Australian Government

Australian Reinsurance Pool Corporation

ARPC 2017–2018

ANNUAL REPORT

Australian Government

Australian Reinsurance Pool Corporation

ARPC 2017 2018

ANNUAL REPORT

ISSN: 2203-2274 (print)

ISSN: 2203-2282 (online)

Chief Operating Officer
Australian Reinsurance Pool Corporation
GPO Box Q1432
Queen Victoria Building, NSW, 1230 Email: enquiries@arpc.gov.au

A copy of this document and other information appears on the Australian Reinsurance Pool Corporation website www.arpc.gov.au

Australian Government

Australian Reinsurance Pool Corporation

25 September 2018

The Hon Stuart Robert MP
Assistant Treasurer
Parliament House
CANBERRA ACT 2600

Dear Minister

I have pleasure in presenting to you the annual report of the Australian Reinsurance Pool Corporation (ARPC) for the year ended 30 June 2018. The report has been prepared under section 46 of the ***Public Governance, Performance and Accountability Act 2013*** (PGPA Act) and in accordance with the ***Public Governance, Performance and Accountability Rule 2014*** (PGPA Rule).

Signed for and on behalf of the members of the Board, as the accountable authority of ARPC and being responsible for preparing and giving the Annual Report to ARPC's Minister in accordance with Section 46 of the PGPA Act.

Yours sincerely

(signature supplied)

Mr Mike Callaghan AM PSM *BEc (Hons) LLB GAICD*
Member

Correspondence to: GPO Box Q1432 Queen Victoria Building NSW 1230
T (02) 8223 6777 | E enquiries@aprc.gov.au
www.arpc.gov.au | ABN 74807136872

CONTENTS

JOINT CHAIR AND CEO REPORT 3
Report of operations declaration 7

1. ARPC'S STRATEGY 11
Introduction 11
Purpose and role 11
Strategic context 11
Strategic priorities 12
Working with ARPC stakeholders 15
Driving advocacy with specialist seminars 16
ARPC's Risk Management Handbook proposal approved by Standards Australia 17

2. THE SCHEME 21
How the ARPC terrorism insurance scheme operates 21
Background to the Scheme 22
2018 Triennial Review 26
How the Scheme is administered 27
Insurer customer review program 31
Statistics 32

3. ANNUAL PERFORMANCE STATEMENT 39
Performance statement summary 41
KPI One: Providing reinsurance for eligible terrorism losses 42
KPI Two: Encouraging private sector participation through retrocession 45
KPI Three: Compensating the Government 46
KPI Four: Maintain financial sustainability 47

4. GOVERNANCE 53
Governance framework 53
Board appointment and remuneration 53
Board members 53
Board meetings 58
Audit and Compliance Committee 58
Corporate governance practices 59
Right to legal advice 59
Confidentiality agreements 59
Indemnity and insurance of directors and officers 59
Judicial and administrative decisions and review 59
Ministerial Directions 60

General policy orders 60
Risk management 60
Internal audit 60
2017-18 Internal Audit program 60
Legislative compliance 61
Public interest disclosure 61
Information Publication Scheme statement 61
Business continuity 61
Fraud prevention and control 61
Consultation arrangements 62
Consultancies 62
Ecologically sustainable development 62

5. ARPC'S PEOPLE 65
Senior executive team 66
Values 68
Staffing information 68
Human Resources 70

6. FINANCIAL STATEMENTS 73
Certification 76
Primary financial statements 81
Overview 85
Notes to the financial statements 87

7. INDEX 113
Acronyms and abbreviations 115
Glossary 116
List of figures 118
Index 120

JOINT CHAIR AND CEO REPORT

Joint Chair and CEO report

Delivering on our purpose

We are pleased to present the 2017-18 annual report, the first financial year under the guidance of Ian Carson AM, Chair. ARPC provides an invaluable service by reinsuring Australia's commercial property insurers against declared terrorism incidents (DTIs). In doing so, ARPC plays an important role in the response phase following a DTI.

During 2017-18, ARPC had funds available for claims of $13.4 billion. This capacity was provided through a combination of ARPC net assets, $3.065 billion of retrocession reinsurance purchased from 68 global reinsurers and the $10 billion Commonwealth guarantee. This resulted in cover being provided to 235 insurer customers[1], totalling approximately $3.7 trillion sum insured.

ARPC plays an important role in protecting Australia from economic losses caused by terrorism catastrophe. In 2017-18, for the first time in almost a decade, ARPC has seen underlying prices rise in the Australian commercial property insurance market, while global capacity available for terrorism risk insurance remains stable.

Due to these market conditions and the inclusion of additional coverage following implementation of recommendations from the 2015 Triennial Review, ARPC experienced an increase in premium income. The total sum insured by ARPC has now increased to approximately $3.7 trillion from $3.6 trillion in the prior period.

From left:
Ian Carson AM Chair, and
Dr Christopher Wallace, CEO

Terrorism threat continues

The period was marked by continuing terrorism threats, with major terrorist attacks occurring in the United Kingdom, France, and the Middle East. Australia was not immune with a foiled attempt to transport an improvised explosive device onto an aircraft departing Sydney.

As in the previous year, many attacks overseas were conducted by lone perpetrators using weapons such as knives, guns or vehicles.

[1] In previous ARPC Annual Reports, the term cedant was used to refer to ARPC's insurer customers.

Increasing private participation in terrorism risk insurance without significant price increases

Terrorism insurance pools like ARPC exist in most major countries and are recognised as the most effective way to provide cost effective terrorism reinsurance to the commercial insurance sector. ARPC is considered a best practice global pool owing to its deep experience with blast and plume loss modelling and strategic use of retrocession, where ARPC purchases reinsurance cover from Australian and global markets.

