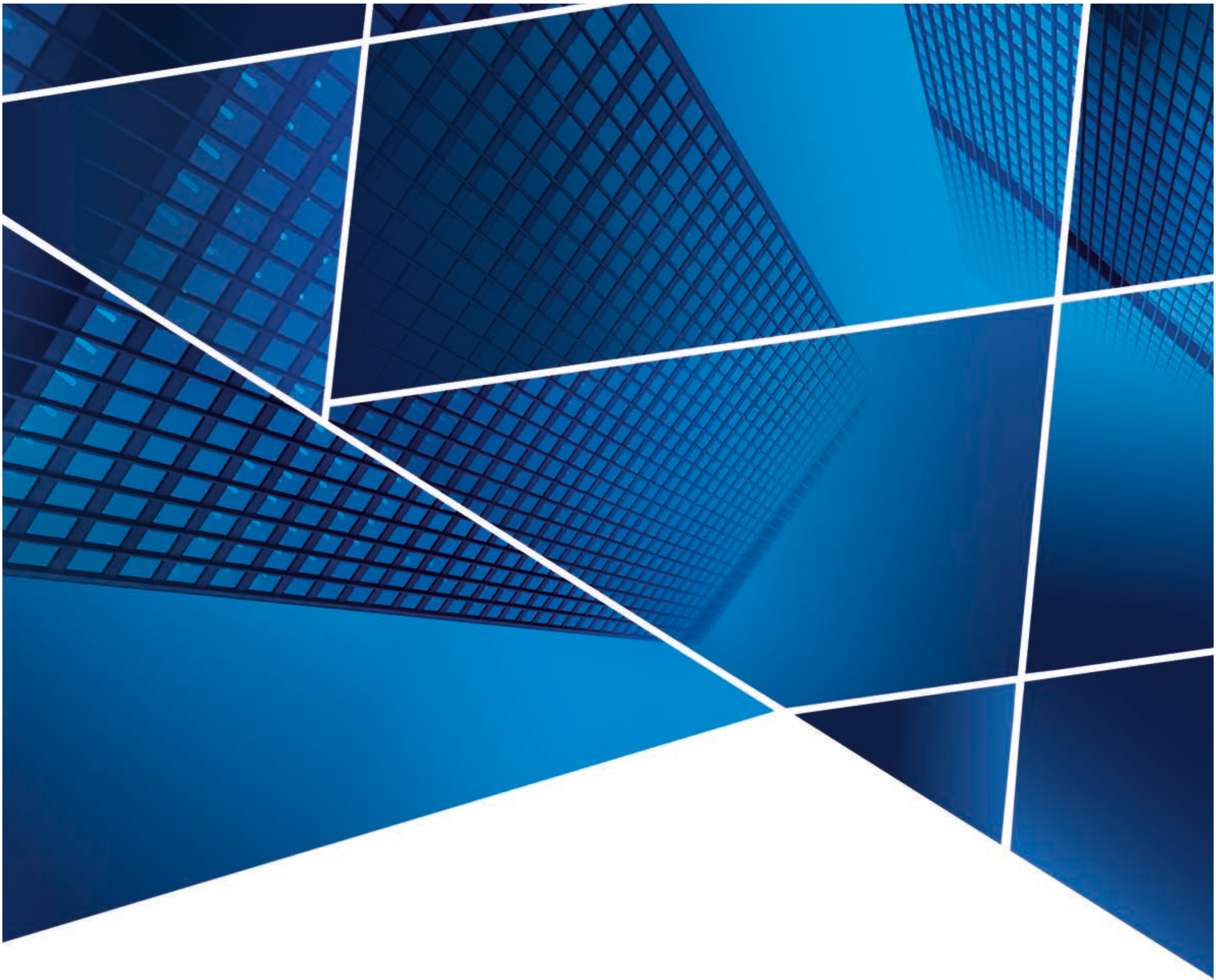

Australian Government

Australian Reinsurance Pool Corporation

ARPC 2017 / 2021

CORPORATE PLAN

Australian Government
Australian Reinsurance Pool Corporation

The Hon Kelly O'Dwyer MP
Minister for Revenue and Financial Services
Parliament House
CANBERRA ACT 2600

Dear Minister for Revenue and Financial Services

On behalf of the ARPC Board, I am pleased to present you with the Australian Reinsurance Pool Corporation (ARPC) Corporate Plan for 2017-18 and beyond. This plan commences on 1 July 2017 and spans the four reporting periods to 30 June 2021.

The plan has been approved by the Accountable Authority (the ARPC Board) as required under paragraphs 35(1) and 35(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). This plan has also been prepared in accordance with the Public Governance, Performance and Accountability Rule 2014 (PGPA Rule).

Each year the Board and executive of ARPC undertakes a strategic planning process to set the Corporation's purpose, role, values and strategic priorities for future years. The Corporate Plan is the principal planning document for ARPC and outlines the actions required for successful implementation of ARPC's strategy. The plan also details Key Performance Indicators to measure progress.

Should you have any questions or require further information please do not hesitate to contact me.

Yours sincerely

(signature supplied)

Ian Carson AM
Chair

cc The Hon Mathias Cormann MP
Minister for Finance

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EXECUTIVE SUMMARY 01

1. Executive Summary

Australian Reinsurance Pool Corporation's purpose is to protect Australia from economic losses caused by terrorism catastrophe. ARPC uses its expertise and reputation to provide cost effective reinsurance and to support the economic resilience of the nation.

The 2015 Triennial Review of ARPC by Treasury stated that "while the ongoing need for the scheme should continue to be periodically reviewed, the fact that it has matured into at least a medium-term policy response should be recognised and reflected in decisions about the nature and scope of its operations". As such, the Corporate Plan spans a period of four years throughout which ARPC will seek to strengthen its capabilities and deliver to its stakeholders.

The ARPC Corporate Plan 2017-21[1] details:

- the environment in which ARPC operates;
- ARPC's strategic priorities and the program of activities to deliver on them;
- the risk oversight and management of ARPC;
- the Key Performance Indicators (KPIs) which will be used to measure progress; and
- the workforce capabilities and operating expenses.

There are four key Corporate Plan activities that ARPC will undertake during the reporting period which support its purpose and will help deliver on the primary objectives as set out in the Terrorism Insurance Act 2003 (TI Act) Explanatory Memorandum. The key activities are:

- provide reinsurance for eligible terrorism losses;
- encourage private sector participation through the retrocession program;
- compensate the Government; and
- maintain financial sustainability and organisational resilience.

These Corporate Plan activities are underpinned by ARPC's six Strategic Priorities (see Section 4 for more information).

[1] The ARPC Corporate Plan 2017-21 meets the requirements of s35 (1) (a) of the *Public Governance, Performance and Accountability Act 2013.*

INTRODUCTION 02

Purpose Statement

ARPC has articulated its 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.

The purpose and role of ARPC gives direction to its strategy which is to be executed over the forecast period.

2. Background

ARPC is a Public Financial Corporation established in July 2003 under the TI Act to administer the terrorism insurance scheme. It was established following the terrorist attacks in the USA on 11 September 2001. After this incident, there was a global withdrawal of terrorism insurance, leaving commercial property in Australia uninsured against terrorism attacks. This market failure reduced access to project funding and commercial refinancing which then threatened some sectors of the Australian economy.

ARPC was established by the Australian Government with the support of stakeholders in the property, banking, insurance and reinsurance sectors.

In the event of a Declared Terrorist Incident (DTI), the TI Act renders terrorism exclusion clauses in eligible insurance contracts ineffective in relation to loss or liabilities arising from the DTI. In this instance, insurers remain liable for eligible losses to insured property assets.

