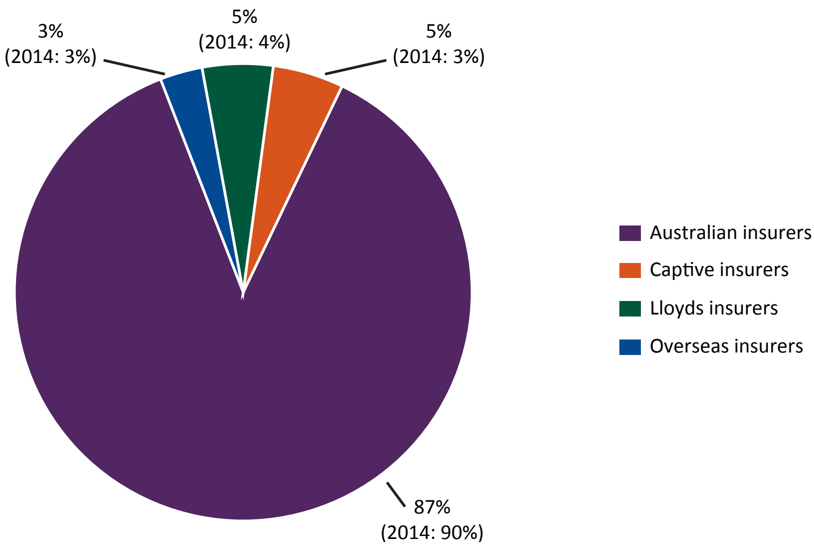
The percentage split between each of the categories is illustrated in figure 3.17 below.

Figure 3.17: Active client reinsurance agreements



The trend of GWP, as reported by the reinsureds, is measured by insurer client type, premium by tier, premium by state and premium by business class. Figure 3.18 illustrates the GWP by insurer client type.

Figure 3.18: ARPC gross written premium by insurer client type



Tables 3.19, 3.20 and 3.21 illustrate that the GWP by tier, state and business class between 2011 and 2015 has remained stable with the majority of exposures in Tier B followed by Tier C.

Table 3.19: Gross written premium by tier reported by the reinsureds by financial year

	Actual				
	2015	2014	2013	2012	2011
Tier A	**18%**	20%	20%	19%	19%
Tier B	**56%**	51%	51%	55%	56%
Tier C	**26%**	29%	29%	26%	25%
Total GWP $’000	**126,568**	129,642	132,093	124,709	112,555

Table 3.20: Gross written premium by state reported by reinsureds by financial year

	Actual				
	2015	2014	2013	2012	2011
NSW	**32%**	24%	30%	32%	31%
SA	**7%**	8%	8%	8%	9%
VIC	**22%**	24%	21%	21%	23%
TAS	**1%**	1%	2%	2%	2%
QLD	**20%**	24%	22%	22%	20%
NT	**1%**	2%	1%	1%	1%
WA	**14%**	16%	15%	13%	13%
ACT	**1%**	1%	1%	1%	1%
Total GWP $'000	**126,568**	129,642	132,093	124,709	112,555
Cumulative total $'000	**1,191,115**	1,064,547	934,905	802,812	678,103

Table 3.21: Gross written premium by business class reported by reinsureds by financial year

	Actual				
	2015	2014	2013	2012	2011
Fire/ISR/BI	**83%**	82%	83%	80%	80%
Contract works	**8%**	8%	7%	9%	9%
Burglary	**4%**	3%	4%	5%	5%
Miscellaneous accident	**2%**	0%	2%	2%	2%
Mobile plant	**2%**	4%	3%	3%	3%
Glass	**1%**	2%	1%	1%	1%
Farm	**0%**	1%	0%	0%	0%
Total GWP $'000	**126,568**	129,642	132,093	124,709	112,555
Cumulative total $'000	**1,191,115**	1,064,547	934,905	802,812	678,103

Statistics

Tables 3.20 and 3.21 show the steady growth in premium revenue for ARPC since 2011, which is similar to the growth of our reinsureds 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 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 3.22 shows a snapshot of ARPC's insurance risks on an underwriting year basis as reported by the reinsureds during July/August at 22 July 2014 and is shown on the RISe systems at 30 June 2015. An underwriting year includes all premiums for all policies commencing within the financial year.

Table 3.22: Insurance risk report, as at 30 June 2015 by underwriting year

Underwriting year	Premium revenue $ million	Insurer client sum insured $ million	Insurer client GWP $ million	Premium as % of GWP
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	126.7	3,114,901	3,610	3.5
2014–15*	100.1	**	3,037	3.3

* Note that the premium revenue for 2014–15 underwriting year of 100.1 million is the amount received from three financial quarters.

** The 2014–15 risk reports are submitted onto RISe from July 2015 until September 2015. Therefore this information is not available as at 30 June 2015. This applies to tables 3.22, 3.23 and 3.24.

Table 3.23: Insurance risk report for 2013–14 underwriting year by tier, as at 30 June 2015

Tier	Premium revenue $ million	Insurer client sum insured $ million	Insurer client GWP $ million	Premium as % of GWP
A	23.4	2,010	195.2	12%
B	71.4	37,691	1,785.5	4%
C	33.5	128,348	1,677.5	2%
Total	128.3	168,049	3,658.2	3.51%

Note that these figures were reported to ARPC via RISe during July/August 2014 and are on an underwriting year basis.

Table 3.24 indicates that the vast majority of ARPC's exposure is located in rural Western Australia, rural Queensland, and New South Wales. However, the majority of the premium income is derived from NSW followed by Victoria due to the higher values located in Tier B.

Table 3.24: Insurance risk report for 2014–15 underwriting year by state, as at 22 July 2015

State	Premium revenue $ million	Insurer client sum insured $ million	Insurer client GWP $ million	Premium as % of GWP
ACT	1.5	7.8	39.5	3.7%
NSW	40.7	13,046.1	1,064.0	3.8%
NT	1.9	4,978.8	71.9	2.6%
QLD	26.1	26,103.0	828.5	3.2%
SA	9.2	8,478.0	234.6	3.9%
TAS	1.7	53.2	65.6	2.5%
VIC	28.9	5,513.3	732.2	3.9%
WA	18.5	54,488.2	621.6	3.0%
TOTAL	128.4	112,668.4	3,657.8	3.5%

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.

As noted by the CEO in his report, ARPC consolidated its operations into a single Sydney office towards the end of the reporting period.

There have been no developments since the end of the 2014–15 financial year that have significantly affected or may significantly affect:

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

Retrocession

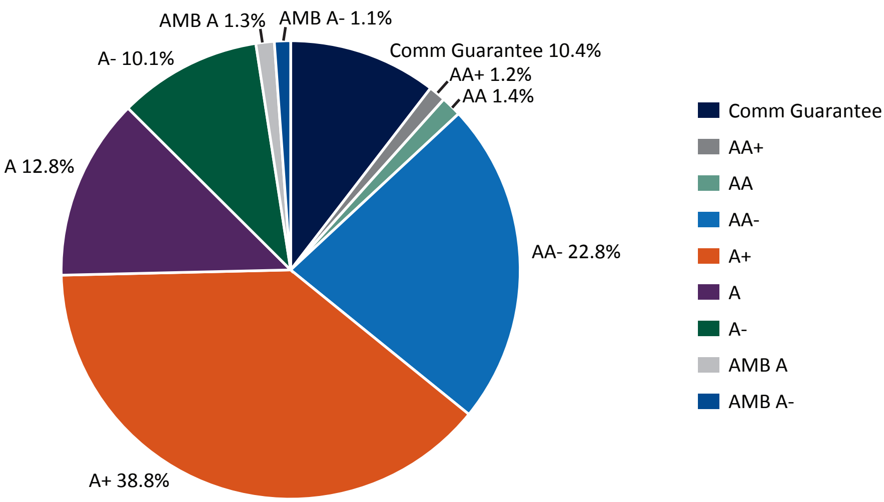
ARPC's retrocession program is based on a recommendation of the 2006 triennial Review. The retrocession program was initiated in December 2008 and continues to provide the following benefits:

- 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
- encourages the return of the commercial terrorism insurance and reinsurance market for Australian risks.

Retrocession placement

The retrocession program is placed on a calendar year basis. There are currently 60 participants in the retrocession program drawn from the Australian, Lloyds, European, Bermudan, USA and Asian markets. The number of participants has been reduced from a peak of 63 in 2013 to remain within our reduced budget and to optimise the average financial rating of our retrocession panel.

Figure 3.25: Retrocession program counterparty credit rating 2015.



The 2015 retrocession program of $2.9 billion, including co-reinsurance (2014: $3.24 billion including co-reinsurance), was placed in five layers in excess of $400 million (2014: $360 million). All layers of the 2015 retrocession program include some co-reinsurance by ARPC and the Commonwealth guarantee. Losses in excess of the retrocession program are covered by the Commonwealth guarantee. Refer to Chapter 2 'The scheme' for illustration of the 2015 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 2015 totalling $81.7 million. The total retrocession commission income recognised by ARPC for 2014–15 was $7.6 million (2013–14: $7.6 million). The cost of the retrocession program that began on 1 January 2015 is cheaper than the 2014 program. This reduction in cost was achieved through:

- reduced rates charged by retrocessionaires from 1 January 2015
- an increased program deductible from $360 million to $400 million
- a smaller program purchased for 2015.

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 reinsureds to provide an annual aggregate sum insured report. The report summarises our reinsureds' aggregate sum insured amounts at postcode level and at street level from some Tier A locations. The information is uploaded by our reinsureds 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 3.26 and figures 3.27 and 3.28 provide an overview of ARPC's total exposure based on information provided by reinsureds.