One of the objectives under the ***Terrorism Insurance Act 2003*** (TI Act) is for ARPC to increase participation from the private insurance market. The 2018 retrocession placement saw ARPC decrease its deductible from $350 million to $285 million and in doing so increase capacity provided by the private global reinsurance market[2]. This participation was increased without a significant increase in price, in a year where multiple major natural catastrophes affected the market, further highlighting the value the pool provides to the Australian terrorism risk insurance market.

ARPC remains value for money against other international pools

The average price of cover for insurers in 2017-18 was 4.9 per cent of premium compared to 4.7 per cent in the previous year. This reflected a full year of higher premium rates implemented from the 2015 Triennial Review.

The annual aggregate retentions (the deductible or excess) held by insurers, averaging $572,000 and ranging up to a maximum of $12.5 million, are low compared to their natural catastrophe retentions.

Insurers covered by ARPC also benefit from liability capping under the TI Act. This limits insurer liability through a legislated reduction percentage for a loss exceeding ARPC's capacity[3].

Moving to 'the Cloud' has seen efficiency gains

During the period, ARPC moved much of its infrastructure and operations into a Cloud environment. This has increased efficiency in the day-to-day operations of ARPC, allowing greater visibility and monitoring of the IT environment and enabling ARPC to take advantage of technological advancements as they occur.

Thought leadership provided to seminar attendees

In October 2017, ARPC was pleased to present its annual terrorism risk insurance seminar covering topics including countering violent extremism, cyber terrorism, homeland security, thwarted attacks and what can be learned from them, and disaster resilience. Attended by more than 100 key stakeholders, the seminar allowed ARPC to provide updated information and encourage an industry voice in a continually changing landscape.

Building strong relationships with stakeholders and new ways to connect

ARPC continued to build strong relationships with the responsible Minister, Government agencies, insurers, reinsurers, and industry, creating opportunities for ARPC to gain deeper insights into areas of interest and opportunities for the year ahead.

ARPC also launched a new website and LinkedIn presence to increase the number of communication channels and effectiveness of external interactions.

2 See 'The Scheme' for further detail on the Scheme structure
3 See 'The Scheme' for further detail on the Scheme structure

Continuing global relationships

The continued support of the OECD High Level Advisory Board for the Financial Management of Large-scale Catastrophes and IFTRIP[4] has extended ARPC's links with global counterparts.

In addition, ARPC was able to participate in the IFTRIP conference and the OECD cyber insurance seminar, both in Paris. These events provided the opportunity to connect with global pools and examined global threats, such as cyber terrorism, from a variety of aspects.

The 2018 Triennial Review will consider cyber terrorism and terrorism incidents causing harm to people

The 2018 Triennial Review has commenced and is committed to reviewing the Scheme, according to legislative requirements. The Review will also consider whether the risk of cyber terrorism causing physical property damage should be included in the Scheme by removing the Scheme Regulations' exclusion for computer crime and overriding policy exclusions for cyber terrorism. Also included in the review is the extent of coverage available for terrorism incidents causing harm to people, including armed assault.[5]

Testing feasibility of greater private involvement

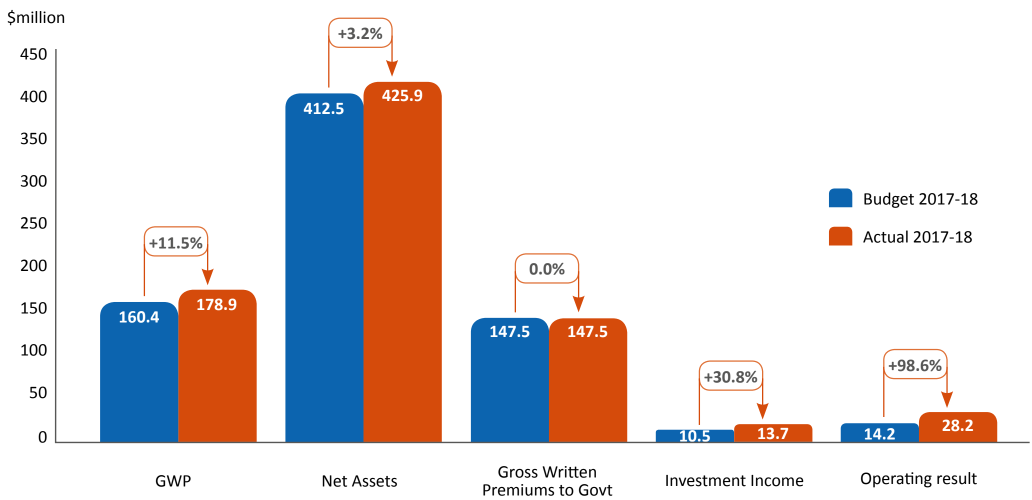
In 2017-18, ARPC committed to undertaking an ownership model feasibility study to examine ownership models. This study will be conducted during the 2018-19 period, taking regard of the varying ownership models of terrorism pools around the world.

Financial performance was better than forecast for 2017-18

ARPC's overall financial performance for 2017-18 was better than expected, with the operating result for the year ending 30 June 2018 at $28.2 million, $14 million better than forecast.

See Figure 0.1 for a summary of key financial metrics. Further detail is available in the Annual Performance Statement which begins on page 39.

Figure 0.1: Summary of key financial metrics 2017-18



4 IFTRIP – International Forum for Terrorism Risk (Re)Insurance Pools

5 See Triennial Review terms of reference for further detail https://treasury.gov.au/consultation/c2018-t285492/

In summary

ARPC continued to implement the 2015 Triennial Review changes, prepared for the 2018 Review, embarked on several stakeholder and organisational projects and implemented several internal programs to increase efficiencies. These programs will position ARPC well to deliver to customers and stakeholders and respond to a DTI[6] event if required.