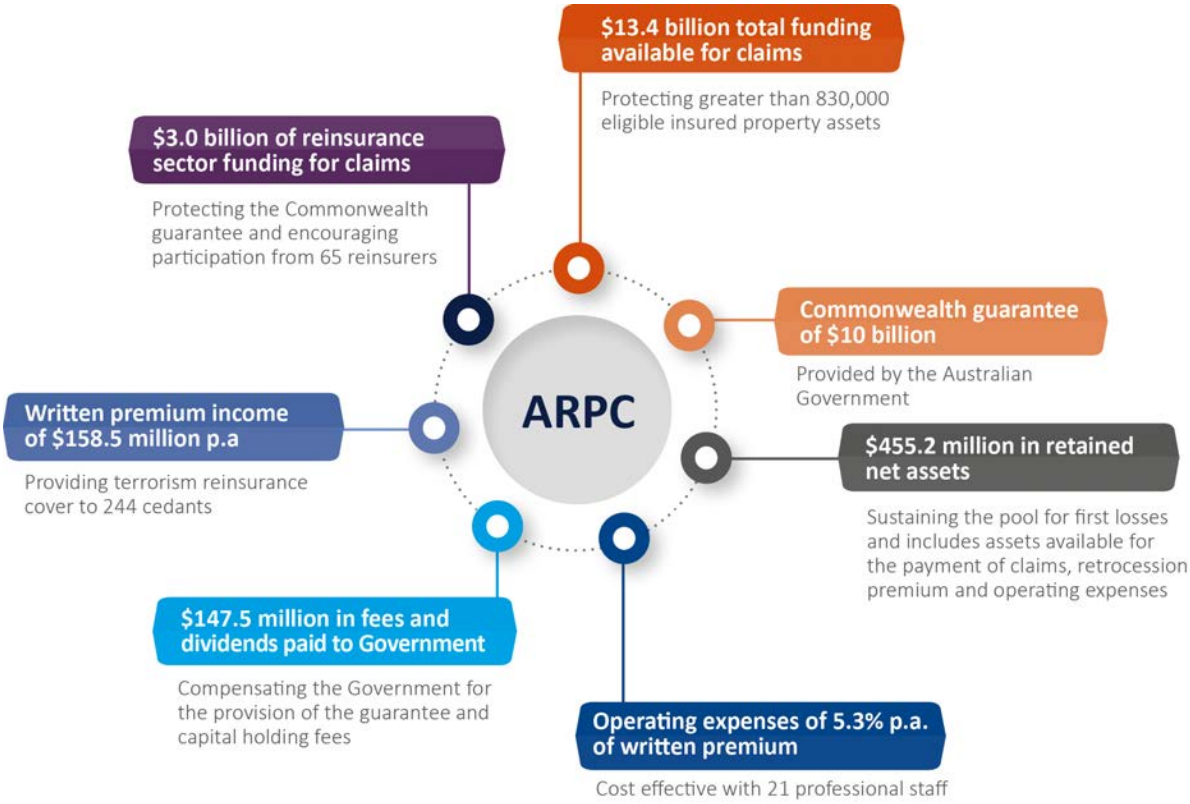
The compulsory application of the TI Act means that insurers are liable for terrorism losses in Australia and can choose to carry the risk for terrorism losses themselves, reinsure the risk through the private reinsurance sector, or reinsure eligible insurance contracts with ARPC.

ARPC provides cost effective reinsurance and has $13.4 billion in total funding available for claims arising from a DTI, protecting in excess of 830,000 eligible insured property assets valued at over $3.6 trillion nationwide. Through the purchase of a global retrocession program, ARPC enables risk sharing and mitigation where there is inadequate terrorism insurance capacity in the Australian commercial market.

Following a DTI, ARPC plays a crucial role in supporting Australia’s economic resilience by providing a claims payment framework that facilitates the timely payment of eligible claims and the ability to draw on international funds through ARPC’s purchase of retrocession reinsurance. In the event of an incident that breaches $3.4 billion, additional support is provided through the $10 billion Commonwealth guarantee to allow for rebuilding and re-establishing commercial business activity.

Figure 2:1 below provides a snapshot of ARPC's operations as at June 2017:

Key factors that will enable ARPC to deliver against our purpose and role include:



Terrorism insurance scheme objectives

At the time of establishing ARPC, the TI Act Explanatory Memorandum (EM) outlined the policy objectives for ARPC[2]. The EM stated 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; and
- global solutions.

[2] See the Revised EM of the Terrorism Insurance Bill 2002, page 6

ENVIRONMENT 03

3. Environment

Market failure

ARPC was established to address market failure in the terrorism risk insurance market for Australian commercial properties. Since 11 September 2001, insurance policies covering Australian commercial and industrial property, and contract works have had terrorism exclusion clauses applied. Under the TI Act, these clauses are void in the event of a DTI. Although it is optional for insurers to take out terrorism reinsurance cover, almost all insurers who cover eligible property risks in Australia choose to reinsure their terrorism risk with ARPC.

The 2015 Terrorism Insurance Act Review[3], (the Triennial Review), considered the availability of reinsurance for terrorism risk in detail and concluded that there remains no whole-of-market, sustainable, alternative provider of terrorism reinsurance, meaning partial market failure still exists. See **Appendix A** for details on the previous Triennial Reviews of the scheme by Treasury.

ARPC's 2017 retrocession program was close to the total global capacity for eligible Australian property risks available at reasonable prices. This program equates to only 30 per cent of the $10 billion cover provided by the Commonwealth guarantee and provides further evidence of market failure in the terrorism insurance market for Australian commercial and industrial property.

Legislative framework constraints

ARPC must operate within the legislative framework of the TI Act while also fully complying with Australian Government obligations under the PGPA Act.

The TI Act prescribes the function of ARPC and focuses on it providing insurance cover for terrorism losses. The premiums that ARPC can charge its insurers are set, and can only be amended, through Ministerial Direction.

The TI Act Regulations (the Regulations) are also relevant to the legislative framework and these define what is excluded from coverage under the TI Act. Under the TI Act, ARPC has the following function:

a) to provide insurance cover for eligible terrorism losses (whether by entering into contracts or by other means); and

b) any other functions that are prescribed by the regulations.

The Corporation has the power to do everything necessary or convenient to be done for or in connection with the performance of its functions. For the avoidance of doubt, the powers of the Corporation include:

a) the power to charge premiums in respect of contracts of insurance for which it is the insurer; and

b) the power to charge fees for services that it provides in connection with the performance of its functions.

[3] The Appendix to the Triennial Review report was prepared by an external consulting firm, Pottinger

Section 41 of the TI Act requires that the Treasury undertake a review of the operation of the TI Act at least once every three years. See **Appendix B** for a table of changes to the scheme from the most recent 2015 Triennial Review.

Pricing constraints

ARPC is a Public Financial Corporation operating in a private sector environment that is subject to global economic factors. These are often outside ARPC's control but they can significantly impact the organisation's financial sustainability and resilience.

Global factors

The link between Australian terrorism insurance and commercial property market premiums leaves ARPC exposed to pricing shifts associated with global catastrophes, financial market fluctuations and terrorist incidents both in Australia and abroad.

Over the last four years, ARPC has seen a reduction in property premiums due to general market conditions and surplus, non-terrorism, property reinsurance capacity. These reductions have led to a flow-on reduction in ARPC's premium income.

Pricing terrorism insurance

For ARPC, the difficulty in pricing terrorism insurance is compounded by the difficulty in predicting terrorism attacks and the uncertain timing, number and size of potential claims. Although ARPC uses sophisticated loss estimation models to predict the *size* of possible losses, it is not possible to model the *frequency* of a loss, due to the complexity of factors involved in the 'human factor' of terrorist attacks. As a consequence, it is acknowledged globally that terrorism risk is extremely difficult to price accurately. ARPC's pricing is based on population density and is split into city, suburban and other area tiers.

Premiums

ARPC has repaid all Australian Government seed capital and does not presently receive any government appropriations. All operations are funded (including retrocession premiums and fee and dividend payments to government) from premium income received from insurers and investment income. ARPC's premium tier rates increased for the first time (effective 1 April 2016) as a result of the 2015 Triennial Review recommendations. A fixed percentage of insurers' premiums is received and, as a result, premium income is linked to insurer price fluctuations that are out of ARPC's control.

Tier rates are based on the applicable postcode of each commercial property and can only be amended through a Ministerial Direction. All postcodes are placed in one of three pricing tiers according to population density. Premiums are then calculated as a percentage of each insurer's gross base premium as defined in the Reinsurance Agreement.

In the event of a major DTI that exhausts all of ARPC's capital, there may have to be an increase in ARPC's tier rates to remain financially sustainable. In this case, a Ministerial Direction would be required to increase tier rates to a suitable level.

Further explanation of the variability in premium income is shown in *Figure 3.1*. This shows a snapshot of insured eligible property values and premium as at 30 June 2017, tabling all premiums for policies commencing within 2016/17 (ARPC's underwriting year).

Figure 3.1: Insured eligible property report, as at 30 June 2017

Underwriting year	Premium income $million (A)	Cedant sum insured $trillion (B)	Cedant gross written premium $billion (C)	Premium as % of Gross Written Premium (A) ÷ (C)
2012-13	129.9	3.0	3.7	3.5%
2013-14	126.7	3.1	3.6	3.5%
2014-15	128.4	3.2	3.7	3.5%
2015-16	126.2	3.4	3.5	3.6%
2016-17*	158.5	3.6	3.6	4.4% *(est)*

* The 2016-17 risk reports are not submitted to ARPC until September 2017.

Purchasing retrocession

Since 2009, ARPC has placed an annual retrocession program. For the 2017 calendar year program, ARPC purchased $3.0 billion in retrocession capacity through 65 reinsurers, all of which had a Standard and Poor's rating (or equivalent) of A- or better. By purchasing retrocession, ARPC is not only providing a valuable funding source for rebuilding Australian commercial infrastructure in the event of a major terrorist attack, but is also reducing the risk that ARPC will need to draw on the Commonwealth guarantee.