Table 3.26: Aggregate sum insured amounts by tier by underwriting year

Tier	2013–14 $ million	2012–13 $ million	2012–11 $ million	2011–10 $ million
A	322,901	341,571	357,828	342,260
B	1,494,944	1,480,287	1,507,024	1,490,516
C	1,297,056	1,187,804	1,215,210	1,130,784
Total	3,114,901	3,009,662	3,080,062	2,963,560

Figure 3.27: Percentage of aggregate sum insured held by tier

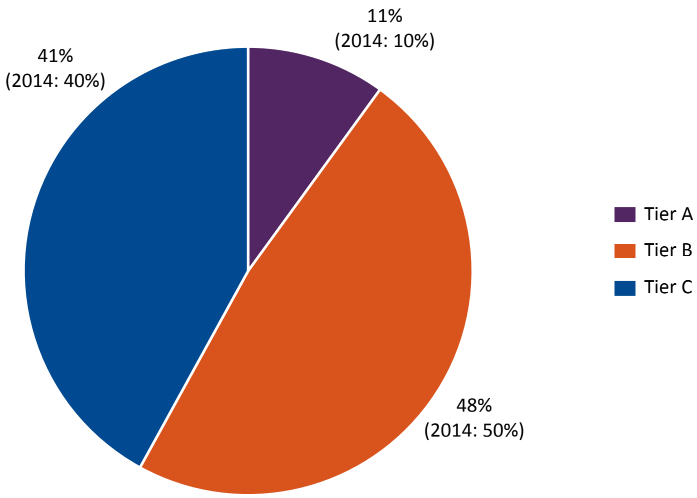
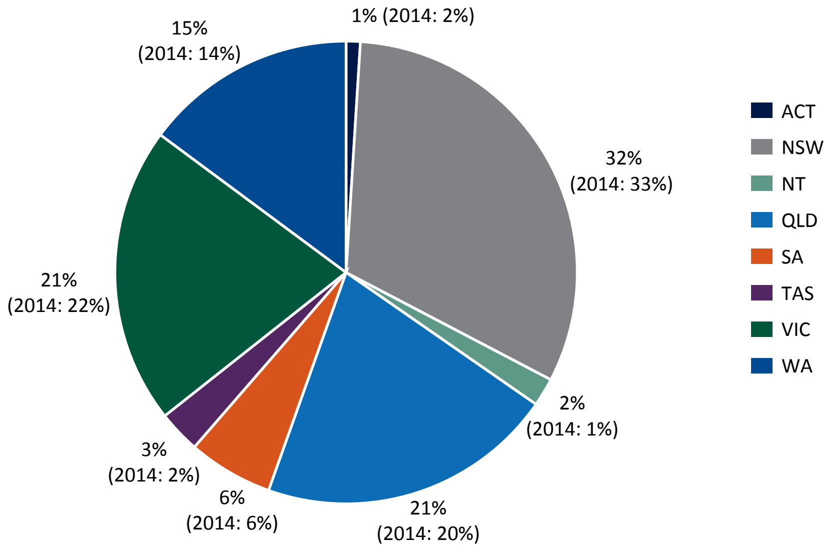


Figure 3.28: Aggregate sum insured by state



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

Sum insured aggregate exposure information

During 2014–15, ARPC adjusted the level of detail required in the aggregate exposure reports that are submitted by insurer clients. The sum insured information received from reinsureds allows ARPC to analyse its exposures at a postcode level throughout Australia and at a street address level in most Tier A locations.

Three dimensional blast model

The sum insured aggregate database forms the foundation of the three dimensional blast model that has been developed by GeoScience Australia (GA) since 2009. This 3D blast model is intended to analyse pressure waves and resulting damage from blasts in most Tier A locations. Continued improvements of the 3D blast model are currently being undertaken.

Plume model

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.

4.

OUR PEOPLE

4. OUR PEOPLE

Leadership team

ARPC's management team is headed by the Chief Executive Officer, who was appointed by the corporation under the provisions of the TI Act.

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

Term: 9 December 2013–8 December 2016

Chris is an insurance executive with experience in general insurance, workers compensation, health insurance, and more recently in reinsurance. He has worked extensively in insurance underwriting and claims management roles within insurers, and as a consultant to the insurance industry.

Chris is also a non-executive director of MIPS Insurance Pty Ltd, a medical indemnity insurer. Previous professional roles include being General Manager Workers Compensation at GIO, Executive Director at Ernst & Young, and most recently as General Manager Benefits Management at HCF.

Chris 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, a Certified Insurance Professional, and a Graduate of the Australian Institute of Company Directors.

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's career has spanned diverse roles within the Australian Public Service. She is responsible for designing and maintaining high quality processes for all corporate governance practices such as strategic planning; risk management; assurance monitoring; and policy and legislative compliance. Alison is responsible for business continuity planning including ARPC's response to any potential declared terrorist incident. She is also responsible for production and publication of the ARPC Annual Report and the corporate plan.

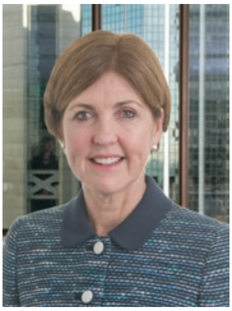
As ARPC's Board Secretary, Alison provides support to the Board and to the Audit and Compliance Committee, while also being the key liaison with the Treasury, the Minister's office and other government stakeholder agencies.

Michael Pennell
BE, AMP (Wharton) 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 negotiating and implementing ARPC's annual retrocession program. Michael leads various projects that enable ARPC to develop and enhance its loss estimation capabilities.

Michael serves on the reinsurance Faculty Advisory Board of the Australian and New Zealand Insurance Institute, and teaches reinsurance at the Insurance Institute's annual RiSC Seminar.



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

Fran has significant experience in the Australian Public Service and a strong network in government operations and government finance.

Fran is responsible for finance, communications, human resources and information communication technology. This includes related functions such as investments, 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 an experienced reinsurance claims executive. He is responsible for conducting the insurance audit program. This involves visiting reinsureds over a rolling two to three year period to conduct audits on their compliance with the terms of the ARPC reinsurance agreement.

Michael is also responsible for managing ARPC's claims processes and procedures.

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 that were ARPC employees as at 30 June 2015.

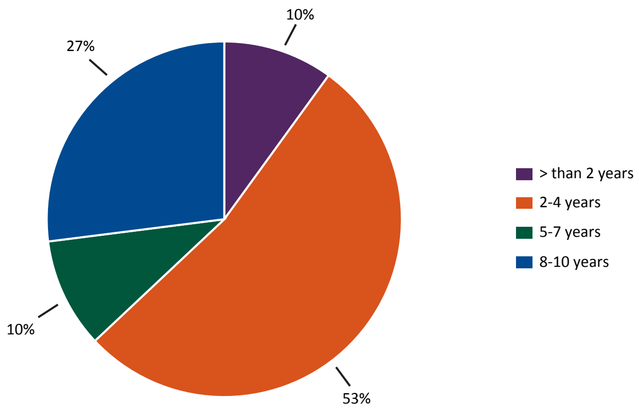
Table 4.29: Number of permanent on-going employees by classification and gender

Classification	Male	Female	Total
ARPC level 3	-	-	-
ARPC level 4	-	2	2
ARPC level 5	-	3	3
ARPC level 6	-	3	3
ARPC EL 1	1	1	2
ARPC EL 2	4	-	4
Senior executive staff (SES)	3	2	5
Total	**8**	**11**	**19**

Table 4.30: 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	1	5	2	2
Governance, Risk & Compliance	0	3	0	0
CEO	1	1	0	0
Total	**2**	**10**	**2**	**5**

Figure 4.31: Length of service



The following table provides the salary scales for all non-SES staff as at 30 June 2015.

Table 4.32: Salary scales for non SES staff

Level	Salary band
ARPC level 1	$43,655–$47,408
ARPC level 2	$50,320–$53,651
ARPC level 3	$56,983–$60,312
ARPC level 4	$63,643–$66,974
ARPC level 5	$71,556–$76,137
ARPC level 6	$80,717–$97,791
Executive Level 1	$105,285–$120,776
Executive Level 2	$128,604–$147,594

People and Culture

People and Culture area provides human resource (HR) advice and administrative support to ARPC staff. The area also develops and implements HR strategies and policies including:

- employment contracts and remuneration
- performance management
- learning and development
- work health and safety (WHS).

The Treasury provides payroll functions under its Memorandum of Understanding (MoU) with ARPC.

Employment Agreement

The ARPC Enterprise Agreement 2010–14 (the Agreement), which nominally expired in February 2014, continues to provide employment terms and conditions for non-SES staff until a new agreement is in place. SES staff employment terms and conditions are provided in individual contracts.

We are currently negotiating a new Agreement with staff in line with the 2014 Australian Government Public Sector Workplace Bargaining Policy.

Performance Management System

Work is underway on a new performance management framework based on the Australian Public Service Commission Integrated Leadership System standards and behaviours. The new framework will be finalised and implemented once the relevant provisions in the new Agreement are confirmed.

During 2014–15 staff participated in performance discussions under our current performance management system (PMS). The PMS consists of a mid-year informal review and an annual performance review. Staff are rated on a five scale system from 1 (exceeds standards) to 5 (not meeting standard) with an overall rating of 1 or 2 being required for salary advancement.

Learning and development

We are committed to providing professional development for all ARPC staff to expand their skills and knowledge through a range of industry specific, role specific and personal career development training opportunities.

Development programs attended by staff during the year included:

- Ernst & Young Hazard Training
- New Supervisor Training
- Financial Services Accountants Association National Conference
- ANZIIF Introduction to Reinsurance
- Australian Institute of Company Directors
- Mental Health First Aid
- Guy Carpenter Reinsurance in Practice Seminar.

Study assistance

ARPC offers a study assistance program for all permanent ongoing staff. Staff members undertaking part-time study in competencies relevant to our operational requirements can access study leave and financial assistance to further develop their skills.

Participation in the study assistance program during the year included the following courses:

- Master of Terrorism and Security Studies
- Bachelor of Business Informatics
- Graduate Diploma in Marketing
- Certificate IV in Accounting.

Work health and safety

WHS policy was reviewed in 2014 to provide clearer guidance on WHS roles and responsibilities in line with the *Work Health and Safety Act 2011*.

WHS updates continue to be provided weekly to the Executive and also to the Board on a regular basis. No significant WHS matters were reported in 2014-15. ARPC ensures that Health and Safety Representatives and First Aid Officers are appointed and relevant formal training is provided.

Wellbeing

ARPC is committed to the wellbeing of its staff through a range of initiatives as outlined below.

Employee Assistance Program

Confidential counselling and support services are available to all staff and immediate family members through the Employee Assistance Program.

Wellbeing Program

Our wellbeing program continued during the year with a range of activities including healthy eating seminars. All staff were supplied with Fitbits to encourage wellbeing awareness.