On behalf of the Board and employees, we appreciate the continuing support of our insurer customers, retrocession reinsurers and property sector stakeholders. We look forward to working with our stakeholder groups in the year ahead.

We are pleased to present the 2017-18 Annual Report.

(signature supplied)

Ian Carson AM

BEc PGDip Professional Accounting FAICD
Chair

(signature supplied)

Dr Christopher Wallace

BEc (Hons) PhD (Econ) ANZIIF (Fellow) CIP GAICD
Chief Executive

[6] See Section 2 'The Scheme' for a full explanation of coverage.

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 2018. This report is made in accordance with a resolution of the Members.

The Members are responsible under section 46 of the PGPA Act for the preparation and content of this report in accordance with the PGPA Rule.

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

(signature supplied)

Mike Callaghan AM PSM

BEc (Hons) LLB GAICD
Member

25 September 2018

(signature supplied)

Janet Torney

BEc (Hons) FAICD FASFA TFASFA
Member and Chair of the Audit and Chair Compliance Committee

25 September 2018

ARPC'S STRATEGY 01


AMP
AMP
CREDIT SUISSE

Introduction

ARPC is a public financial corporation established on 1 July 2003 under the ***Terrorism Insurance Act 2003*** (TI Act) to administer the terrorism insurance scheme (the Scheme). It was established following the terrorist attacks in the USA on 11 September 2001. After this event, there was a global withdrawal of terrorism insurance cover, leaving commercial property in Australia uninsured against terrorist attacks. This market failure reduced access to project funding and commercial refinancing which financially threatened some sectors of the Australian economy.

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

The TI Act prescribes the function of ARPC which is to provide insurance cover for eligible terrorism losses (whether by entering into contracts or by other means) and any other functions prescribed by the regulations.

Under the ***Public Governance, Performance and Accountability Act 2013*** (PGPA Act) ARPC is classified as a corporate Commonwealth entity. This classification means that ARPC is subject to the financial and non-financial reporting requirements of the PGPA Act.

Purpose and role

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.

ARPC remains true to the Scheme's original policy objectives and is focused on creating greater value for stakeholders.[7]

Strategic context

Addressing market failure

ARPC addresses market failure in the Australian commercial property terrorism insurance market through risk sharing and mitigation.

After 15 years of the Scheme and ARPC's operation, a whole-of-market, sustainable, alternative provider of terrorism reinsurance does not exist in Australia or the global market, meaning partial market failure still exists[8]. The reinsurance market has insufficient capacity to offer uniform terrorism risk insurance coverage to the market at affordable prices, a situation unlikely to change in the near term.

The 2015 Triennial Review[9] considered the availability of reinsurance for terrorism risk in detail. It concluded that the availability and pricing of private sector terrorism insurance has improved owing to the low incidence of major terrorism claims, better risk modelling and greater competition among reinsurers. However, there is still a partial market failure.

[7] This Purpose and Role reflects the 2017-18 period. For the period July 2018 onwards, the Purpose and Role has been transitioned into a Vision and Mission that also remain true to the Scheme's original policy objectives.

[8] As stated in the Pottinger report prepared as part of the 2015 Triennial Review.

[9] The TI Act is reviewed every three years by The Treasury to assess the level of market failure and the need for ARPC to continue.

The Pottinger report estimates that terrorism risk reinsurance available to Australian insurers at a reasonable price totals around $4 billion, well below the $13.4 billion of reinsurance cover provided by the Scheme.

International threat environment

The international threat environment for terrorist events has changed dramatically in recent years. Terrorist attacks in London, Manchester and Paris show an increase in the frequency of terrorism. There has also been a growing trend where perpetrators of terrorist acts are individuals who have not previously been on the authorities' radar, but who are unstable and susceptible to rapid radicalisation.

Australian threat context

Australia has seen several terrorist incidents prevented, including lone-perpetrator actions and the attempt to load a chemical bomb onto an aircraft departing Sydney.

On 26 November 2015, the Australian Government launched the National Terrorism Threat Advisory System (NTTAS) to inform the public about the likelihood of an act of terrorism occurring in Australia. NTTAS has five levels to indicate the national threat level as shown in Figure 1.1:

Figure 1.1: National Terrorism Threat Advisory System (NTTAS)

The current NTTAS threat level is Probable, reflecting the intelligence assessment by the National Threat Assessment Centre. Probable means credible intelligence, as assessed by security agencies, indicates individuals or groups have developed the intent and capability to conduct a terrorist attack in Australia. The current level has not been introduced in response to a specific threat.

For more information on the National Terrorism Threat Advisory System and the current level of alert, please visit: **www.nationalsecurity.gov.au/threatlevel**

Strategic priorities

ARPC's 2017-21 Corporate Plan sets out six strategic priorities based on business objectives.

1. Be financially sustainable and organisationally resilient.
2. Ready to respond.
3. Drive stakeholder advocacy.
4. Be a team of high achieving experts.
5. Address coverage gaps.
6. Support and promote terrorism mitigation.

Progress against the 2017-21 Strategic Priorities

ARPC made progress against all six strategic priorities outlined in the 2017-21 Corporate Plan, reflected by four key performance indicator (KPI) areas. These align with ARPC's objectives under the TI Act as per the Explanatory Memorandum:

- KPI One: Providing reinsurance for eligible terrorism losses;
- KPI Two: Encouraging private sector participation through retrocession;
- KPI Three: Compensating the Government; and
- KPI Four: Maintaining financial sustainability.