This annual purchase encourages the re-emergence of the commercial terrorism insurance market, but is subject to potential volatility in both capacity and pricing caused by global terrorist incidents, exchange rate movements and major natural catastrophes. This exposes ARPC to market factors that are not within its control, necessitating close and regular scrutiny of the retrocession program.

Movements in capital

ARPC uses its premium and investment income to fund its operations and build a reserve for future claims. ARPC has prudently invested its available funds to supplement its income from premium revenues, with the size of the reserve for claims growing to $666 million by 30 June 2011. This level has subsequently reduced to $455.2 million as at 30 June 2017 due to fees and dividends paid to the Australian Government since 2011. The progressive decline in net assets has seen a corresponding decline in investment revenue, compounded by the continued decline in interest rates.

Since ARPC was established, it was envisaged that the Government would be fairly compensated for the Commonwealth guarantee. The 2012 Triennial Review determined that ARPC should commence making annual payments to the Government for the provision of the $10 billion Commonwealth guarantee, taking into account the backdating of payments since ARPC's inception.

By 30 June 2017, ARPC had paid $697.5 million to the Government in fees and dividends with historical yearly payments as illustrated in *Figure 3.2* below. ARPC remains focused on the scheme's net assets and has monitoring mechanisms in place to quickly assess potential revenue fluctuations.

Figure 3.2: Payments made to the Government as at 30 June 2017*

Financial Year	Dividends committed since May 2012 Budget $ millions	Cumulative dividends paid/to be paid $ millions
FY 2012-13	$175.0	$175.0
FY 2013-14	$150.0	$325.0
FY 2014-15	$55.0 Fee and $57.5 Dividend	$437.5
FY 2015-16	$55.0 Fee and $57.5 Dividend	$550.0
FY 2016-17	$55.0 Fee and $57.5 Dividend $35.0M Fee	$697.5
FY 2017-18	$55.0 Fee and $57.5 Dividend $35.0 Fee	$845.0
FY 2018-19	$55.0 Fee and $35.0 Fee	$935.0
FY 2019-20	55.0 Fee and $35.0 Fee	$1,025.0

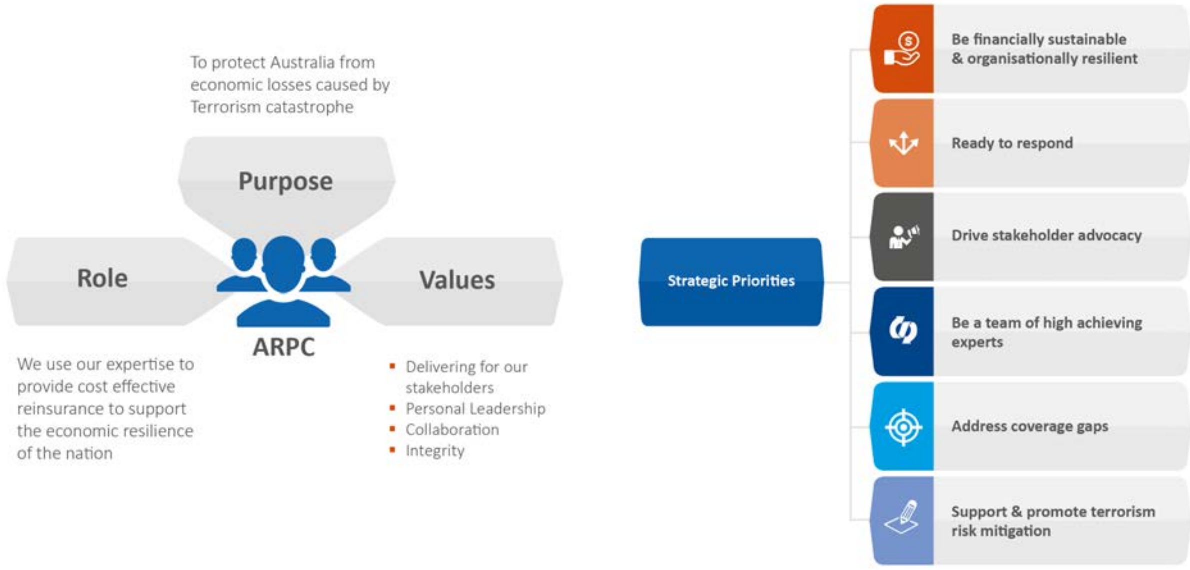
* The $55.0 million is the fee for the Commonwealth guarantee, the $57.5 million dividend is the retrospective compensation for the Commonwealth guarantee for the years when ARPC did not compensate the Commonwealth, the $35.0 million is a capital holding fee for the capital retained by ARPC that is at risk in the event of a DTI.

STRATEGIC PRIORITIES 04

4. Strategic Priorities

ARPC's six strategic priorities are to: be financially sustainable and organisationally resilient; be ready to respond; drive stakeholder advocacy; be a team of high achieving experts; address coverage gaps and support and promote terrorism risk mitigation. See *Figure 4.1* below:

Figure 4.1: ARPC Strategic Priorities

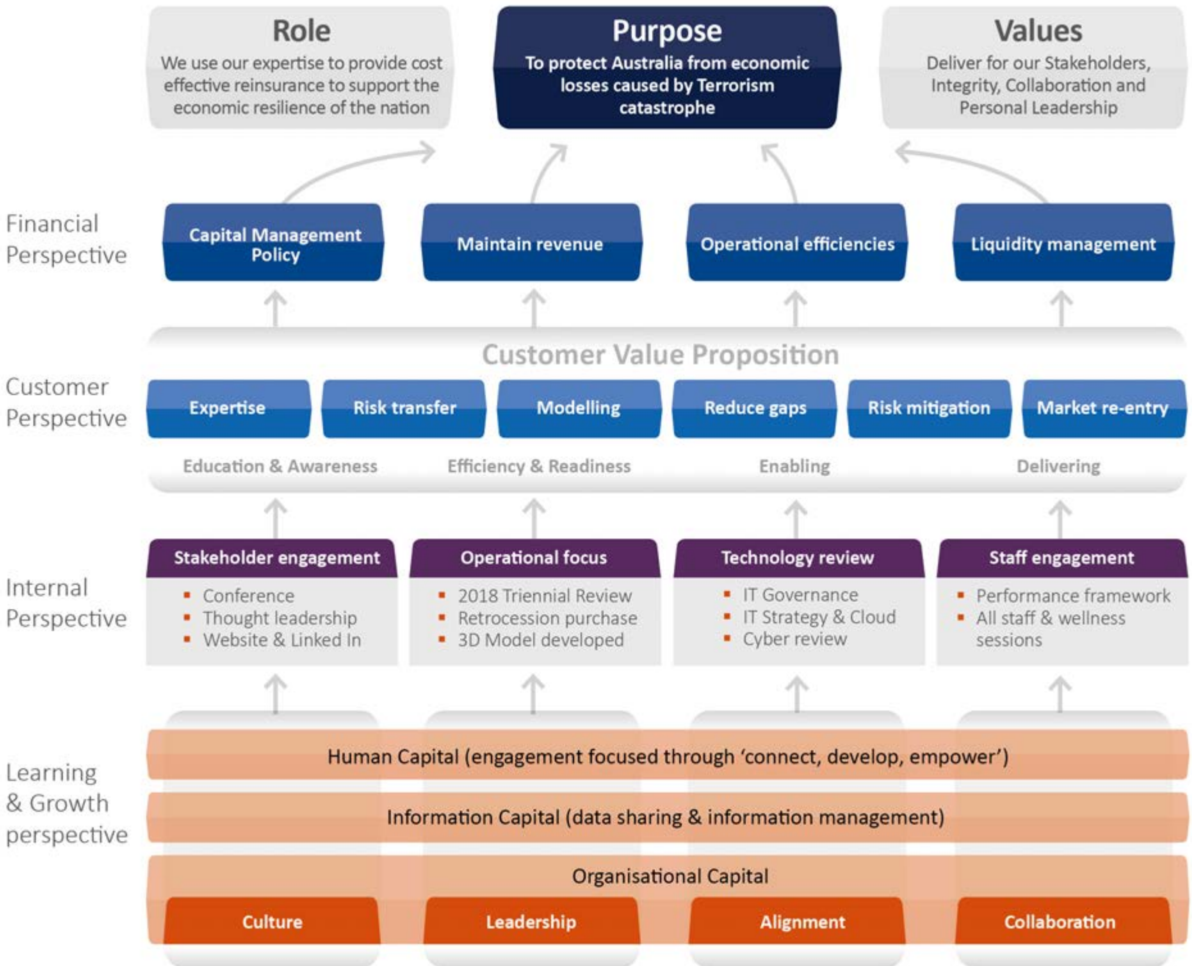


ARPC Strategic Plan 2017–2021

The ARPC Strategic Plan (*Figure 4.2*) is an internal document which considers the objectives set out in the TI Act Explanatory Memorandum, together with ARPC's strategic priorities, and explains how ARPC will achieve progress against each from a balanced scorecard perspective. It also provides context for the Corporate Plan which is the action plan for the period under review.