Lifestyle payment

Eligible staff have access to an annual payment towards positive lifestyle expenses through ARPC's current Enterprise Agreement. The lifestyle payment has 100 per cent participation and is used by staff participating in a range of fitness and wellbeing activities.

Staff inclusion

We hold regular all-staff meetings to promote information sharing. These meetings provide an informal, open forum with the CEO relating to ARPC business activities and operations.

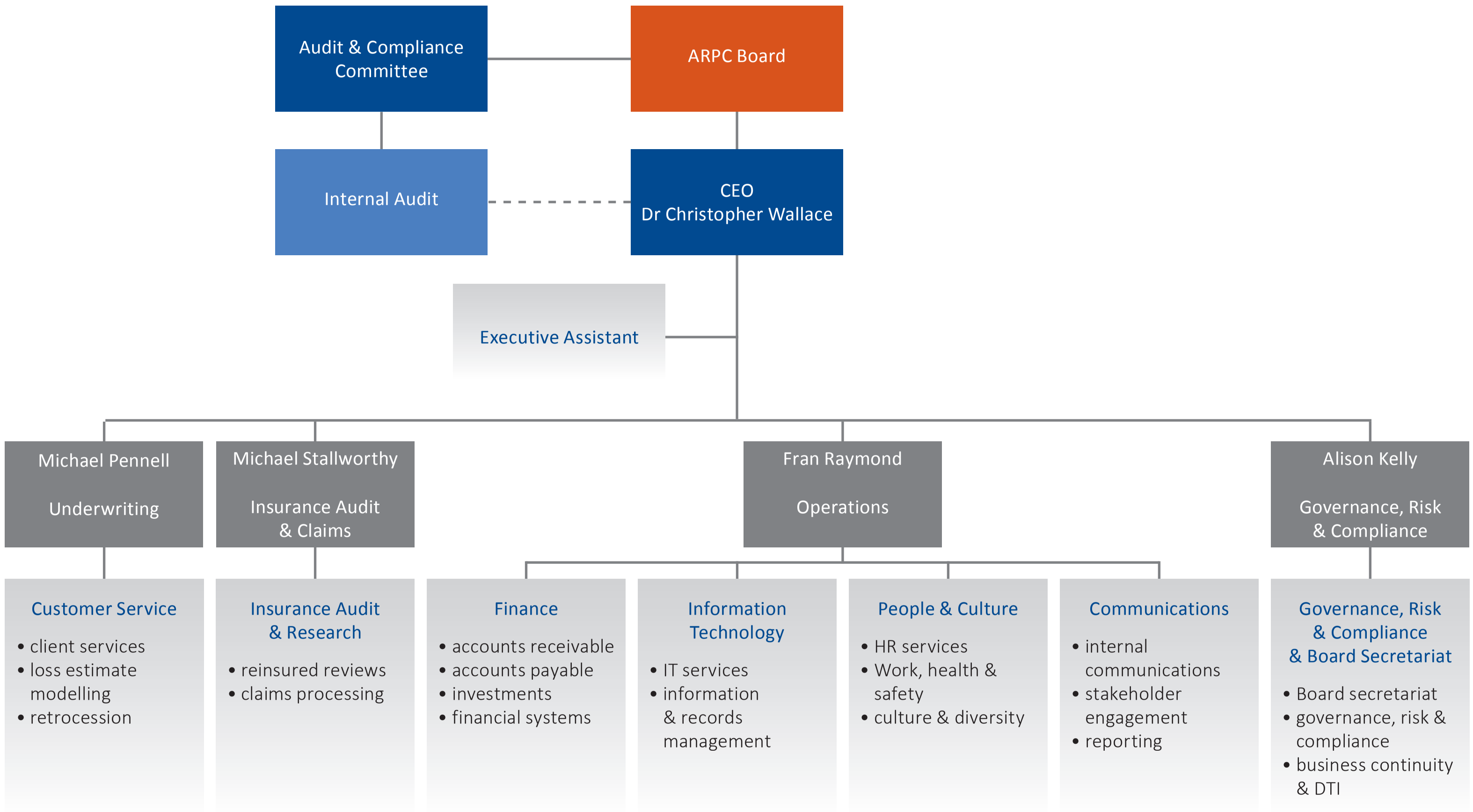
Workplace diversity program

ARPC's Diversity and Equal Employment Opportunity (EEO) policies are provided by the Treasury under the MoU. We strive to provide a workplace that demonstrates diversity and EEO through our recruitment processes. We also provide flexible work-life balance opportunities, including arrangements to work part-time or from home.

Promoting an ethical working environment

ARPC continues to promote the ARPC Values and Code of Conduct that were updated and implemented in early 2014.

Figure 4.33: ARPC's Functional Organisation Chart



5. GOVERNANCE

5. GOVERNANCE

Governance framework

Established under the TI Act, ARPC is a corporate Commonwealth entity within the Treasury Portfolio, being subject also to obligations under the PGPA Act.

ARPC's annual report is prepared and provided to our responsible Minister by 31 October each year in compliance with section 46 of the PGPA Act. Our annual financial statements comply with accounting standards prescribed by the PGPA rules, and these are audited by the Auditor General as soon as practicable after preparation. The financial statements can be found at Chapter 6.

From 1 July 2015, section 35 of the PGPA Act requires that ARPC prepare a corporate plan on a rolling four-year basis, and provide it to the responsible Minister and the Minster for Finance by 31 August each year. Under section 39 of the PGPA Act, we must also prepare an Annual Performance Statement that reports on ARPC's progress against its purpose, as stated within its preceding corporate plan. The performance statement will be an attachment to our annual report for the 2015–16 financial year.

ARPC's responsible Minister was Senator the Hon Mathias Cormann for the period of 19 March 2014 until 22 December 2014, when the Hon Josh Frydenberg MP took on the role as our responsible Minister.

ARPC Board appointment and remuneration

Part 3 of the TI Act prescribes the establishment of the corporation known as ARPC, including its powers and functions. Section 12 of the TI Act states the corporation (subsequently referred to as 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. For the reporting period, remuneration for Board Members, including travel and meeting allowances, was provided according to the Remuneration Tribunal Determination 2015/08.

Members

For the reporting period, the Board comprised the Chair and four directors, with two unfilled vacancies. Ms Joan Fitzpatrick continued as Chair across the 2014–15 financial year; her term will expire on 31 December 2015. The term of appointment of the four remaining Board Members expired on 30 June 2015. However, on that date, two members were subsequently re-appointed for a twelve month term, with three new members appointed for a three year term.

The names and details of the ARPC Board Members who held office during the 2014–15 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.

Joan is an experienced company director, CEO and leader of business success. Her executive and director experience covers the corporate, government and not for-profit sectors. Joan 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. For over 16 years she worked as CEO and Director of the Australian and New Zealand Institute of Insurance and Finance (ANZIIF).

Joan is currently an executive director with the Bevington Group and holds several concurrent non-executive directorships including: Member, World Vision Business Advisory Council and Greenfleet Advisory Board; and Deputy Chair, CREATE Foundation, a charity organisation helping children and young people in care in Australia.

Ms Jan Bowe
BHA MBA, GAICD

Ms Bowe was first appointed on 1 July 2009, with her term expiring on 30 June 2015.

While a member of the ARPC Board, Ms Bowe balanced a career as a director with her role as a management consultant, specialising in corporate strategy and organisational effectiveness. She held broad based experience in a range of sectors including financial services, pharmaceuticals, media, mining, health and aged care. Ms Bowe was a Director on the Board of QT Mutual Bank and the Chair of the Sydney-based Pharmacy Group, Combined Dispensaries Friendly Society.

Ms Bowe was the Chair of ARPC's Audit and Compliance Committee for the reporting period.

Ms Jan Harris
BEc (Hons)

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

Ms Harris was 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 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 recently retired from the public service.

Ms Harris was a member of the Audit and Compliance Committee from 20 May 2014 until 30 June 2015.

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 for three years, with a subsequent reappointment for a 12 month term, which will expire on 30 June 2016.

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. In June 2008, Mr Karp 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. In December 2014, Mr Karp was appointed as an independent external member of the Sustainability Committee of the Board of the National Disability Insurance Agency.

Mr Karp has been a member of the Audit and Compliance Committee since February 2014. Following his recent reappointment to the Board, Mr Karp was nominated as Chair of the Audit and Compliance Committee.

Ms Marian Micalizzi
BBus (Acctcy), FCA, MAICD

Ms Micalizzi was appointed as an inaugural member of the Board on 1 July 2003. She was recently reappointed for a 12 month term, which will expire on 30 June 2016.

Ms Micalizzi is a chartered accountant, a company director and a consultant in both the public and private sectors. 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 a member of the Audit and Risk Committee of the National Disability Insurance Agency.

Recently appointed members

On 1 July 2015, three new Members were appointed by the Minister to the ARPC Board, each for a term of three years. This increased Board member numbers to six, although still leaving one vacancy. The details of our newest members are as follows.

Mr John Peberdy
GAICD, ANZIIF (Sen Assoc), CIP

Mr Peberdy has a proven track record as a strategic senior executive, having delivered improved business outcomes, in Australia and New Zealand, within a market leader in the insurance sector. Mr Peberdy has extensive experience delivering on business growth and profitability, initiating and driving change, and optimising daily operations through effective leadership of a strong executive team. Mr Peberdy's expertise includes strategy and planning, business management, leadership and people management, risk management and general insurance.

Among his current directorship roles, Mr Peberdy is the Chairman, Stewards Insurance Services Pty Ltd; Deputy Chairman, Country Fire Authority, Victoria; Deputy Chairman, Christian Super; and Chairman, Victorian Managed Insurance Authority.

Ms Janet Torney
BEc (Hons) FAICD FASFA TFASFA

Ms Torney is a professional director and consultant with broad experience in both the financial services and engineering sectors. She has recognised expertise in governance, strategy, risk and change management and also in the investment industry.

Ms Torney's portfolio of non-executive director appointments includes her role as chairman of Whitehelm Capital, where she is chairman of its Advisory Investment Committee and a member of the Remuneration Committee. Ms Torney is the first external non-executive director of the Fire Brigades Employees' Credit Union, chairing its Strategy Committee. Other roles include being a non-executive director and Treasurer for Girl Guides Australia and participation on advisory boards for the Association of Superannuation Funds Australia and Australian Cycling Executives.