Figure 1.2: Activities undertaken to progress ARPC's strategic priorities

Strategic priority	2017-2018 Activities and Achievements by KPI Area
Be financially sustainable and organisationally resilient	▪ Purchased 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) ▪ Judiciously managed net assets so ARPC maximises its financial performance. (KPI Area One) ▪ Implemented a holistic Capital Management Policy to support ARPC's financial sustainability. (KPI Area Four) ▪ Produced monthly reporting based on balanced scorecard key performance indicators. (KPI Area One) ▪ Made payments to government as per the current Ministerial Direction. (KPI Area Three) ▪ Updated the IT strategy identifying the future roadmap for IT, including plans for digitisation. *(KPI Area Four) ▪ Transitioned the IT services to 'the Cloud' increasing efficiency and preparing for future IT requirements. *(KPI Area Four) ▪ Prepared for the 2018 Triennial Review. *(KPI Area Two) ▪ Worked with government stakeholders to implement postcode changes effective 1 January 2018. (KPI Area One)
Ready to respond	▪ Conducted multiple tests of the DTI Response Procedure with a view to continuous improvement. (KPI Area Four) ▪ Provided advice to government at the request of the Minister. *(KPI Area Four) ▪ Reviewed and enhanced the claims response plan with a view to continuous improvement. *(KPI Area Four) ▪ Continued development of loss estimate modelling for blasts and biochemical events throughout Australia. *(KPI Area Two)
Drive stakeholder advocacy	▪ Engaged with stakeholders to deepen understanding and develop greater understanding and consensus on the TI Act and Regulations. *(KPI Area Four) ▪ Redesigned and relaunched ARPC's website. *(KPI Area Four) ▪ Delivered the October 2017 Terrorism Risk Insurance seminar with positive stakeholder feedback. *(KPI Area One) ▪ Delivered informative and relevant presentations at industry events, including conferences. (KPI Area Four) ▪ Met with government representatives, insurers and commercial property owners to inform them about scheme coverage. (KPI Area Four) ▪ Completed three research papers with the Institute of Economics and Peace. (KPI Area Four)
Team of high achieving experts	▪ Launched additional ways to engage with ARPC's audience, such as LinkedIn. *(KPI Area Two) ▪ Identified technological tools to increase staff efficiency and effectiveness and their ability to interact with key stakeholders. *(KPI Area Four) ▪ Delivered staff training to develop, connect and empower ARPC's people towards execution of meaningful work. (KPI Area Four) ▪ Engaged all staff in mid-year and year-end performance conversations and appraisals. (KPI Area Four)
Address coverage gaps	▪ Continued to raise awareness of emerging terrorism risks like cyber terrorism. *(KPI Area Four) ▪ Continued to review, identify and educate the market about potential gaps in cover. *(KPI Area Two)
Support and promote terrorism risk mitigation	▪ Initiated a program, in conjunction with Standards Australia, to develop a handbook for Terrorism Risk Mitigation. *(KPI Area Two) ▪ Participated in national and international forums on terrorism and catastrophe insurance and financing. (KPI Area Two) ▪ Participated in the OECD High level Advisory Board. (KPI Area Two)

* Indicated activity crosses multiple KPI areas.

Strategic review for the next reporting period

As part of ARPC's ongoing strategic planning, these priorities have been refined for the 2018-22 period.

Figure 1.3: 2018-22 Strategic Priorities

Vision

To be an effective provider of terrorism risk insurance that facilitates private participation, supports national resilience and reduces losses arising from catastrophic events caused by terrorism.

Mission

- Provide **confidence** to the market, knowing that in the event of a terrorism incident, we will pay claims and deliver on our promise.
- **Support recovery** following a terrorism incident.
- **Provide links** between government and the private insurance market to enhance understanding of insurance risks associated with terrorism incidents.
- Address a **market gap** and provide cover for terrorism insurance cover where it is not available from the private insurance market.
- Lead **international collaboration** on terrorism risk insurance.

Strategic Priorities

- Extend thought leadership and expertise
- Engage, understand and collaborate with stakeholders
- Provide a world class response to terrorism incidents
- Embrace and evolve to a changing market environment
- Enhance and strengthen the resilience and preparedness of our people and organisation

The 2018-22 Corporate Plan is available http://arpc.gov.au/resources-2/publications/corporate-plan/

Working with ARPC stakeholders

ARPC is committed to timely, open communication with stakeholders and strives to understand their needs, meet their expectations, and deliver additional value. During 2017-18, ARPC continued to develop and sustain stakeholder relationships. Regular meetings were held with insurers, major commercial property owners, relevant State and Australian government agencies, and industry associations. ARPC also provided customer advice on reinsurance agreements and insurer premium submissions.

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

- insurer customers;
- retrocessionaires;
- industry bodies;
- Australian Government representatives at local, state and federal levels; and
- state insurance corporations.

Knowledge sharing

ARPC believes that sharing knowledge with stakeholders enhances existing relationships and helps to develop a better understanding of ARPC, the TI Act, and the environment in which ARPC operates. During 2017-18, ARPC representatives attended various industry forums as delegates and presenters, to share information and ideas.

Retrocession renewal discussions also provided an opportunity for ARPC to present the latest information on Australian terrorism risk and the results from the portfolio risk analysis, including blast and plume modelling outcomes.

Communications and publications

ARPC publishes a quarterly electronic newsletter called ***Under the Cover*** aimed at insurer customers and other subscribers to provide information relating to reinsurance cover with ARPC. This includes postcode updates for reporting exposures and other information regarding reinsurance agreement obligations.