ARPC will focus on activites that *build* stakeholder engagement, *deliver* cost effective reinsurance to customers, *optimise* IT infrastructure to reduce risks and *maximise* staff engagement. In addition, the Capital Management Policy will help to strengthen ARPC's net asset position. Each activity of the Strategic Plan will operate concurrently to advance ARPC's strategic priorities, including the actions detailed in this plan.

Figure 4.2: ARPC Strategic Plan



Strategic priorities and initiatives

In early 2017, ARPC's board and executive held a strategic planning workshop to discuss the coming period. During this workshop, the strategic priorities were updated with revised key initiatives provided for each strategic priority, in the next financial year.

Figure 4.3: Strategic Priorities and activities/deliverables**

Strategy priority	2017-2018 Activities / Deliverables[4]
Be financially sustainable & organisationally resilient	▪ Purchase retrocession to increase ARPC's total funds available for claims post a DTI whilst minimising the need to call on the Commonwealth guarantee to pay initial claims. **(KPI Area One)** ▪ Implement a holistic Capital Management Policy to support ARPC's financial sustainability by integrating all operating levers (price/dividends/fees/retrocession/reserves/investments). **(KPI Area Four)** ▪ Continue to make payments to government as per the current Ministerial Direction. **(KPI Area Three)** ▪ Complete an IT strategy review to identify current and future system requirements and implement a roadmap to deliver against it. This includes digitisation where possible and new tools to share data more effectively. ***(KPI Area Four)** ▪ Investigate utilising 'The Cloud' for IT requirements. ***(KPI Area Four)** ▪ Prepare for the 2018 triennial review. ***(KPI Area Two)** ▪ Review approach to ARPC's storage and use of Intellectual Property. ***(KPI Area Four)**
Ready to respond	▪ Update and test the DTI Response Procedure continually. **(KPI Area Four)** ▪ Provide advice to Government on the financial management of large scale catastrophe, using existing competencies of quantifying and pricing risk, pricing and collecting premium, claims payment mechanisms and reinsuring risk. ***(KPI Area Four)** ▪ Review and enhance the claims response plan against capacity and capability to remain relevant in the changing environment to allow ARPC to deliver in the event of a DTI. ***(KPI Area Four)** ▪ Continue loss estimate modelling development for blasts and biochemical events throughout Australia. ***(KPI Area Two)** ▪ Continue to support the Government in its understanding of the role of reinsurance pooling for large scale man-made or natural catastrophes. **(KPI Area One)**
Drive stakeholder advocacy	▪ Engage with stakeholders to develop greater understanding and consensus on the TI Act and Regulations. ***(KPI Area Four)** ▪ Enhance the stakeholder engagement plan to deepen relationships and reach and achieve advocacy for ARPC initiatives. ***(KPI Area Two)** ▪ Undertake a stakeholder satisfaction survey. **(KPI Area One)** ▪ Redesign and relaunch the ARPC website to maintain relevance to external and internal audiences and create a platform to increase education and awareness of the scheme. ***(KPI Area Four)**

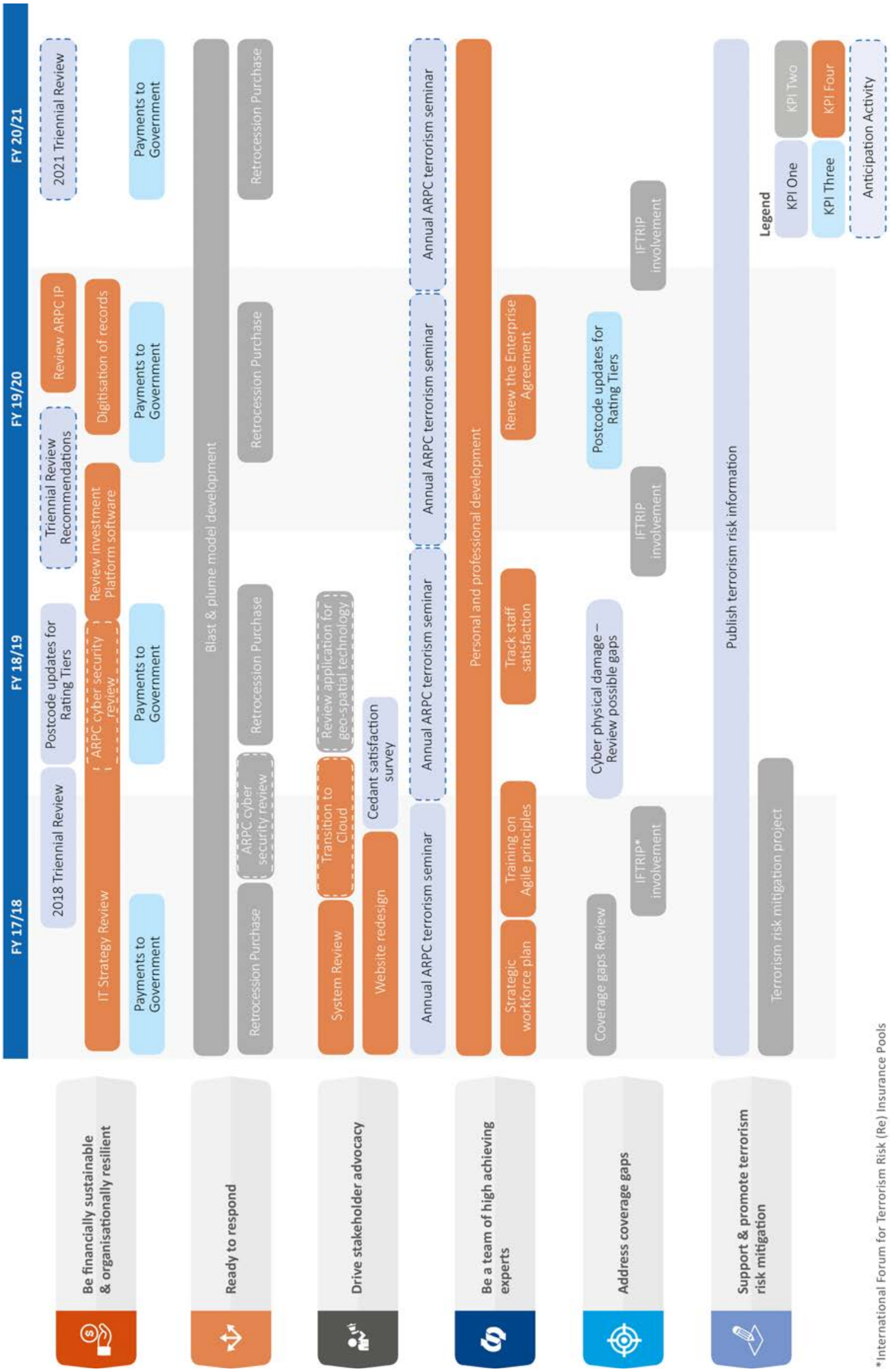
[4] Current as at 30 June 2017 but subject to change from adjustments in business needs.

* Crosses multiple KPIs. Refer to Section 6, *Figure 6.1* for KPI areas and details.

Strategy priority	2017-2018 Activities / Deliverables[4]
	▪ Deliver the October 2017 Terrorism Risk Insurance seminar to drive additional understanding and introduce new and emerging trends. *(KPI Area One)
Team of high achieving experts	▪ Use internal skills and expertise to identify new ways for ARPC to engage with internal and external audiences such as use of the LinkedIn platform. *(KPI Area Two) ▪ Identify technology tools to increase staff efficiency and effectiveness and their ability to interact with key stakeholders. *(KPI Area Four) ▪ Develop, connect and empower ARPC's people toward the execution of meaningful work. (KPI Area Four) ▪ Develop high achieving teams that deliver for stakeholders and display personal leadership, collaboration and integrity in all they do. *(KPI Area One)
Address coverage gaps	▪ Continue to raise awareness on emerging terrorism risks like Cyber terrorism. ▪ *(KPI Area Four) ▪ Continually review, identify and educate the market around potential gaps in cover. *(KPI Area Two)
Support and promote terrorism risk mitigation	▪ Review and assess the market need for Terrorism Risk Mitigation standards. *(KPI Area Two) ▪ Publish information around the current terrorism state in Australia and provide insights into emerging trends along with increased industry data sharing. *(KPI Area Two) ▪ Participate in national and international forums on terrorism and catastrophe insurance and financing. (KPI Area Two) ▪ Participate in roundtable discussions on terrorism risk with other Australian government departments. *(KPI Area Four) ▪ Participate in the OECD High level Advisory Board for the Financial Management of Large Scale Catastrophe. (KPI Area Two)

*Crosses Multiple KPI's.
**Refer to Figure 6.1 for full detail on each KPI and its focus area.