Ms Torney runs two consulting businesses: JT Consult provides strategic governance, investment and risk management advice to the financial and professional services sectors; and E L Williams provides bespoke engineering consulting services. Previously she was the CEO for Qantas Superannuation and Practice Leader at Aon Investment Consulting.

Ms Torney is a member of ARPC's Audit and Compliance Committee.

Ms Elaine Collins
BSc (Hons), MEc, FIAA, GAICD

Ms Collins is an experienced actuary, with a career spanning 25 years in the insurance industry in Australia, New Zealand, Hong Kong, Singapore and Papua New Guinea. Ms Collins is a Fellow of the Actuaries Institute and a Graduate of the Australian Institute of Company Directors. Ms Collins served in senior roles with KPMG and as a Partner with Deloitte, carrying out Appointed Actuary roles for more than 10 years. Ms Collins acted as general insurance media spokesperson for Deloitte post the Japanese Tsunami in 2011, ahead of embarking on a career as a non-executive director.

Ms Collins is a non-executive Director at Zurich Insurance, a member of its Risk, Compliance and Audit Committee and of its Reinsurance Committee. She is also a member of the Actuaries Institute's Professional Standards Committee. Ms Collins is a member of ARPC's Audit and Compliance Committee.

Board meetings

The Board convened seven meetings during the 2014–15 financial year, comprising six meetings for general business and one two-day strategic planning workshop. Table 5.34 lists the number of meetings attended by each member during the reporting period.

Table 5.34: 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 Jan Bowe	7	7
Ms Jan Harris	7	4
Mr Tom Karp	7	6
Ms Marian Micalizzi	7	6

Audit and Compliance Committee

The Board established the Audit and Compliance Committee (the Committee) to support the administration and sound governance of ARPC. Section 17 of the PGPA Rule 2014, which relates to section 45(2) of the PGPA Act, establishes the requirement for all accountable authorities (the Board is ARPC's accountable authority) to have an audit committee, setting out the functions of that committee and its membership requirements. Section 17 of the PGPA Rule also requires that the Committee must have a written charter that outlines its functions.

Consequently, ARPC undertook a review of what were previously known as the Committee's Terms of Reference. Amendments were made to ensure the new Committee Charter was fully compliant with new requirements for audit committees under the PGPA Act and PGPA Rule 2014. The new charter was approved by the Board and adopted by the Committee in September 2014.

As prescribed by the PGPA Rule, the Committee must comprise at least three appropriately qualified and skilled members. The Rule also states that the function of the Audit and Compliance Committee must include reviewing the appropriateness of the Board's:

- financial reporting
- performance reporting
- system of risk oversight and management
- system of internal controls.

In addition, the Committee monitors ARPC's compliance with all statutory obligations, and oversees the work of the internal auditors. The Committee also provides a general forum for communication between Members, the senior management of ARPC, the internal auditor and the Australian National Audit Office (ANAO).

In October 2014, the Committee appointed PricewaterhouseCoopers as the organisation responsible for ARPC's internal audit functions for the next three years. During the reporting period, the Committee reviewed all reports received from the internal and external 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. In compliance with the Audit and Compliance Committee Charter, the Committee provided an annual report of activities to the Board in December 2014.

The members of the Committee who held office during the reporting period were:

- Ms Jan Bowe (Chair)
- Ms Jan Harris
- Mr Tom Karp.

There were five meetings of the Committee held during 2014–15 financial year, with the number of meetings attended by each Committee member listed in table 5.35.

Table 5.35: 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	5	5
Ms Jan Harris	5	3
Mr Tom Karp	5	5

Corporate governance practices

The Board and ARPC's leadership team 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 Charter, and the Enterprise Risk Management Framework (ERMF), which was refreshed during the reporting period. These documents are supported by other ARPC control frameworks, providing financial management, fraud control, compliance management, security management, project management and business 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. The revision of the ERMF was to better align the framework with APRA Standard for Risk Management—SPC 220; as a matter of better practice, ARPC has also incorporated requirements from the PGPA Rule on Risk Management, compliance with which is not mandatory for ARPC.

For the purpose of the annual report, ARPC formally recognises and reports against the Australian Stock Exchange's (ASX's) Corporate Governance Principles and 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

As recommended in this principle, the Board Charter documents the roles and responsibilities of the Board and its members, the role of the Board Secretary, and outlines what powers may be delegated to the CEO and senior management. The Board approves the financial delegations authority. Both the Board Charter and the delegations authority are periodically reviewed and approved by the Board. The Board plans to engage an external consultant to undertake an independent evaluation of the operation of the Board and the Committee during the 2015–16 financial year. Senior management performance reviews were undertaken in 2014–15 by the CEO, in accordance with ARPC's 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, including the Chair, are independent—i.e. they are not employees of ARPC. Under subsection 13(1) of the TI Act, Members must be appointed by the Minister, who must give due consideration to the skills and qualifications, experience and good character of potential candidates for appointment. ARPC provides all Members with an annual allowance for professional development and memberships. They are required to update their Personal Interest Disclosures Statements at each meeting of the Board and provide an annual declaration in this regard. In compliance with the TI Act, the Chair of the Board cannot also be the CEO.

Principle 3: Act ethically and responsibly

The Board Charter documents a code of conduct for all members that is 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 ARPC Intranet. The Fraud Control Plan provides guidance on staff responsibility and accountability in maintaining ethical practices. The Board Members and all ARPC staff are 'officials' under the PGPA Act; sections 25–19 state that all officials must fulfil the 'General Duties' of officials. This includes acting in good faith and for a 'proper purpose', which incorporates the principles of efficient, effective, ethical and economical resource management. During the reporting period, all staff and directors were provided with training on the PGPA Act's general duties of officials.

Principle 4: Safeguard integrity in corporate reporting

In accordance with the PGPA Act and the Board Charter, the Board has established an Audit and Compliance Committee, which is comprised of at least three Board Members. There is an Audit and Compliance Committee Charter, outlining the roles and responsibilities of Committee members; the Chair of the Committee cannot also be the Chair of the Board. Each year, the CEO and Chief Operating Officer (COO) provide written certification to the Board regarding the integrity of ARPC's financial statements and reporting, which are audited annually by ANAO, granting assurance that ARPC's financial situation and operational results are in accordance with relevant accounting standards and the requirements of the PGPA Act (the finance law).

Principle 5: Make timely and balanced disclosure

In accordance with section 46 of the PGPA Act, the ARPC annual report is provided to the Minister and tabled in both Houses of Parliament by 31 October each year, 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 insurers, stakeholders and the public on recent developments. During the reporting period, the CEO also published regular Market Updates to keep global stakeholders informed of emerging factors with the potential to impact on ARPC's future operations.

Principle 6: Respect the rights of security holders

ARPC is not listed on the ASX, and therefore does not have security holders, or shareholders. As a corporate Commonwealth entity that was established under its enabling legislation, ARPC has a responsible Minister rather than a shareholder Minister. However, it maintains open communication with key stakeholders, including our responsible Minister and Treasury portfolio officials, through regular meetings with reinsureds, reinsurers, industry associations and representatives from state and federal governments. During the reporting period, ARPC sought and gained approval to create a new domain, through which regular newsletters can now be sent, affording our email recipients with the ability to 'opt-out' of ARPC internet communications. Relevant information is also published and regularly updated on the ARPC website.

Principle 7: Recognise and manage risk

The Board remains responsible for risk oversight, with risk now established as a prioritised, standing agenda item at each Board meeting. The Audit and Compliance Committee meets at least three times each year, being responsible for monitoring audit issues identified and recorded on the audit issue register until they are fully remediated.

The ARPC Board and executive management engage in the annual review of ARPC's risk appetite and tolerance levels, adjusting as appropriate to emerging trends; the Board subsequently approves ARPC's Risk Management Strategy. The risk register is reviewed at weekly senior management meetings and updated as required, but at least annually. Risk reports, highlighting ARPC top priority risks and associated management approaches, are provided to the Board at each meeting.

Principle 8: Remunerate fairly and responsibly

Remuneration for Board Members is determined by the Remuneration Tribunal, under Determination 2015/08. 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 ARPC's Performance Management System.

Right to legal advice

As outlined in the Board Charter, Members have the right to seek independent advice, with prior approval of the Chair. This advice includes legal, accounting and financial advice, and will be at ARPC's expense. A copy of the advice must be provided to the Chair and circulated to the Board. The Audit and Compliance Committee Charter authorises the Committee to take whatever independent advice it considers necessary.

Confidentiality agreements

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

Indemnity and insurance of directors and officers

ARPC has entered into a deed of indemnity with each Board Member. For 2014–15, 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. In compliance with section 23 of the PGPA Rule, ARPC does not insure any ARPC officials against liabilities relating to breach of duty under the PGPA Act. The amount paid for the Directors' and Officers' Indemnity Insurance in 2014–15 was $47,224 ($47,790 in 2013–14).

Judicial and administrative decisions and review

During the 2014–15 financial year, there were no judicial decisions or decisions of administrative tribunals that could significantly affect the operations of ARPC. There were two third party reports on ARPC's operations during the reporting period. The first was the usual ANAO report on ARPC's financial statements, which is published within this report. The other report was a review covering the current and future operations of ARPC; this was undertaken by the private consultancy, Pottinger, whose report was provided to the Treasury towards the end of January 2015. This report significantly informed the 2015 Triennial Review of ARPC by the Treasury, which is yet to be released to the public.

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 (then) Treasurer the Hon. Joe Hockey, MP, 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.

These new requirements for payments to the government will be issued each year as separate Ministerial Directions, being a dividend payment of $57.5 million, plus a fee of $55 million as compensation for the provision of the Commonwealth $10 billion guarantee. On 9 April 2015, the Treasurer issued the first Ministerial Direction; in accordance with that, in May 2015 ARPC paid to the Government $57.5 million as a dividend, plus a $55 million fee for the Guarantee. Further Ministerial Directions will be separately issued for these amounts over the forward years.

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

General Policy Orders

Under section 22 of the PGPA Act, the Finance Minister may make an order (a General Policy Order) specifying that a policy of the Australian Government is to apply in relation to one or more corporate Commonwealth entities. During the reporting period, there were no General Policy Orders (GPOs) applicable to ARPC. However, a Draft GPO in relation to the Protective Security Framework was issued. A letter from the Attorney General was subsequently received in August 2015, seeking consultation relating to the GPO, although no implementation date was cited. At the time of reporting, ARPC was in a good position to fully comply with this GPO, once it is finalised and issued by the Attorney General.