ARPC also uses Electronic Direct Mail (eDMs) to communicate with insurer customers about changes to the Scheme, deadlines for returns or submissions and any other relevant information.

Industry involvement

ARPC engages with the Australian and international insurance industries through various forums. Participation in industry events raises stakeholder awareness of the Scheme and provides an opportunity for stakeholders to stay informed about global developments in terrorism risk and insurance. During 2017-18, ARPC attended industry conferences and events including (but not restricted to):

- ARPC Sydney Terrorism Risk Insurance Seminar;
- ARPC market briefing (Sydney) for the 2018 retrocession program;
- OECD Cyber Conference in Paris;
- Reinsurance Discussion Group events;
- NIBA Convention;
- ANZIIF Annual Insurance Industry Awards; and
- Insurance Council of Australia events.

Driving advocacy with specialist seminars

As part of its strategic priority to drive stakeholder advocacy, ARPC runs events and seminars, including the Sydney Terrorism Risk Insurance Seminar held in October 2017.

Approximately 115 people from the insurance/reinsurance industries and government sectors attended the event which was held at NSW Parliament in Sydney. Key Seminar topics included current/emerging terrorism threats, and the terrorism re/insurance market.

The program covered significant trends in terrorism including:

The terrorism threat and how to counter it

- The Attorney-General's Department – Countering Violent Extremism Program.
- Homeland security and disaster resilience – from the Australian Government to local councils.
- The future of Jihadist Terrorism.

What Is the cyber terrorism threat?

- Towards Cyber Terrorism? The evolution of cyber terrorist capabilities.
- A short update: ARPC's Cyber Terrorism Thought Leadership paper.

Insurance/Reinsurance implications

- Thwarted terror attacks and what policymakers and the re/insurance industry can learn from them.
- How the re/insurance industry is responding to terrorism trends.

The Seminar was chaired by Dr Christopher Wallace, ARPC CEO. Speakers included:

- Michael Pennell, ARPC Chief Underwriting Officer;
- Pablo Carpay, Co-ordinator, Countering Violent Extremism, Attorney General's Department;
- Dr Anthony Bergin, Senior Analyst, Australian Strategic Policy Institute;
- Anthony Bubalo, Deputy Director and Research Director, Lowy Institute for International Policy;
- Karina Rodriguez-Diaz, Head of Crisis Management and Cyber Underwriting, HDI Global; and
- Levi West, Director of Terrorism Studies, Australian Graduate School of Policing and Security, Charles Sturt University.

In a follow-up survey, the resulting sentiment from respondents was that the Seminar was 'excellent'.

This was the second such event hosted by ARPC and followed the very successful 2016 ***ARPC-OECD Terrorism Risk Insurance Conference*** held in Canberra.

ARPC's Risk Mitigation Handbook proposal approved by Standards Australia

ARPC has a strategic role in supporting and promoting terrorism risk mitigation and providing a world class response to terrorism incidents.

In 2018, ARPC submitted a proposal to peak standards development body Standards Australia for the development of a new Handbook to support proactive risk management of large-scale infrastructure (commercial buildings).

Standards Australia approved the proposed ***Physical Protective Security Treatments for Buildings Handbook***. Expected to be completed in late 2019, the Handbook will provide thought leadership in risk mitigation for extreme malicious damage events.

The Handbook will be used across Australia to help business owners and operators assess risks and plan and implement treatment measures to protect valuable assets against terrorist attacks and other malicious acts.

By referencing existing standards, ISO documents, Australian Government advice and industry expertise, use of the Handbook will facilitate improved risk assessment, prevention and treatment methodologies for physical security risks to businesses.

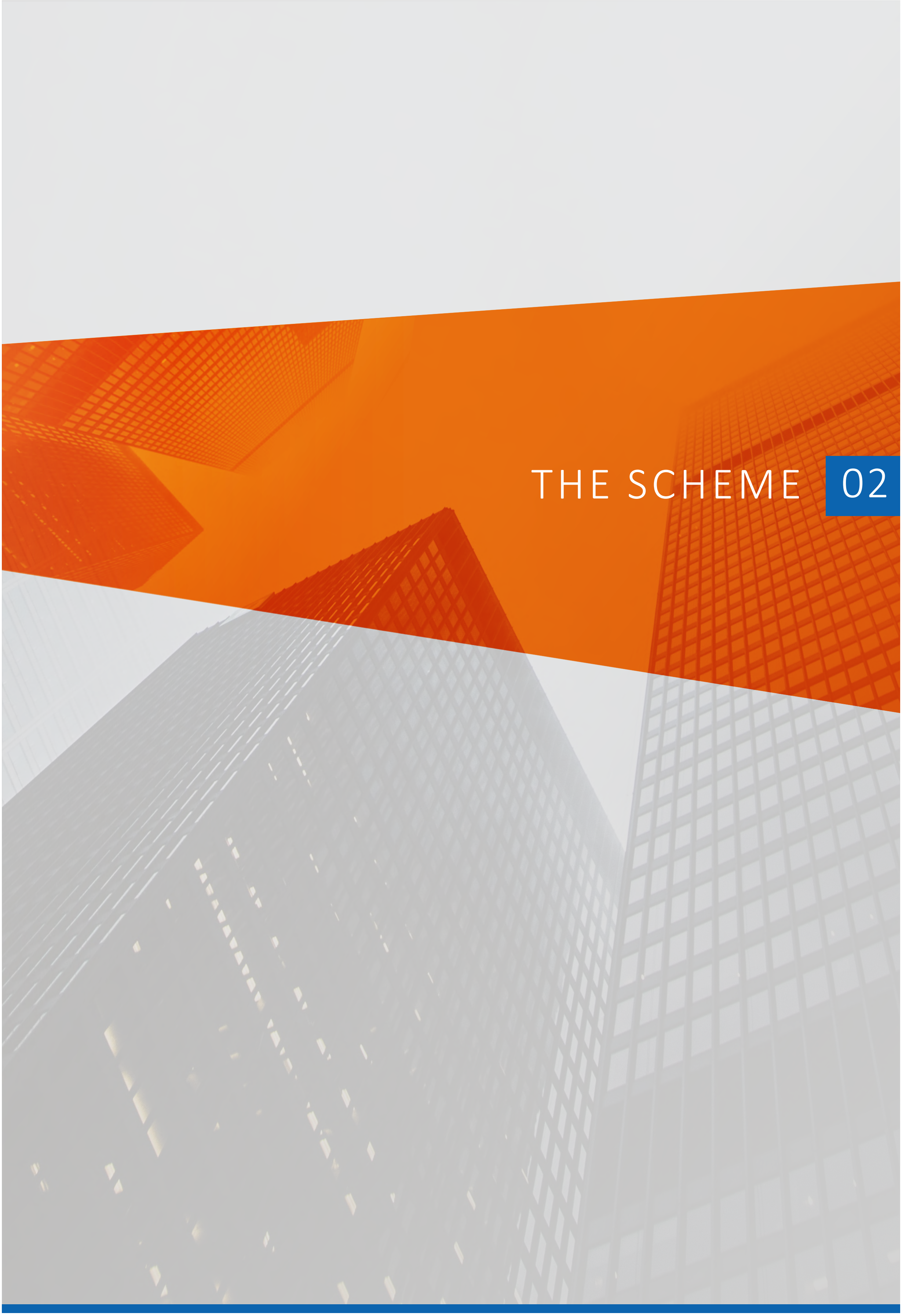
In addition to supporting owners and operators of commercial buildings, the Handbook will benefit a wide range of audiences who share a vision to elevate current risk mitigation practices into one document.