Figure 4.4: ARPC initiatives and their associated Key Performance Indicators (KPIs)



*International Forum for Terrorism Risk (Re) Insurance Pools

Values

ARPC strives for a collaborative and high achieving culture underpinned by integrity, personal leadership and continuous professional development. These values support the strategy, and are fundamental to the success of the organisation. These values also support the ARPC Code of Conduct.

Figure 4.5 ARPC Values

RISK OVERSIGHT AND MANAGEMENT

05

5. Risk oversight and management

The ARPC Board and management are committed to a comprehensive, coordinated and systematic approach to risk management. Effective risk management has a critical role in all organisational decisions.

ARPC's approach to risk management is to support managers at all levels to anticipate uncertain events, identify opportunities and to respond appropriately to potential weaknesses. This includes:

- harnessing resources to more effectively manage risks which may prevent ARPC from achieving its objectives;
- protecting people; and
- managing assets, resources and the environment in an efficient, effective, economical and ethical manner.

Enterprise Risk Management Framework

Under the PGPA Act, ARPC is a Public Financial Corporation and, as such, has an obligation to establish risk management systems and controls. The Enterprise Risk Management Framework (ERMF) assists ARPC in meeting its risk management obligations under the PGPA Act. The ERMF includes the Risk Management Strategy, as approved and adopted by the Board, the Risk Management Plan and Risk Policy Statement.

ARPC undertakes a Fraud Risk Assessment at least every two years, which is completed by an independent external consultant. This requirement complies with ARPC's Fraud Control Policy, which also documents the internal controls established within the organisation to mitigate fraud occurrence.

As a Public Financial Corporation, ARPC is not required to comply with the Commonwealth Risk Management Policy, however, APRC's ERMF has incorporated the Commonwealth's nine elements of risk management as a matter of best practice. The ERMF incorporates the Risk Management Policy Statement which states that ARPC will manage risk in accordance with the international risk management standard AS/NZS/ISO 31000:2009 Risk Management—Principles and Guidelines.

Risk Management Plan

Based on the ERMF, ARPC has a Risk Management Plan, which specifies the approach, management components and risk management resources to be applied to risk at ARPC. This includes the procedures, practices, assignment of responsibilities and risk management timing and sequencing.

Accountabilities

As the accountable authority, the ARPC Board has overall responsibility for providing strategic direction, risk oversight and setting the organisation's risk appetite and tolerance. Risk accountability is also clearly outlined in the ERMF.

The ARPC Board has a standing agenda item to examine risk at each Board meeting. Under section 17 of the PGPA Act, the ARPC Audit and Compliance Committee is responsible for reviewing the appropriateness of ARPC's risk management systems and internal controls. ARPC's internal controls are routinely reviewed by ARPC's Internal Auditor, which (under the Internal Audit Charter) is an external organisation independent of management. ARPC's financial statements are audited annually by the Australian National Audit Office and published in the ARPC Annual Report.

The Chief Executive Officer is responsible for the implementation and maintenance of sound risk management within ARPC and has delegated responsibility for overseeing and maintaining risk management processes to the General Manager, Governance, Risk and Compliance.

Risk Appetite and Tolerance Statements

Each year, the ARPC Board reviews the Risk Appetite and Tolerance Statement as part of the annual strategic workshop held by the Board, together with the Executive Management team. ARPC's risk register is regularly revised to capture new or emerging risks, as well as changes to the Risk Appetite and Tolerance Statement. Senior Managers review the risk register frequently and monitor risk target levels and ratings for potential changes. The ARPC Board receives regular reporting, sourced from the risk register, on risks which are outside tolerance levels.

Legislative compliance

ARPC staff are made aware of legislative requirements through ongoing information and training. Management provide quarterly attestations on compliance with ARPC's legislative obligations.

PERFORMANCE 06

6. Performance

In compliance with the PGPA Act, ARPC must remain financially sustainable and manage its public resources in an efficient, effective, economical and ethical manner as it fulfils its purpose.

As highlighted in the Executive Summary of this Plan, there are four key Corporate Plan activities ARPC will undertake over the reporting period which will facilitate ARPC achieving its purpose and the primary objectives set out in TI Act Explanatory Memorandum.

The key activities are:
1. provide reinsurance for eligible terrorism losses;
2. encourage private sector participation through the retrocession program;
3. compensate the Government; and
4. maintain financial sustainability and organisational resilience.

These are outlined below in *Figure 6.1*, together with details on how ARPC measures the success of actions taken to achieve them.

Figure 6.1: Key Performance Indicator (KPI) Summary

KPI Area	Measure	Assessment Criteria	Level of ARPC Influence
1. Provide reinsurance for eligible terrorism losses.	Measure 1: Income – Gross Written Premium	Gross Written Premium (GWP)	Limited
	Measure 2: Scheme Capacity – Total Funding Available	Purchase of > $2.5 billion in retrocession within approved budget[5]	Moderate
	Measure 3: Insurance market involvement	Providing reinsurance for $3.6 trillion of sums insured	Limited
2. Encourage private sector participation through the retrocession program	Measure 4: Private sector participation	Number and quality of retrocessionaires in the program	Moderate
3. Compensate the Government	Measure 5: Payments to government	Payments made as per Ministerial Direction	Limited
4. Maintain financial sustainability and organisational resilience	Measure 6: Net assets against ARPC target and minimum capital	Net assets at or above $510 million	Limited

[5] Purchase must also be value for money.

Key Performance Indicator (KPI) Detail

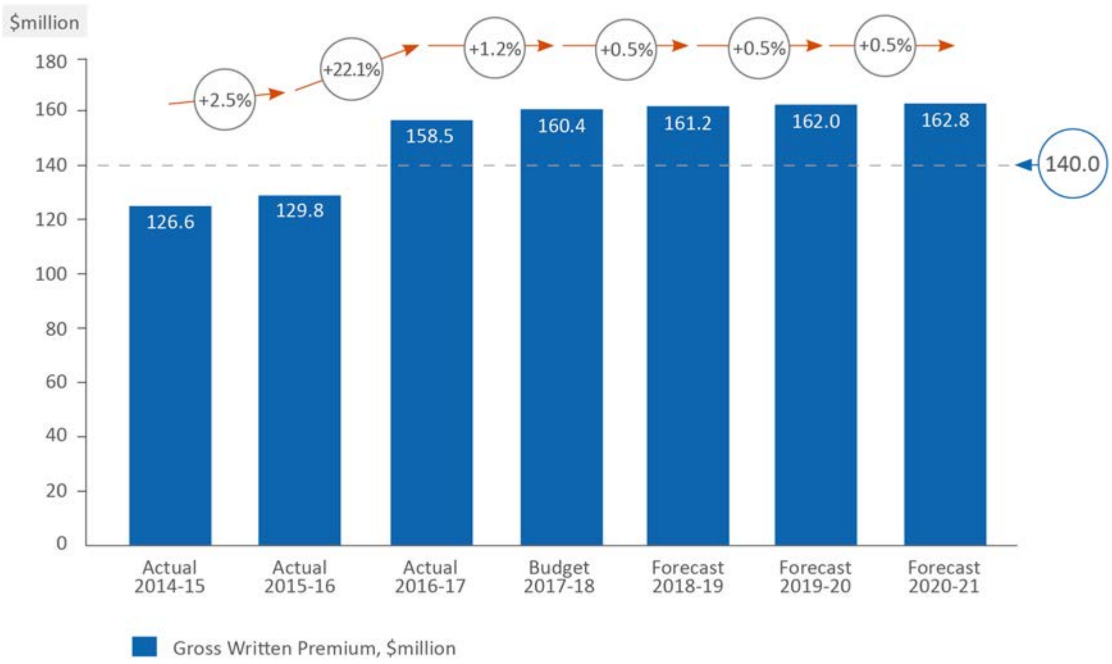
KPI 1: Provide reinsurance for eligible terrorism losses

Measure 1: Income – Gross written premium

To improve financial sustainability and achieve higher than the target premium in each plan period.

This is ARPC's functional obligation as prescribed by section 10 of the TI Act. Over the period covered by the Corporate Plan, the success for this activity will be measured by ARPC's total premium income, with the target premium level for the forecast period being $140 million.