Risk management

Section 16 of the PGPA Act requires that the Board *'has a duty to establish and maintain systems relating to risk and control.'* Each year the Board holds a strategic workshop, at which ARPC's risk appetite and tolerance statements are reviewed for ongoing relevance. The Board has oversight of the Enterprise Risk Management Framework (ERMF), which is reviewed at least biennially. Subsequently the Board approves the Risk Management Strategy, which is a key component of the ERMF, outlining strategies and controls that senior management will establish and maintain to keep risk within tolerance levels.

Early in 2015, the senior management team, in collaboration with the internal auditors, created a new risk register of 21 enterprise-level risks. The ARPC risk matrix to measure the likelihood and consequence of risks was also revised, with each risk subsequently rated against the new matrix. These are now tracked on a weekly basis, and updated as appropriate for continued relevance or to record emerging risks identified by management and/or the Board. Enhancements to ARPC's risk reporting were made to ensure the Board receives relevant, readily interpreted information at each Board meeting to inform their decision-making processes.

ARPC's control frameworks for governance, business continuity, security management and audit continued to be refined and implemented, based on a risk managed approach.

Internal audit

ARPC's internal audit function is delivered under a charter approved by the ARPC Audit and Compliance Committee. The Internal Audit Charter was revised during the reporting period to revert to a fully outsourced internal audit function for ARPC. Following a competitive tender process, PricewaterhouseCoopers (PwC) won the contract to undertake internal audit reviews for the next three years, commencing in October 2014. PwC reviewed the Annual Audit Plan and conducted reprioritised audits for the remainder of 2014–15. A Strategic Internal Audit Plan (SIAP) was drafted to align closely with the revised risk register and risk appetite statement. The SIAP was approved by the Committee in May 2015, which formed the basis of the subsequent Internal Audit Annual Work Plan for 2015–16.

Since their engagement, PwC has worked closely with the CEO and senior management to identify and analyse business risks. Improvements identified through audits are agreed with management, and then tracked to completion on the Audit Issue Register, with progress reported to the Audit and Compliance Committee. Internal audit has routine discussions with external audit in order to avoid any duplication of work and external audit has full access to internal audit work.

2014–2015 program

At the time of reporting, the Annual Workplan for 2014–15 had been fully implemented, with all recommendations for improvement being accepted by senior management and recorded and tracked on the Audit Issues Register. The annual program allows the flexibility for any management requests for ad hoc audit reviews. There was one ad hoc review in 2014–15; the following audits and reviews were conducted by internal audit, as scheduled in the 2014–15 Annual Work Plan:

- Contract Management and Procurement
- Policies and Procedures Stocktake
- Investment Assurance Program
- Business Continuity and Disaster Recovery
- PGPA Act implementation and compliance.

At the time of reporting, three other audits scheduled for 2014-15 were being finalised, which were:

- KPI implementation
- Review of Stakeholder Engagement
- Premiums Review.

Legislative compliance

To assist staff in understanding their compliance obligations during 2014–15, they were routinely provided with information relating to any changes to legislation relevant to business operations. In particular, regular updates were provided to the Board Members and all staff in relation to the full implementation of the PGPA Act and the PGPA Rule 2014.

Routine information sessions are provided for staff to ensure they remain aware of all legislative obligations in relation to their daily operations within ARPC. At the end of each financial year, all executive managers must sign a certificate of compliance, declaring they are not aware of any breach against the following pieces of legislation:

- *Terrorism Insurance Act 2003*
- *Public Performance and Accountability Act 2013*
    - PGPA Rule 2014
- *Privacy Act 1998*
- *Work Health and Safety Act 2011*
- *Freedom of Information Act 1982*
- *Public Interest Disclosure Act 2013*.

From January 2015, all policies established by ARPC that operationalise legislative requirements under these key pieces of legislation are now published on ARPC's Key Policy Register on the Intranet. As part of ARPC's annual compliance processes, all staff now provide a written acknowledgement that they have read and understood their obligations within each listed key policy.

Public interest disclosure

The Public Interest Disclosure Act 2013 (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 web page. 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.

Information Publication Scheme statement

In compliance with a requirement under the *Freedom of Information Act 1982*, ARPC must publish a range of information on its website.

Under the Information Publication Scheme (IPS), we publish our organisational structure; functions; appointments; annual reports; consultation arrangements; submissions to Parliament; routinely requested information and details of our freedom of information officer.

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

Business continuity

In 2013–14, ARPC completed the review and redesign of the Business Continuity Management Framework, incorporating ARPC's response following a potential DTI, to achieve greater efficiency within the plan. The new framework was officially released in the 2014–15 financial year, together with improved toolsets to support the ARPC Board's and Executive Management's decision making processes during a business continuity interruption.

The Lindt Café incident in December 2014 saw the DTI Response Plan activated for the first time. The revised plan successfully guided an appropriate level of response to the incident by ARPC's DTI Response Team, while post-incident feedback from staff has provided a source for minor enhancements that could be incorporated.

Fraud prevention and control

Every two years, ARPC engages an external contractor to fully review the ARPC Fraud Control Plan (the Plan). At its July 2014 meeting, ARPC's Audit and Compliance Committee endorsed the fully revised 2014–16 Fraud Control Plan, which was subsequently approved by the Board. The revised 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, and is framed around four key fraud control strategies:

- prevention
- detection
- response and monitoring
- reporting.

The 2014–16 Fraud Control Plan streamlined the previous categorisation of ARPC's fraud risks. It also complies with requirements under section 10 of the PGPA Act which provides the minimum standard for the management of the risk and incidents of fraud by accountable authorities (the Board). ARPC staff are provided with regular information sessions, in compliance with the Plan and the PGPA Rule.

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, our employees meet regularly with insurers, industry bodies, and other interested parties outside the Australian Government for discussions on various matters. A summary of the stakeholder engagement activity undertaken by ARPC during the reporting period can be found at Chapter 1.

Consultancies

ARPC utilises consultants to provide specialist skills to assist with key projects and tasks. During 2014–15 consultants were engaged, following the appropriate procurement processes outlined in ARPC's Procurement Policy, to assist in the following areas:

- facilitation of strategic planning
- facilitation of strategic stakeholder engagement, including this year with relevant officials in each State and Territory Government
- specialist technical projects and maintenance
- independent review/advice on legal, policy, and accounting issues
- workforce capability, work health and safety, recruitment and career management.

Ecologically sustainable development

ARPC's premises in Canberra and Sydney have a 4.5 star energy rating. ARPC continues to pursue initiatives designed to minimise waste, conserve energy and minimise water usage such as transitioning to electronic meeting papers and the consolidation of office space in the Canberra office to reduce energy usage and minimise waste.

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

Table 5.36: 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 Hold print, which allows cancellation of unwanted print jobs. 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.	

6. FINANCIAL STATEMENTS

6. FINANCIAL STATEMENTS

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Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

I have audited the accompanying annual financial statements of the Australian Reinsurance Pool Corporation for the year ended 30 June 2015, which comprise:

- Statement by the Accountable Authority, Chief Executive and Chief Operating Officer;
- Statement of Comprehensive Income;
- Balance Sheet;
- Statement of Changes in Equity;
- Cash Flow Statement;
- Schedule of Commitments and;
- Notes comprising a Summary of Significant Accounting Policies and other explanatory information.

Member's Responsibility for the Financial Statements

The Members of the Australian Reinsurance Pool Corporation are responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under that Act. The Members are also responsible for such internal control as is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the

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reasonableness of accounting estimates made by the Members of the entity, as well as evaluating the overall presentation of the financial statements.

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

Independence

In conducting 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) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and

(b) present fairly the financial position of the Australian Reinsurance Pool Corporation as at 30 June 2015 and its financial performance and cash flows for the year then ended.

Australian National Audit Office

Michael J Watson

Michael J Watson

Group Executive Director

Delegate of the Auditor-General

Canberra

22 September 2015

Statement by the Accountable Authority, Chief Executive and Chief Financial Officer

In our opinion, the attached financial statements for the year ended 30 June 2015 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

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 fall due.

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

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

Signature Supplied	Signature Supplied	Signature Supplied
J Fitzpatrick Chair	C Wallace Chief Executive Officer	F Raymond Chief Financial Officer
22 September 2015	22 September 2015	22 September 2015

Statement of comprehensive income
for the year ended 30 June 2015

	Notes	2015 $'000	2014 $'000
Premium revenue		**128,134**	129,708
Outwards retrocession premium expense		**(71,249)**	(81,728)
Net premium revenue	5(a)	**56,885**	47,980
Claims expense		**-**	-
Retrocession and other recoveries revenue		**-**	-
Net claims incurred		**-**	-
Acquisition costs	6(b)	**(1,035)**	(1,089)
Underwriting result		**55,850**	46,891
Retrocession commission revenue	5(b)	**6,956**	7,606
Investment income	5(c)	**21,337**	26,531
Other loss	5(d)	**-**	(1,660)
Other operating expenses	6(b)	**(6,973)**	(7,962)
Finance charges	6(a)	**(55,004)**	(4)
Operating result		**22,166**	71,402

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

Balance sheet
as at 30 June 2015

		Notes	2015 $'000	2014 $'000
Assets				
	Current assets			
	Cash and cash equivalents	7	**643**	1,314
	Receivables	8	**41,472**	42,011
	Investments	9	**559,500**	595,500
	Deferred insurance assets	10(a)	**32,071**	40,685
	Other non-financial assets	11	**3**	36
	Total current assets		**633,689**	679,546
	Non-current assets			
	Property plant and equipment	12	**278**	505
	Intangibles	12	**841**	1,330
	Total non-current assets		**1,119**	1,835
Total assets			**634,808**	681,381
Liabilities				
	Current liabilities			
	Unearned liability	13(a)	**63,967**	66,386
	Payables	14	**31,715**	41,099
	Other interest bearing liabilities	15	**55**	85
	Employee provisions	16(a)	**1,210**	253
	Total current liabilities		**96,947**	107,823
	Non-current liabilities			
	Other interest bearing liabilities	15	**107**	162
	Employee provisions	16(a)	**-**	310
	Other provisions	16(b)	**54**	52
	Total non-current liabilities		**161**	524
Total liabilities			**97,108**	108,347
Net assets			**537,700**	573,034
Equity				
	Accumulated reserves		**-**	-
	Asset revaluation reserve		**60**	60
	Claims handling reserve		**27,165**	37,920
	Reserve for claims		**510,475**	535,054
Total equity			**537,700**	573,034