The Handbook will improve risk mitigation by increasing opportunities for ARPC's insurer customers to play an active role in dynamic risk assessments by providing a modern guide to prevention and treatment methodologies for physical security risks.

Australian industry stakeholders and representative bodies across insurance (including brokers and insurers), commercial property, facilities management, events management, local government, fire services and national security supported the proposal. These industry supporters not only acknowledged the Handbook's value but volunteered their expertise and ongoing participation in the development project.

The introduction of the Handbook will not initiate any changes to the TI Act.

THE SCHEME 02




ANZ

This section outlines the background to the Scheme, its key operations and key statistics.

How ARPC's terrorism insurance scheme operates

The Minister, in consultation with the Attorney-General, determines whether a terrorist incident has occured in Australia. They do so through the application of a consistent definition of terrorism, one used across Australian Government legislation, which draws on the meaning of a terrorist act contained in the Criminal Code. Once that determination has been made, the Minister will announce a Declared Terrorism Incident (DTI) under section 6 of the ***Terrorism Insurance Act 2003*** (TI Act). Upon that declaration, the provision of the TI Act in respect of eligible terrorism losses becomes effective and renders terrorism insurance exclusion clauses in eligible contracts of insurance invalid.

Through the ARPC terrorism insurance pool (the Scheme), insurers have three options. They can:

- carry the underwritten risk of terrorism losses following a DTI; or
- reinsure the risk through the commercial insurance market, paying terrorism reinsurance premiums; or
- reinsure with ARPC by entering into a reinsurance contract and paying terrorism reinsurance premiums.

If an insurer chooses to reinsure the risk of claims for eligible terrorism losses following a DTI with ARPC, they do so by paying reinsurance premiums to ARPC. Similar arrangements with some government involvement exist in most major economies through terrorism reinsurance pools.

Commercial businesses that are insured with ARPC's insurer customers and which hold eligible insurance policies are covered by the Scheme in the event of a DTI. Insurers are required to meet claims in accordance with the other terms and conditions of individual policies.

Scheme coverage excludes loss or liability arising from the hazardous properties of nuclear fuel, material or waste or contents of residential property not identified as eligible property. Farms can obtain cover if they hold insurance against business interruption.

Insurer and industry retentions apply before claiming against the Scheme. Claims against the Scheme will be met once an individual insurer's retention (the deductible or excess) is exhausted. In this way, and in line with good risk management practices, the Scheme requires insurers to retain the first portion of any loss.

ARPC's pool of retained earnings is used to pay claims up to the agreed private retrocession deductible ($285 million for the 2018 calendar year). At this point, claims are funded by the retrocession program.

Once retrocession is exhausted, claims continue to be paid by the Commonwealth guarantee. These claims may have a reduction percentage applied if overall claims will exceed the $10 billion limit of the Commonwealth guarantee as legislated in the TI Act. If insurer customers are not reinsured with ARPC, then they are liable for the cost of claims resulting from the DTI on all eligible policies up to their pre-existing policy limits.

The Scheme funding capacity is the total value of the Scheme, which at 30 June 2018 stood at $13.4 billion. The benefits of the Scheme include efficient pooling of risk for terrorism catastrophe when capacity is limited and prices are high (as occurred following the terrorism events in the United States of America in September 2001). Since then, ARPC has begun the gradual transfer of risk back to the global reinsurance market. This is in line with incremental increases in global terrorism insurance capacity, thus reducing reliance on the Commonwealth guarantee in the event of a DTI.

Background to The Scheme

Significant commercial and financial difficulties resulted from insurance and reinsurance companies' withdrawal of coverage for terrorism risk following the events in September 2001. With a large pool of assets uninsured for terrorism risk, financiers and investors faced uncertainty that could have resulted in adverse economic circumstances, delayed commencement of investment projects and altered portfolio management decisions going forward. For these reasons, the Government's response was to create the TI Act which attracted bipartisan support.