Figure 6.2: Gross written premium



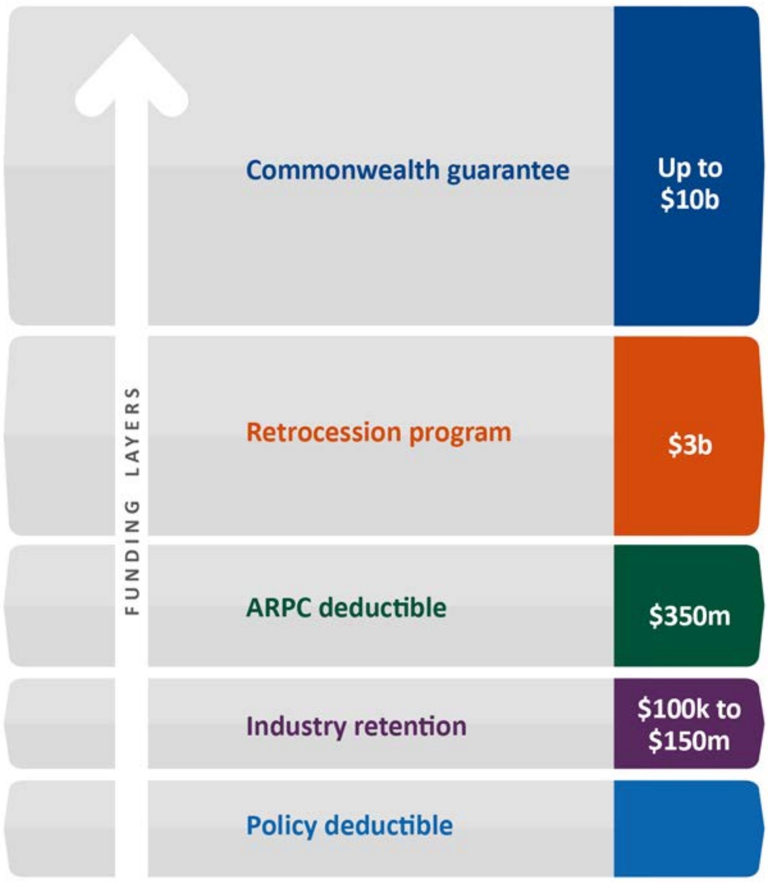
The general insurance market has experienced softening commercial property prices due to surplus capacity and strong results. These market conditions, together with a lack of large-scale natural catastrophe losses globally, have led to softening market conditions.

Measure 2: Scheme capacity – Total Funding Available

To protect the government from losses through the purchase of greater than $2.5 billion in retrocession in each program period.

ARPC uses its premium income to purchase retrocession (reinsurance cover from private sector reinsurers) and to compensate the Australian Government for the Commonwealth guarantee. Through ARPC's retrocession program and the Commonwealth guarantee, ARPC has $13.4 billion in funding available for DTI losses as at 30 June 2017.

Figure 6.3: Scheme capacity – Total Funding Available*



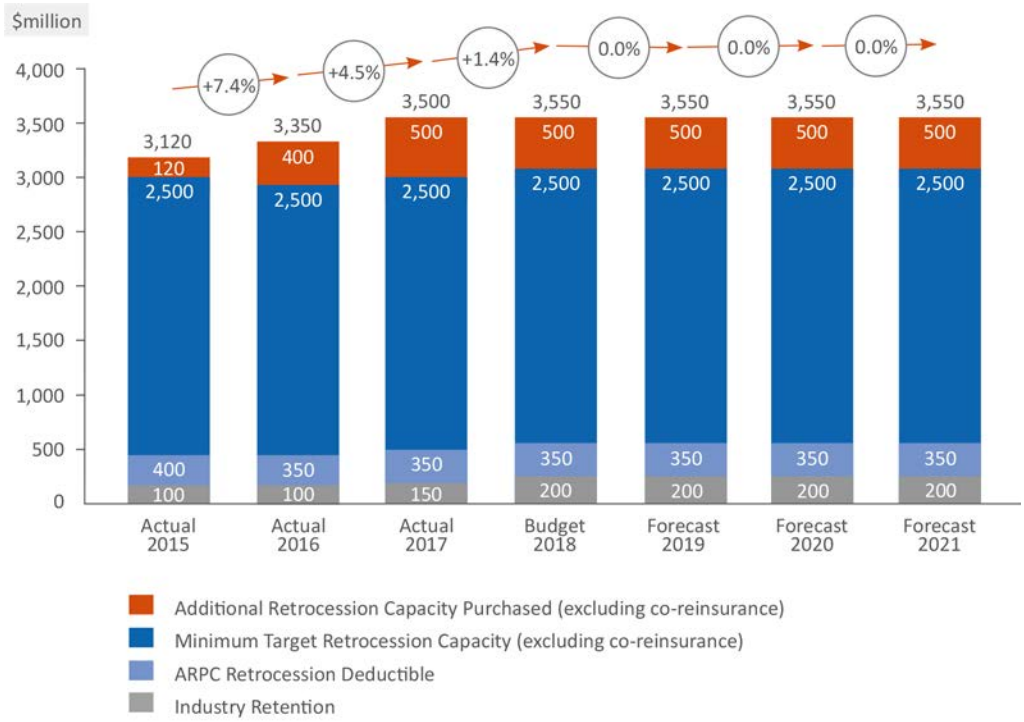
* Please note that as of 1 July 2017, the maximum industry retention increased from $100 million to $150 million. As of 1 July 2018, this will increase to $200 million.

Since 2009, ARPC has purchased retrocession from global terrorism reinsurers, thereby transferring a large proportion of the risk to the private sector and reducing risk to the Australian Government. For 2017, reinsurers, or 'retrocessionaires', provide $3 billion private cover for claim payments in excess of $350 million.

Each year, ARPC negotiates and places a retrocession program with major global reinsurers, seeking a placement that provides value-for-money while encouraging maximum global insurer participation. Participation in the ARPC retrocession program is restricted to reinsurers who hold a Standard & Poor's (or equivalent) long-term rating of A- or greater.

To measure success in this activity, ARPC measures total retrocession capacity purchased each calendar year and the total purchase cost, while continuing to monitor the number of participating retrocessionaires.

Figure 6.4: Scheme capacity before the Commonwealth guarantee on a calendar year basis.

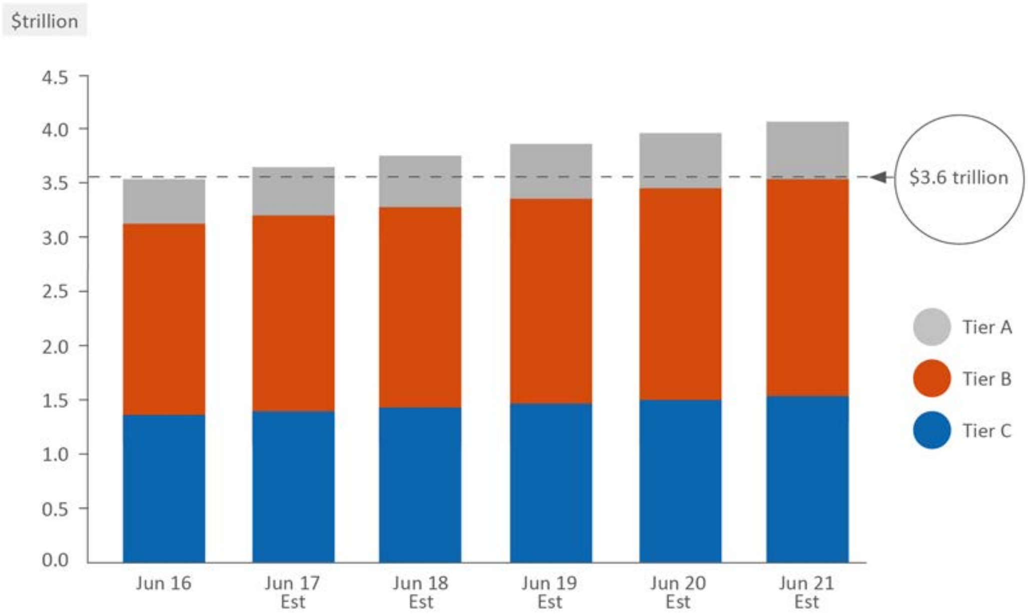


Measure 3: Insurance market involvement

Provide reinsurance cover for $3.6 trillion of eligible commercial property.

A partial market failure for terrorism insurance exists in the Australian commercial property market and this is expected to continue for the foreseeable future. As a result, ARPC needs to provide cost effective reinsurance for the Australian commercial property market.

Figure 6.5: Forecast Aggregate Sum Insured*



* Assumption: Static increase in Aggregate Sum Insured of 2.5% p.a.