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

Statement of changes in equity
as at 30 June 2015

	Notes	Accumulated reserves		Asset revaluation reserve		Claims handling reserve		Reserve for claims		Total equity	
		2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
		$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Opening balance at 1 July		**-**	-	**60**	60	**37,920**	24,330	**535,054**	408,252	**573,034**	432,642
Income and expenses											
Net operating result		**22,166**	71,402	**-**	-	**-**	-	**-**	-	**22,166**	71,402
Total income and expenses		**22,166**	71,402	**-**	-	**-**	-	**-**	-	**22,166**	71,402
Asset revaluation reserve		**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Transfers between equity components											
Transfer to reserve for claims	1(j)	**(22,166)**	(71,402)	**-**	-	**-**	-	**-**	-	**(22,166)**	(71,402)
Claims handling reserve		**-**	-	**-**	-	**(10,755)**	13,590	**-**	-	**(10,755)**	13,590
Transfer to reserve for claims from accumulated reserves		**-**	-	**-**	-	**-**	-	**32,921**	57,812	**32,921**	57,812
Transactions with owners											
Distributions to owners		**-**	-	**-**	-	**-**	-	**(57,500)**	68,990	**(57,500)**	68,990
Closing balance at 30 June		-	-	**60**	60	**27,165**	37,920	**510,475**	535,054	**537,700**	573,034

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

Cash flow statement
for the year ended 30 June 2015

	Notes	2015 $'000	2014 $'000
Operating activities			
Cash received			
Premiums		**139,491**	142,811
Commission		**7,644**	8,368
Interest		**18,819**	28,017
Total cash received		**165,954**	179,196
Cash used			
Retrocession payments		**73,873**	84,992
Creditors and employees		**62,369**	8,388
Net goods and services tax paid to ATO		**8,875**	10,059
Total cash used		**145,117**	103,439
Net cash from operating activities	17	**20,837**	75,757
Investing activities			
Cash received			
Proceeds from sale of investments (bonds)		-	720,045
Proceeds from maturities of term deposits		**745,000**	791,500
Total cash received		**745,000**	1,511,545
Cash used			
Purchase of property, plant and equipment		**8**	4
Purchase of intangibles		-	122
Purchase of investments (bonds)		-	486,315
Placement of term deposits		**709,000**	954,500
Total cash used		**709,008**	1,440,941
Net cash from investing activities		**35,992**	70,604
Financing activities			
Cash used			
Distributions to owners		**57,500**	150,000
Total cash used		**57,500**	150,000
Net cash (used by) financing activities		**(57,500)**	(150,000)
Net (decrease) in cash held		**(671)**	(3,639)
Cash and cash equivalents at the beginning of the reporting period		**1,314**	4,953
Cash and cash equivalents at the end of the reporting period	7	**643**	1,314

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

Schedule of commitments
as at 30 June 2015

	2015 $'000	2014 $'000
By type		
Other commitments		
Service level agreements*	**652**	578
Software license agreement**	**-**	-
Software development agreement***	**-**	273
Operating leases****	**1,167**	1,997
Total other commitments	**1,819**	2,848
Commitments receivable	**(156)**	(237)
Net commitments by type	**1,663**	2,611
By maturity		
Service level agreements commitments		
One year or less	**652**	578
From one to five years	**-**	-
Total service level agreements commitments	**652**	578
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
From one to five years	**-**	-
Total software support and development agreement commitments	**-**	273
Operating lease commitments		
One year or less	**808**	830
From one to five years	**359**	1,167
More than five years	**-**	-
Total operating lease commitments	**1,167**	1,997
Commitments receivable		
One year or less	**(123)**	(131)
From one to five years	**(33)**	(106)
More than five years	**-**	-
Total commitments receivable	**(156)**	(237)
Net commitments by maturity	**1,663**	2,611

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

NB: Commitments are GST inclusive where relevant.

* Outstanding contractual payments for service level agreements.

** Outstanding contractual payments for software licence agreement.

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

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

Nature of lease	*Description of leasing agreement*
Lease for office accommodation	Upon exercising the 3 year lease option the rent will be reviewed in accordance with prevailing market conditions.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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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 2014 to 30 June 2015.

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 (DTI).

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

The continued existence of ARPC in its present form and with its present programs is dependent on Government policy.

1.2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared on an accrual basis and in accordance with the historical cost convention, except for certain assets and liabilities at fair value. Except where stated, no allowance has been made for the effect of changing prices on the results or the financial position.

The financial statements are presented in Australian dollars and are rounded to the nearest thousand dollars unless otherwise specified.

Unless alternative treatment is specifically required by an accounting standard, income 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.

There have been no changes in accounting policies in the year ended 30 June 2015.

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.

Given the current mix of financial assets, there is no financial impact on ARPC related to this standard.

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 STATEMENT OF ACCOUNTING POLICIES

The following accounting policies have been adopted in the financial statements.

The financial statements are general purpose financial statements and are required by section 42 of *Public Governance, Performance and Accountability Act* 2013.

The financial statements have been prepared in accordance with:

a) Financial Reporting Rule (FRR) for reporting periods ending on or after 1 July 2014; and
b) Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

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 FRR, 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 2015 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 (2014: $0). Accordingly, there has been no write down in ARPC's deferred acquisition costs.

(e) Outstanding claims liability

A declared terrorist incident was announced by the Treasurer on 15 January 2015 relating to the incident at the Lindt Café in Martin Place Sydney on 15 and 16 December 2014. Claims have been submitted by affected reinsureds however, the quantum of the claims have not exceeded their individual retentions. There is no outstanding claims liability for ARPC.

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.

(f) Net claims incurred

A declared terrorist incident was declared by the Treasurer on 15 January 2015 however, the total of the claims made did not exceed the individual retentions of the claimants.

(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.

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)(a) of the TI Act, the Minister may give written direction to require ARPC to make payments to the Commonwealth designed to ensure that sections 35 and 36 do not result in a competitive advantage for the Corporation.

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, 9 April 2015, to pay to the Commonwealth a sum of $55 million in the nature of a fee (s38(3)(a)) and a sum of $57.5 million in the nature of a dividend (s38(3)(b)).

ARPC has made payments to the Commonwealth during 2015 totalling $112.5 million (2014:$150.0 million).

(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.

Employee benefits for 2014-15 have been classified as current due to the planned closure of the Canberra office and the expected separation of all Canberra based staff. It is expected that the separations will take place within twelve months.

Liabilities relating to the planned separations have been recognised in accordance with AASB 137.

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 Super fund.

The liability for superannuation recognised as at balance date represents the outstanding payable as at 30 June 2015.

(l) Leases

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 (2014: $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 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 FRR.

(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 September 2014.

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

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the re-valued amount, with the exception of leasehold improvements, which are re-valued using the gross method.

Depreciation

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

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

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

	2015	2014
Leasehold improvements	**Lease term**	Lease term
Plant and equipment	**3 to 7 years**	3 to 7 years

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 12.

Impairment

All assets were assessed for impairment at 30 June 2015. 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 (2014: $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 (2014: 4 years).

All software assets were assessed for indications of impairment as at 30 June 2015. There has been no impairment write-off recognised in these financial statements (2014: $0).

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

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO)
- for receivables and payables.

(u) Insurance

ARPC has insured its operating 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 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

On 17 September 2015, ARPC entered into a new 8 year lease on office space located at 1 Market Street Sydney. The new office space will be the new location of ARPC following the consolidation of operations into a single office.

There have been no other 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 in the event of a declared terrorist incident. 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 facilitate the diversification of ARPC's concentration risk both geographically and by type of risk.

Claims risk

A declared terrorist incident was announced by the Treasurer on 15 January 2015. Claims have been submitted to ARPC, however the value of the claims have not exceeded the individual retentions of the reinsureds. Claims are not expected to reach the retentions, therefore no claims expense has been incurred and no provision recognised for the payment of claims.

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 59 of the *Public Governance, Performance and Accountability Act 2014*; 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 2015 is $27.17 million (2014: $37.92 million).

Retrocession counterparty risk

ARPC purchased retrocession to encourage capacity to return to the terrorism insurance market, control exposure to 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 Standard and Poors' credit ratings.

	Retrocession program counter party credit rating			
	AAA	**AA+**	**AA**	**AA-**
	2015	**2015**	**2015**	**2015**
	$'000	**$'000**	**$'000**	**$'000**
ARPC				
Total exposure	**-**	**35,000**	**42,099**	**635,447**
	A+	**A**	**A-**	**Total**
	2015	**2015**	**2015**	**2015**
	$'000	**$'000**	**$'000**	**$'000**
ARPC				
Total exposure	**1,129,477**	**418,084**	**359,893**	**2,620,000**

	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

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 $510 million
- in the event of a DTI ARPC would be required to pay $400 million before claiming on its retrocession program
- ARPC has access to a $2.620 billion retrocession program, which is extended to $2.925 billion using co-reinsurance, in excess of $400 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 (2014: $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 PGPA Act. Section 59(1)(b) of the PGPA Act provides that a corporate Commonwealth entity may invest surplus money:

(i) on deposit with a bank, including a deposit evidenced by a certificate of deposit; or
(ii) in securities of, or securities guaranteed by, the Commonwealth, a State or a Territory; or
(iii) in any other form of investment authorised by the Finance Minister in writing; or
(iv) in any other form of investment prescribed by the rules; or
(v) for a government business enterprise – in any other form of investment that is consistent with sound commercial practice.