In July 2003, the TI Act stipulated a scheme that provides terrorism cover on eligible insurance contracts (the Scheme) and established the Australian Reinsurance Pool Corporation (ARPC) to administer it.

ARPC's functions of corporation under section 10 of the TI Act are:

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 activities that ARPC undertakes to support the functions of corporation include:

- maintaining, to the greatest extent possible, private sector involvement;
- appropriately pricing and compensating the Australian Government for any risk transferred to it;
- allowing for the re-emergence of commercial markets for terrorism risk cover; and
- responding to global solutions.

Scheme coverage

The total capacity of the Scheme at 30 June 2018 stood at $13.4 billion including all sources of funding (see *Figure 2.1*, Scheme funding layers).

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; or
  - » inability to use eligible property, or part of eligible property, that is owned or occupied by the insured; and
- 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:

- buildings (including fixtures) or other structures or works on, in or under land (roads, tunnels, dams and pipelines are examples of eligible property);
- tangible property that is located in, or on, such property; and
- property prescribed by regulation.

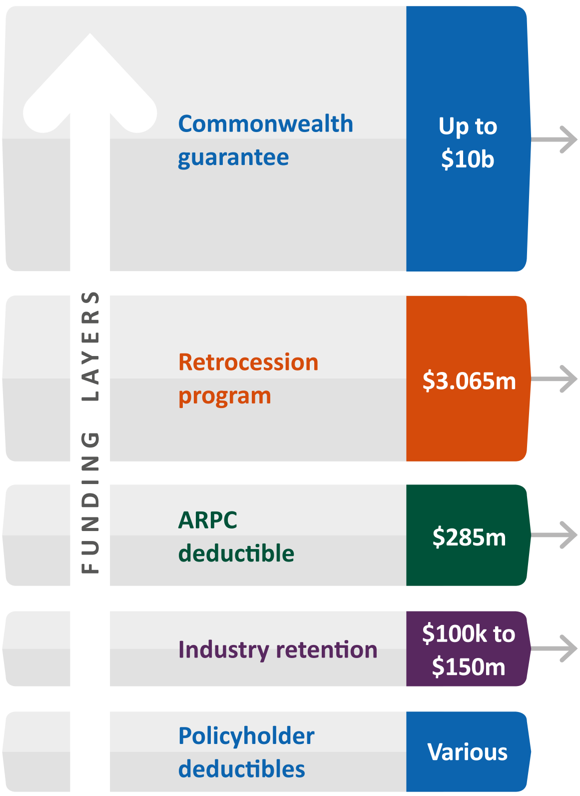
Among the Scheme's exclusions are:

- loss or liability arising from the hazardous properties of nuclear fuel, material or waste;
- residential property or the contents of residential property, except those covered under the mixed use commercial and residential properties;
- high value residential buildings insured for less than $50 million;
- farms, unless they hold insurance against business interruption;
- life insurance policies that fall within the meaning of section 9 of the ***Life Insurance Act 1995***); and
- contracts of insurance to the extent that they provide cover for loss arising from computer crime.

Scheme funding capacity

As at 30 June 2018, ARPC provided insurers with a claims funding capability of $13.4 billion in reinsurance capacity, comprising ARPC's net assets, retrocession and the Commonwealth guarantee. Since 2009, ARPC has placed an annual retrocession program, purchasing just over $3 billion in capacity through more than 60 reinsurers rated A- or better by Standard & Poor's or AM Best, many of which are located overseas.

*Figure 2.1**: ARPC funding layers for terrorism claims from all sources[10]



Commonwealth guarantee: This is a solvency guarantee for ARPC, which is limited to $10 billion as per the *Terrorism Insurance Act 2003*.

Retrocession program: This layer of funding is sourced from the commercial reinsurance market. It is mostly placed as multi-year agreements.

ARPC deductible: This is funded from ARPC net assets.

Industry retention: This is the aggregate of the treaty retentions of all insurers involved in a single event.

*as at 30 June 2018

[10] As of 1 July 2018, the maximum industry retention increased from $150 million to $200 million. As at 1 January 2018 the ARPC deductible reduced from $350 million to $285 million.

The funding order for terrorism claims against the Scheme is in layers, as follows:

1. policyholder deductible (the excess or retention stated in the underlying policy);
2. insurer retention (retention stated in ARPC's reinsurance agreement with insurer customers) up to a maximum industry retention (total retention from all insurer customers involved in one event);
3. a $285 million ARPC retrocession deductible;
4. retrocession capacity of $3.065 billion; and
5. a Commonwealth guarantee of up to $10 billion.

Reduction percentage

A reduction percentage must be specified if the Minister considers that, in the absence of a reduction percentage, the total amounts paid or payable by the Australian Government under section 35 of the TI Act (including amounts not related to the act or acts specified in the declaration) would be more than $10 billion.

By notice in the Australian Government Gazette, the Minister may vary the reduction percentage, but only by making it smaller and the percentage may be varied more than once. Once the reduction percentage is applied, insurers covered by ARPC would have no liability for any costs above their retention (regardless of sums insured) and eligible policyholders would receive a reduced claim payment from their insurer. After the reduction percentage figure announcement, the Australian Government can decide to revise this figure (to decrease it) which would increase claims payments to policyholders.

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

2018 Triennial Review

Given global market uncertainty at the time of ARPC's establishment, a requirement was written into the TI Act that the Minister provide a report every three years reviewing the need for the TI Act to continue. Under the terms of reference for each review, the Treasury was to seek submissions from, and consult widely with, ARPC's key stakeholders.