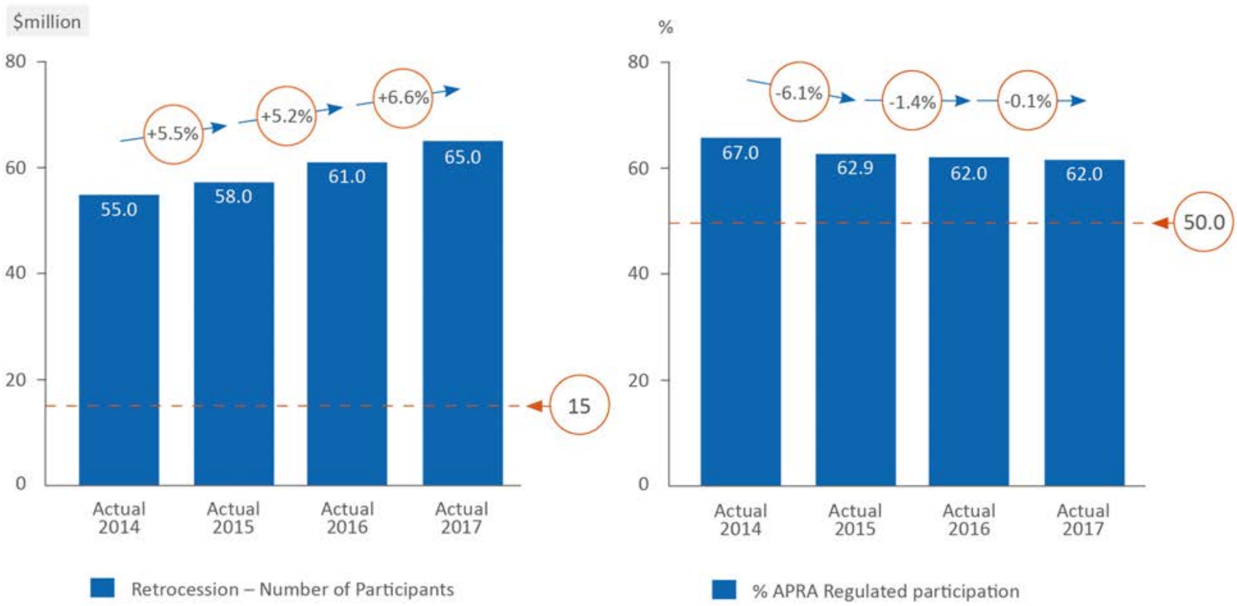
KPI Two: Encourage private sector participation through the retrocession program

Measure 4: Private sector participation

The objective is to maximise private sector participation in the retrocession program

ARPC aims to maximise the participation of high credit quality reinsurers in the annual ARPC retrocession program. Each year, ARPC seeks to have more than 15 high credit quality reinsurers[6] participate in the program. ARPC also aims to have more than 50 per cent of retrocession scheme capacity provided by APRA regulated reinsurers.

Figure 6.6: Retrocession Program Detail



[6] Reinsurers who hold a Standard & Poor's long-term rating of A- (or equivalent) or greater.

KPI Three: Compensating Government

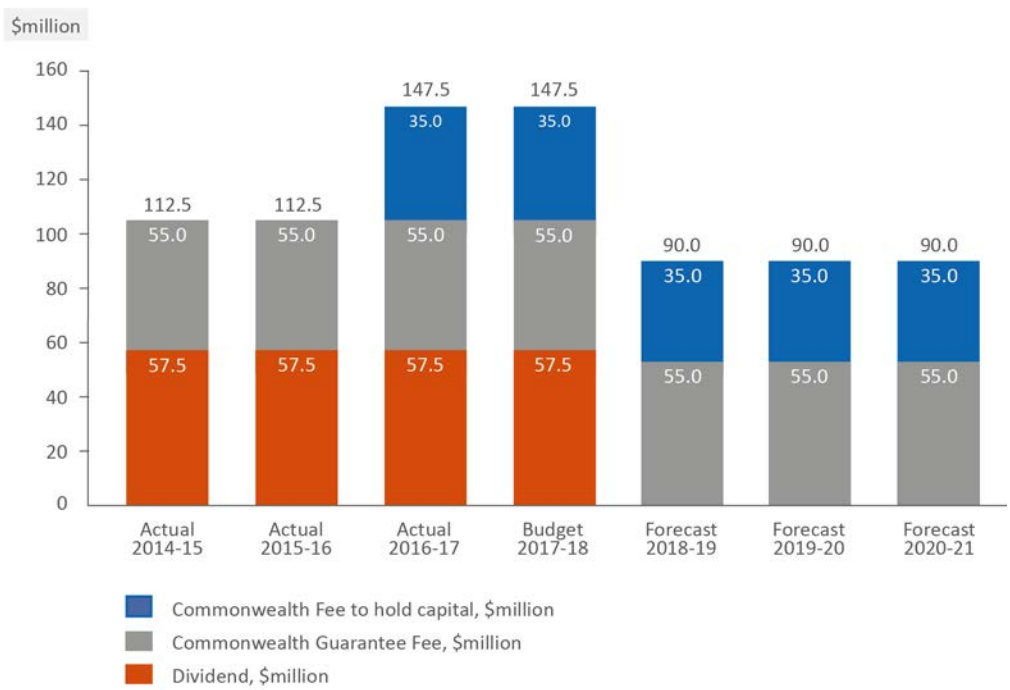
Measure 5: Payments to Government

To meet ARPC's obligations, the target is to deliver the Government payments in each plan period

ARPC pays the Australian Government a fee for provision of the Commonwealth guarantee along with a capital holding fee for the Australian Government's ownership of ARPC. A dividend catch up payment has also been made over the last four years to allow for the initial years of scheme operation where the Australian Government was not compensated for the Commonwealth guarantee (the last catch up dividend of $57.5 million will be paid in 2017/18). These payments are outlined in the Budget Papers and the Mid-Year Economic and Fiscal Outlook, and implemented through Ministerial Direction.

After financial year 2017/18, ARPC is scheduled to compensate the government annually through a $55 million fee for the Commonwealth guarantee plus a $35 million capital holding fee.

Figure 6.7: Payments to Government



KPI Four: Maintain financial sustainability and organisational resilience

Measure 6: Net Assets against ARPC target and minimum capital

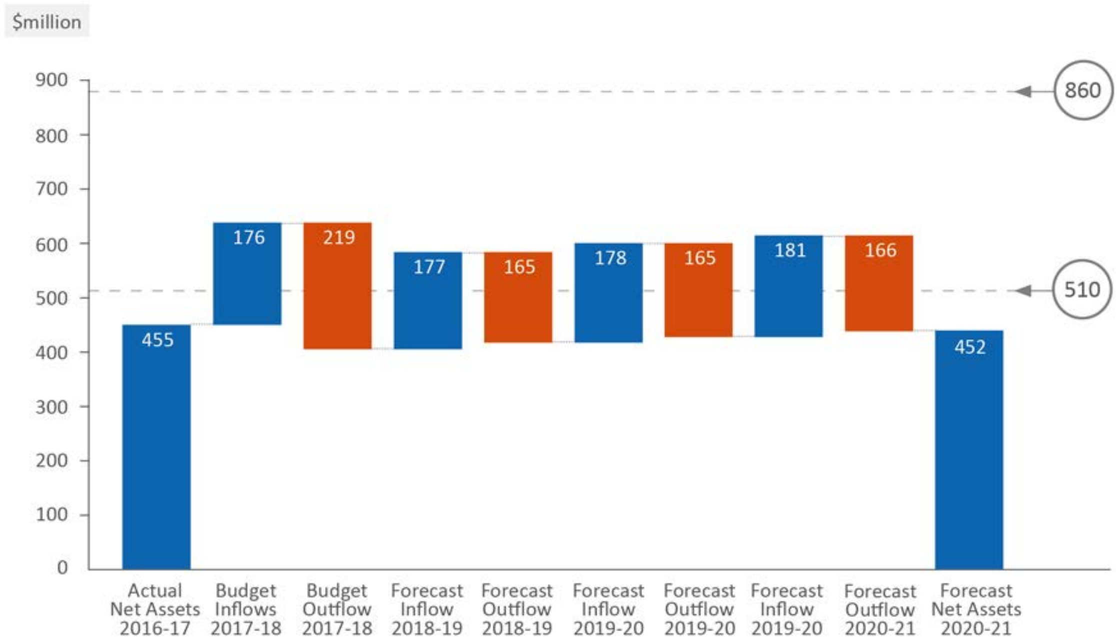
Maintain sufficient net assets to support targets within ARPC's Capital Management Policy

ARPC's Capital Management Policy targets include:

- **Target Capital** is recommended by the Board to be $860 million. This would enable ARPC to fund two retrocession retentions plus one year's GWP to reinstate the retrocession and pay operating costs.
- **Minimum Capital** is recommended by the Board to be $510 million. This represents one retrocession retention plus one year's GWP to reinstate the retrocession and pay operating costs.

Over the period of this Corporate Plan ARPC will be trading below Minimum Capital.