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	
		2015	2015	2015	2015	2015
	Notes	$'000	$'000	$'000	$'000	$'000
Interest bearing financial assets						
Cash and cash equivalents	7	643	-	-	-	643
Fixed term deposits	9	-	559,500	-	-	559,500
Total		643	559,500	-	-	560,143
Weighted average interest rate		1.59%	3.25%	0.00%	0.00%	3.24%

		Floating interest rate	Fixed interest rate maturing in			Total
		1 year or less	1 year or less	1-5 years	> 5 years	
		2014	2014	2014	2014	2014
	Notes	$'000	$'000	$'000	$'000	$'000
Interest bearing financial assets						
Cash and cash equivalents	7	1,314	-	-	-	1,314
Fixed term deposits	9	-	595,500	-	-	595,500
Total		1,314	595,500	-	-	596,814
Weighted average interest rate		2.23%	3.57%	0.00%	0.00%	3.56%

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	
	2015	2014	**2015**	2014	**2015**	2014
	%	%	**$'000**	$'000	**$'000**	$'000
Interest rate movement						
- interest bearing	**+0.40**	+0.60	**2,241**	3,581	**2,241**	3,581
Financial assets	**-0.40**	-0.60	**(2,241)**	(3,581)	**(2,241)**	(3,581)

The method used to arrive at the possible risk of 40 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 40 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. ARPC had considered the implied financial impact of the deemed 40 basis point change; it was agreed that this was reasonable and would be adopted by ARPC when reporting interest rate risk.

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 40 basis point change to be reasonably possible and ARPC considered the implied financial impact of the deemed 40 basis point change; it was agreed that this was reasonable and would be adopted by ARPC when reporting price risk.

The premium charged for reinsurance is determined by Ministerial Direction. The premiums have been set having regard to the level of 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.

		Credit Rating							
		AAA	**AA+**	**AA**	**AA-**	**A+**	**A-**	**Unrated**	**Total**
		2015	**2015**	**2015**	**2015**	**2015**	**2015**	**2015**	**2015**
	Notes	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
ARPC									
Cash and cash equivalents	7	**643**	**-**	**-**	**-**	**-**	**-**	**-**	**643**
Fixed term deposits	9	**-**	**-**	**-**	**366,000**	**31,500**	**162,000**	**-**	**559,500**
Government securities	9	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Receivables	23	**-**	**-**	**-**	**-**	**-**	**-**	**41,448**	**41,448**
Total		**643**	**-**	**-**	**366,000**	**31,500**	**162,000**	**41,448**	**601,591**

		Credit Rating							
		AAA	AA+	AA	AA-	A+	A-	Unrated	Total
		2014	2014	2014	2014	2014	2014	2014	2014
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
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	23	-	-	-	-	-	-	41,986	41,986
Total		1,314	-	-	461,500	59,500	74,500	41,986	638,800

The carrying amount of the relevant asset classes in the Balance sheet represents the maximum amount of credit exposure.

The following table provides information regarding the carrying value of ARPC's financial assets that have been impaired and the ageing of those that are past due but not impaired at the balance date.

		Neither past due nor impaired		Past due but not impaired 0 to 3 months		Total	
	Notes	**2015**	2014	**2015**	2014	**2015**	2014
		$'000	$'000	**$'000**	$'000	**$'000**	$'000
Financial assets							
Premium receivables	8	**29,784**	32,072	**89**	23	**29,873**	32,095
Commission receivables	8	**3,051**	3,898	**-**	-	**3,051**	3,898
Interest receivable	8	**8,511**	5,993	**-**	-	**8,511**	5,993
Other receivables	8	**13**	-	**-**	-	**13**	-
Total		**41,359**	41,963	**89**	23	**41,448**	41,986

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. ARPC’s liquidity risk is also mitigated through the application of its short-term investment strategy which forms part of a Board approved Investment Policy.

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	
		2015	2014	**2015**	2014	**2015**	2014
	Notes	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Financial liabilities							
Payables	14	**31,715**	41,099	**-**	-	**31,715**	41,099
Other interest bearing liabilities	15	**55**	85	**107**	162	**162**	247
Total		**31,770**	41,184	**107**	162	**31,877**	41,346

Note 5: Revenue

		2015 $'000	2014 $'000
(a)	**Net premium revenue**		
	Gross written premium	**126,568**	129,642
	Movement in unearned premium reserve	**1,566**	66
	Total premium revenue	**128,134**	129,708
	Outwards retrocession premium	**(71,249)**	(81,728)
	Net premium revenue	**56,885**	47,980
(b)	**Retrocession commission income**	**6,956**	7,606
	Total retrocession commission income	**6,956**	7,606
(c)	**Investment income from**		
	Cash at bank	**380**	665
	Term deposits	**20,957**	16,983
	Government securities	**-**	8,883
	Total investment income	**21,337**	26,531
(d)	**Other Income / (losses)**		
	Realised gain/(losses) recognised through the statement of comprehensive income	**-**	(2,876)
	Unrealised gain/(losses) recognised through the statement of comprehensive income	**-**	1,216
	Total other loss	**-**	(1,660)
(e)	**Total revenue**	**156,427**	162,186

Note 6: Other operating expenses

		2015 $'000	2014 $'000
(a)	**Expenses by nature**		
	Employee expenses	**3,691**	3,584
	Services from related entities	**1,710**	931
	Goods from external entities	**27**	37
	Services from external entities	**1,122**	3,040
	Operating lease rentals	**734**	734
	Depreciation and amortisation	**724**	725
	Finance charges	**55,004**	4
	Total expenses by nature	**63,012**	9,055
(b)	**Expenses by function**		
	Acquisition costs	**1,035**	1,089
	General and administration expenses[1]	**61,977**	7,386
	Investment expense	**-**	580
	Total expenses by function	**63,012**	9,055
(c)	**Employee expenses**		
	Wages and salaries	**2,507**	2,640
	Superannuation	**406**	383
	Leave and other entitlements	**270**	363
	Separation and redundancies	**508**	198
	Total employee expenses	**3,691**	3,584

[1] Note 6(b) is reconciled to the Statement of comprehensive income

	2015 $'000	2014 $'000
General and administrative expenses	61,977	7,386
Add: Investment expense	0	580
Less: Finance charges	55,004	4
Other operating expenses	6,973	7,962

Note 7: Cash and cash equivalents

	2015 $'000	2014 $'000
Cash at bank	**643**	1,314
Total cash and cash equivalents	**643**	1,314

Cash and cash equivalents consist of at call deposits held w ith the Reserve Bank of Australia, Australia and New Zealand Bank, Commonw ealth Bank of Australia, National Australia Bank and Westpac Banking Corporation.

Note 8: Receivables

	2015 $'000	2014 $'000
Premium receivable	**29,873**	32,095
Commission receivable	**3,051**	3,898
Interest receivable	**8,511**	5,993
Net GST Receivable/(Payable) from the Australian Taxation Office	**24**	25
Other receivables	**13**	-
Total receivables	**41,472**	42,011

All receivables are w ith entities external to ARPC. Credit terms are net 30 days (2014: 30 days). Trade debtors are non-interest bearing.

Receivables (gross) are aged as follow s:			
	Not overdue	**41,383**	41,988
	Overdue by:		
	Less than 30 days	**-**	-
	30 to 60 days	**54**	21
	60 to 90 days	**-**	-
	More than 90 days	**35**	2
		41,472	42,011

Interest receivable

The interest rate ranges from 1.40% to 3.55% (2014: 1.90% to 3.70%) and the frequency of payment is monthly for cash accounts and on maturity for term deposits.

Note 9: Investments under s59 of the PGPA Act

	2015 $'000	2014 $'000
Term deposits	**559,500**	595,500
Total investments	**559,500**	595,500

Term deposits
Term deposits are held w ith Australia and New Zealand Bank, St George Bank, National Australia Bank, Westpac Banking Corporation, Commonw ealth Bank of Australia, Bank of Western Australia, Suncorp Metw ay Ltd, Bendigo and Adelaide Bank, Rural Bank and Bank of Queensland. These deposits earn an effective rate of interest of 3.25% (2014: 3.57%). Interest is payable on maturity for deposits w ith a term of 12 months or less. Where the term exceeds 12 months, interest is paid at 12 months w ith the balance on maturity. Terms are betw een 30 and 365 days (2014: 30 and 365 days).

Note 10: Deferred insurance assets

			2015 $'000	2014 $'000
(a)	**Deferred insurance assets as at 1 July**			
	Deferred retrocession premium	10(b)	**31,546**	40,217
	Deferred acquisition costs	10(c)	**525**	468
	Total deferred insurance assets		**32,071**	40,685
(b)	**Deferred retrocession premium as at 1 July**			
	Deferred retrocession premium as at 1 July		**40,217**	42,166
	Retrocession premium deferred		**31,546**	40,217
	Amortisation charged to expense		**(40,217)**	(42,166)
	Deferred retrocession premium as at 30 June		**31,546**	40,217
(c)	**Deferred acquisition costs as at 1 July**			
	Deferred acquisition costs as at 1 July		**468**	586
	Acquisition costs deferred		**525**	468
	Amortisation charged to expense		**(468)**	(586)
	Deferred acquisition costs as at 30 June		**525**	468

Note 11: Other non-financial assets

	2015 $'000	2014 $'000
Prepayments	**3**	36
Total other non-financial assets	**3**	36

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 2013	1,090	129	2,468	3,687
Additions				
- by purchase	-	4	-	4
- internally developed - in progress	-	-	75	75
- internally developed	-	-	47	47
Disposals	-	-	-	-
Balance at 30 June 2014	1,090	133	2,590	3,813
Balance at 1 July 2014	1,090	133	2,590	3,813
Additions				
- by purchase	5	3	-	8
- internally developed - in progress	-	-	-	-
- internally developed	-	-	-	-
Disposals	-	-	-	-
Revaluation increment/(decrement)	-	-	-	-
Balance at 30 June 2015	1,095	136	2,590	3,821

	Leasehold improvements $'000	Plant and equipment $'000	Intangibles $'000	Total $'000
Depreciation/amortisation				
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)
Balance at 1 July 2014	(629)	(89)	(1,259)	(1,978)
Revaluation increment/(decrement)	-	-	-	-
Depreciation for the year	(215)	(20)	(489)	(724)
Disposals	-	-	-	-
Balance at 30 June 2015	(844)	(109)	(1,748)	(2,702)
Carrying amounts				
At 1 July 2013	675	64	1,695	2,434
At 30 June 2014	461	44	1,330	1,835
At 1 July 2014	461	44	1,330	1,835
At 30 June 2015	251	27	841	1,119

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 September 2014.