Figure 6.8: Projected Net Assets



Projections assume the following:

- No increase in prices from current rates
- No change to current retrocession deductible of $350 million
- $57.5 million catch-up dividend ceases in FY2018
- Inflows represent premium income, investment income and retro commission income
- Outflows represent payments to the Commonwealth, retrocession premiums and operating expenses

CAPABILITY 07

7. Capability

Workforce capabilities

ARPC is required to conduct reinsurance market operations as well as fulfil governance, risk and compliance obligations. As at 30 June 2017, ARPC had 21 full time staff (ARPC's organisational structure is shown in Appendix C).

ARPC promotes a values-based approach to its workforce and decision-making. ARPC Values place an emphasis on 'Delivering for stakeholders'. ARPC's organisational structure supports a focus on engaging with stakeholders across Australian, State and Territory governments, plus the insurance, reinsurance, investment and property sectors.

ARPC is required to respond to any potential terrorism incident, advise its Minister and Cedants, and subsequently pay eligible claims. Workforce and succession planning is undertaken so that ARPC has high performing staff with the appropriate capabilities to undertake core functions during business as usual periods and in the event of a DTI.

The primary capabilities that exist within ARPC include:

- staff trained to respond to a DTI (e.g. communications, operations, claims handling, customer interaction, corporate governance and security);
- experienced external market liaison staff;
- government regulations expertise;
- financial management expertise;
- communications expertise; and
- technology expertise (to enable delivery).

ARPC aspires to *connect*, *develop*, and *empower* all staff to execute meaningful work (*see Figure 7.1*). Through *connection* staff will build strong relationships internally and externally and create strong links between their role and the strategy, through *development* staff will see their personal and professional skills develop and level of expertise grow and through *empowerment*, staff will see their skills being utilised across the organisation as the business priorities are delivered.

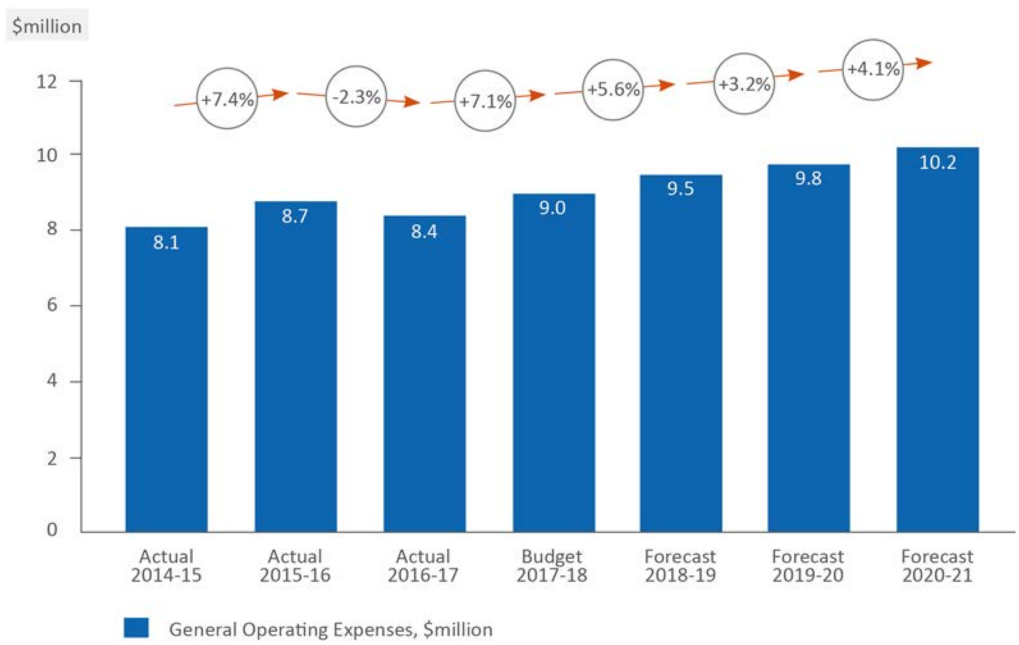
Figure 7.1: ARPC Workforce (connect, develop and empower)

Operating cost efficiency

ARPC's general operating expenses (including acquisition costs and other operating expenses) totalled $8.4 million in 2016-17. This was $0.1 million (1.6 per cent) less than plan and $0.2 million (2.7 per cent) higher than the previous year.

General operating expenses in 2017/18 will be $9.0 million and $0.5 million (5.9%) higher than the previous year budget. The reduction in operating costs in 2016/17 was due to ARPC having a number of vacant positions for approximately half that financial year as the Corporation transitioned to Sydney.

Figure 7.2: General Operating Expenses – Actual, Budget and Forecast 2014/15 to 2020/21



APPENDIX **08**

APPENDIX 08

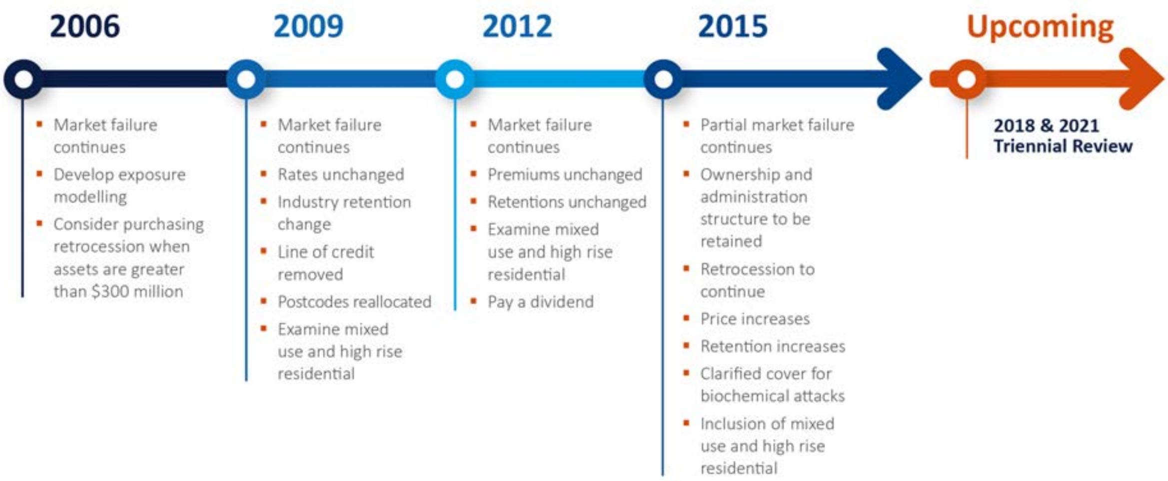
Appendix A

Triennial Review

When ARPC was established, it was uncertain when the private market would return to offer adequate capacity at an affordable price. Section 41 of the TI Act requires that Treasury undertake a review of the operation of the TI Act at least once every three years. Today, there is a heightened threat of terrorist attacks as evidenced by the National Terrorism Threat Advisory System which puts the threat level at 'Probable'. Fourteen years after ARPC was established, successive triennial reviews have recommended that the Corporation and the TI Act continue. The most recent 2015 Triennial review stated that the scheme has matured into at least a medium-term policy response.

Figure 8.1: Past Triennial Review outcomes

The Triennial review tests the existence of market failure at least once every three years, at which point the Minister prepares a report confirming if the Act should continue to operate.



Appendix B

Terrorism Insurance Scheme amendments approved

All of the terrorism scheme changes recommended by the 2015 Triennial Review were operational as at 1 July 2017. These changes extend scheme coverage and enable the scheme to remain fit for purpose. A summary of these changes is outlined in *Figure 8.2.*

Figure 8.2: Scheme changes recommended by the 2015 Triennial Review

Rate increase	**Tier rates increased** effective 1 April 2016 (Tier A from 12% to 16%, Tier B from 4% to 5.3% & Tier C from 2% to 2.6%)
Insurer Retentions	The 4% rate of gross fire and ISR premium to be increased to 5%
Maximum insurer retentions	Maximum **retention** levels for **individual insurers** to be increased to $12.5 million from $10 million*
Increased maximum industry retention	Maximum **industry retention** to be increased from $100 million to $200 million over two years*
Mixed use commercial	Scope expanded to include buildings in which at least **20 per cent of floor space is used for commercial purposes**
High value residential	Scope expanded to include buildings with a **sum-insured value of at least $50 million**, whether used for commercial or other purposes*
Biological & Chemical clarification	Events covered under the scheme clarified to specifically reference losses due to terrorism **attacks that use chemical or biological means***

*Effective 1 July 2017

Additional changes around postcode tiers expected to be implemented 01/01/2018

The Terrorism Insurance Amendment Regulations and Bill 2017 can be viewed on the ARPC website.

Appendix C

Figure 8.3: ARPC Organisational Structure 30 June 2017