No indications of impairment were found for leasehold improvements, plant and equipment or intangibles in 2015. (2014: Nil)

Note 13: Unearned liability

			2015	2014
			$'000	$'000
(a)	**Unearned liability**			
	Unearned premium liability	13(b)	**60,890**	62,456
	Unearned commission liability	13(c)	**3,077**	3,930
	Total unearned liability		**63,967**	66,386
(b)	**Unearned premium liability as at 1 July**		**62,456**	62,522
	Deferral of premiums on contracts w ritten in the period		**60,890**	62,455
	Earning of premiums w ritten in the previous periods		**(62,456)**	(62,522)
	Unearned premium liability as at 30 June		**60,890**	62,456
(c)	**Unearned commission liability as at 1 July**		**3,930**	3,741
	Deferral of commissions on contracts w ritten in the period		**3,077**	3,930
	Earning of commissions w ritten in the previous periods		**(3,930)**	(3,741)
	Unearned commission liability as at 30 June		**3,077**	3,930

Note 14: Payables

	2015	2014
	$'000	$'000
Retrocessionaire creditors	**31,289**	39,890
Trade creditors	**13**	27
Accruals	**407**	734
Other payables	**6**	448
Total payables	**31,714**	41,099

Retrocessionaire creditors:
In accordance w ith ARPC's reinsurance treaty expiring 31 December 2015 the retrocession premium w as 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 Commonw ealth by virtue of section 35 of the TI Act.

Note 15: Other interest bearing liabilities

	2015	2014
	$'000	$'000
Lease incentive	**162**	247
Other interest bearing liabilities are represented by:		
Current	**55**	85
Non-current	**107**	162
Total other interest bearing liabilities	**162**	247

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.

The lease end date for the Sydney office is 29 February 2016, and for the Canberra office it is 31 December 2016.

Note 16: Provisions

		2015	2014
		$'000	$'000
(a)	**Employee provisions**		
	Salaries and wages	83	8
	Leave	600	555
	Superannuation	13	-
	Separations and redundancies	514	-
	Total employee provisions	**1,210**	563

Provisions noted in separations and redundancies relate to the expected separation of Canberra based staff due to the closure and relocation of the Canberra office to Sydney.

		2015	2014
	Current / non-current		
	Current	1,210	253
	Non-current	-	310
	Total employee provisions	**1,210**	563
(b)	**Other provisions**		
	Make good provision	**54**	52
	Total other provisions	**54**	52

All other provisions are non-current liabilities.

The financial statements have not included a provision for outstanding claims (2014: nil).

(c) Reconciliation of provisions

	Employee Provisions	Provision for make good	Total
	$'000	$'000	$'000
Carrying amount at beginning of period	563	52	615
Additional provisions made	4,833	-	4,833
Amounts used	(4,186)	-	(4,186)
Unwinding of discount	-	2	2
Amount owing at end of period	1,210	54	1,264

Note 17: Cash flow reconciliation

	2015	2014
	$'000	$'000
Reconciliation of cash and cash equivalents as per balance sheet to cash flow statement		
Report cash and cash equivalents as per:		
Cash Flow Statement	**643**	1,314
Balance Sheet	**643**	1,314
Difference	-	-
Reconciliation of operating result to net cash from operating activities:		
Operating result	**22,166**	71,402
Depreciation/amortisation expense	**724**	725
(Increase)/decrease in receivables	**538**	2,500
(Increase)/decrease in other non-financial assets	**33**	20
(Increase)/decrease in deferred insurance assets	**8,614**	2,066
Increase/(decrease) in unearned liability	**(2,419)**	123
Increase/(decrease) in payables	**(9,384)**	(1,032)
Increase/(decrease) in other interest bearing liabilities	**(85)**	(54)
Increase/(decrease) in provisions	**650**	7
Net cash from / (used by) operating activities	**20,837**	75,757

Note 18: Contingent assets and liabilities

	Guarantees		Indemnities		Claims for damages or costs		Total	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
	$'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	**-**	-	**-**	-	**40**	-	**40**	-
New contingent liabilities recognised	**-**	-	**-**	-	**-**	40	**-**	40
Re-measurement	**-**	-	**-**	-	**-**	-	**-**	-
Liabilities realised	**-**	-	**-**	-	**-**	-	**-**	-
Obligations expired	**-**	-	**-**	-	**(40)**	-	**(40)**	-
Total contingent liabilities	**-**	-	**-**	-	**-**	40	**-**	40
Net contingent assets/(liabilities)	**-**	-	**-**	-	**-**	(40)	**-**	(40)

Quantifiable Contingencies

The Schedule of Contingencies reports nil contingent liabilities disclosure in respect to claims for damages or costs (2014: $40,000).

Unquantifiable Contingencies

The entity had no unquantifiable contingencies.

Significant Remote Contingencies

The entity had no significant remote contingencies.

Note 19: Average staffing levels

	2015	2014
The average staffing levels for ARPC during the year were:	**19**	24

Note 20: Senior management personnel remuneration

	2015	2014
	$	$
Short-term employee benefits:		
Salary	**1,195,862**	1,193,693
Performance bonuses	**-**	3,000
Total short-term employee benefits	**1,195,862**	1,196,693
Post-employment benefits		
Superannuation	**180,453**	165,947
Total post-employment benefits	**180,453**	165,947
Other long-term benefits		
Long-service leave	**115,039**	123,199
Annual leave accrued	**174,508**	265,700
Total other long-term benefits	**289,547**	388,899
Termination benefits		
Voluntary redundancy payments	**-**	91,089
Total termination benefits	**-**	91,089
Total senior executive remuneration expense	**1,665,862**	1,842,628

The total number of senior management personnel that are included in the above are 10 (2014: 14).

Notes:

1. Note 20 w as prepared on an accrual basis.
2. Note 20 excludes acting arrangements and part-year service.
3. Note 20 w as prepared using definitions in accordance w ith Section 27 of the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 which combines Senior Executives and Directors' remuneration.*

Note 21: Auditor's remuneration

	2015	2014
	$	$
The cost of financial statement audit services provided to ARPC w as:	**128,750**	125,000

The financial statement audit services are provided to ARPC by the Auditor-General, sub-contracted to KPMG. No other services w ere provided by the Auditor-General during the reporting period. KPMG provided other services to the value of $5,500 in 2014-15 (2013-14: $9,500)

Note 22: Related party disclosures

Members

The names of persons w ho w ere Members of ARPC during the financial year w ere:

Ms J Fitzpatrick, Ms J Bow e, Ms J Harris, Mr T Karp, Ms M Micalizzi.

Changes in membership during the year:

Ms J Bow e's term expired on 30 June 2015

Mr T Karp's term expired on 30 June 2015 and he w as reappointed effective 1 July 2015

Ms M Micalizzi's term expired on 30 June 2015 and she w as reappointed effective 1 July 2015

Ms E Collins w as appointed on 1 July 2015

Mr J Peberdy w as appointed on 1 July 2015

Ms J Torney w as appointed on 1 July 2015

Information on remuneration of Members is disclosed in Note 20.

Transactions w ith Members and Member related entities

ARPC entered into a contract w ith Bendelta. Ms J Bow e is a Principal Consultant for Bendelta. The value of the transaction w as $2,761 and it w as made on terms equivalent to those that prevail on arms length transactions.

Transactions w ith related entities

The service level agreement w ith 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 $400,299 (2014: $388,511). These transactions w ere made on terms equivalent to those that prevail on arms length transactions.

Controlling entity

ARPC w as 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 Commonw ealth by virtue of section 35 of the TI Act.

Note 23: Financial instruments

			2015 $'000	2014 $'000
(a)	**Categories of financial instruments**			
	Financial assets			
	Cash and cash equivalents	7	**643**	1,314
	Loans and receivables financial assets			
	Receivables (gross)	8	**41,448**	41,986
	Fair value through profit and loss			
	Fixed term deposits	9	**559,500**	595,500
	Carrying amount of financial assets		**601,591**	638,800
	Financial liabilities			
	At amortised cost			
	Payables	14	**31,715**	41,099
	Other interest bearing liabilities	15	**162**	247
	Carrying amount of financial liabilities		**31,877**	41,346
(b)	**Net income and expense from financial assets / liabilities**			
	Investment income	5(c)	**21,337**	26,531
	Net gain/(loss) from financial assets		**21,337**	26,531

(c)

	Notes	**Carrying amount 2015 $'000**	**Fair value 2015 $'000**	Carrying amount 2014 $'000	Fair value 2014 $'000
Financial assets					
Cash and cash equivalents	7	**643**	**643**	1,314	1,314
Receivables (gross)	8	**41,448**	**41,448**	41,986	41,986
Fixed term deposits *	9	**559,500**	**559,500**	595,500	595,500
Total financial assets		**601,590**	**601,590**	638,800	638,800
Financial liabilities					
Payables	14	**31,715**	**31,715**	41,099	41,099
Other interest bearing liabilities	15	**162**	**162**	247	247
Total financial liabilities		**31,877**	**31,877**	41,346	41,346

* 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
ASIO	Australian Security Intelligence Organisation
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
DTI	Declared terrorist incident
FMO	Finance Minister's Orders
FOI Act	*Freedom of Information Act 1982*
GA	Geoscience Australia
GST	Goods and services tax
GTD	Global Terrorism Database
GWP	Gross written premium
HR	Human resources
IPS	Information Publication Scheme
MIPS	Medical Indemnity Protection Society
OECD	Organisation for Economic Co-operation and Development
PGPA Act	*Public Governance, Performance and Accountability Act 2013*
PID Act	*Public Interest Disclosure Act 2013*
PMS	Performance Management System
RBA	Reserve Bank of Australia
RiSC	Reinsurance Study Course (ANZIIF)
RISe	Reinsurance information system, ARPC's client information management system
RMS	Risk management strategy
SBS	Special Broadcasting Service

SES	Senior executive staff
START	Study of Terrorism and Responses to Terrorism (University of Maryland, US)
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), whose main purpose is to insure 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.
Financial year	Refers to 1 July to 30 June of a particular year
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, in consideration.
Reinsured	An insurer that transfers all or part of a risk to a reinsurer
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.
Underwriting year	An underwriting year includes all premiums for all policies commencing within the financial year.

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	11
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	11
Sch. 1, cl.1(b)	Financial Statement prepared by the directors under Cl.2	Statement of Members, Chief Executive and Chief Financial Officer	89
Sch. 1, cl.1(c)	Auditor-General's report on financial statement under Part 2 of Schedule 1	Independent Auditor's Report	87
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