To date, there have been five reviews undertaken and published, each examining the operation of the TI Act in the context of contemporary market trends and how the governments of other countries have responded to this market failure.

In April 2018, the Australian Government announced the terms of reference for the 2018 Review of the TI Act, stating that The Treasury was to report to the Minster 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;
- whether scheme pricing could be enhanced to recognise and reward risk mitigation;
- whether there should be a threshold level of losses to eligible property before commencing the process to declare a terrorist incident for the purposes of the TI Act;
- whether the strategic settings for the Scheme design remain appropriate including:
    - » the appropriate level of payments to Government for fees for the Commonwealth guarantee and dividends to Government as the Scheme owner;
    - » the appropriate level of net assets to be retained by ARPC to pay first losses and the retrocession reinsurance deductible;
    - » whether the overall level of scheme pricing remains appropriate; and
- any other matters that The Treasury considers important to the operation of the Scheme.

The responsible Minister, on the recommendation of the Treasury, has included the following emerging issues in the 2018 Triennial Review:

- whether the risk of cyber terrorism causing physical property damage should be included in the Scheme by removing the Scheme regulations exclusion for computer crime and by over-riding policy exclusions for cyber terrorism; and
- the extent of coverage available for terrorism incidents causing harm to people including armed assault.

How the scheme is administered

Premiums

ARPC's premium and investment income is used to:

- fund its operations;
- pay retrocession premiums;
- build the reserve available to meet claims; and
- pay any fees and dividends to the Australian Government for the provision of the Commonwealth guarantee.

The premium charged by ARPC for reinsurance is determined by Ministerial Direction. The tier rates charged by ARPC are shown below.

Figure 2.2: Tier rates

Premium Tier	Current rate
A	16% of gross base premium
B	5.3% of gross base premium
C	2.6% of gross base premium

The premium tiers have been set by postcode, having regard to the population density in a postcode area. Figure 2.3 illustrates the breakdown of the three premium tiers and the broad geographical location to which they relate.

Figure 2.3: Tier and broad geographical location

Premium Tier	Geographical location
A	Major CBD areas of Australian cities (Sydney, Melbourne, Brisbane, Perth and Adelaide)
B	Urban areas of all Australian state and territory cities with a population usually exceeding 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, Darwin, Cairns and Toowoomba)
C	Australian postcodes not allocated to either tier A or B and representing a physical address, as well as any property not on the mainland of Australia or Tasmania, but within the coastal sea of Australia

Reinsurance premiums payable by insurers to ARPC are calculated as a percentage of the premium charged by insurer customers for eligible insurance contracts. The Scheme provides for tier rates to be adjusted following a claim on the Scheme, enabling ARPC to meet its outstanding claims liabilities and rebuild the claims reserve within an acceptable timeframe.

Retrocession placement

ARPC's retrocession program continues to provide the following benefits:

- increases overall scheme capacity;
- positions the Australian Government further away from the risk of terrorism losses under the Scheme;
- reduces the likelihood that a reduction percentage will be required;
- facilitates inflow of foreign funds to rebuild Australian assets following a terrorism incident; and
- encourages the return of the commercial terrorism insurance and reinsurance market for Australian risks.

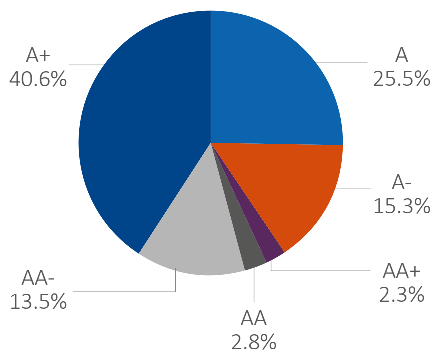
The retrocession program renews on 1 January each year. The 2018 placement now includes $2 billion of capacity written on a multi-year agreement, up from $1 billion in 2017, written on a multi-year agreement to reduce pricing volatility for ARPC and its retrocessionaires. The multi-year agreement allows adjustment if ARPC's portfolio changes by more than 10 per cent year on year or cancellation if ARPC's forecast premium income[11] reduces by 10 per cent or more.

Figure 2.4: Retrocession program detail

$	Multi-year 2017/18/19	Multi-year 2018/19/20	Single year 2018
3.35 bn	Commonwealth Guarantee $10 bn		
1.5 bn	1.85 bn xs 1.5 bn 33.340% of layer	1.85 bn xs 1.5 bn 34.000% of layer	1.85 bn xs 1.5 bn 32.660% of layer
500 m	1 bn xs 500 m 33.334% of layer	1 bn xs 500 m 35.000% of layer	1 bn xs 500 m 31.666% of layer
285 m	150 m xs 350 m 33.339% of layer	215 m xs 285 m 35.000% of layer	215 m xs 285 m 31.661% of layer
	Underlying 65 m xs 285 m		
0	Retention $285m		

There are currently 68 participants in the retrocession program drawn from the Australian, Lloyds, European, Bermudian, USA and Asian markets. ***Figure 2.5*** illustrates the split of retrocessionaires by their Standard & Poor's credit rating.

Figure 2.5: Retrocession program counterparty credit rating CY 2017.



The 2018 $3.065 billion (2017: $3.0 billion) retrocession program was placed in three layers in excess of $285 million (2017: $350 million). Losses in excess of the retrocession program are covered by the Commonwealth guarantee.

Retrocession is placed on a calendar year basis from 1 January. The retrocession premium expense incurred for the 12 months to 30 June 2018 totalled $62.4 million gross (compared with $61.5 million in 2016-17). The total retrocession commission income recognised by ARPC for 2017-18 was $6 million (2016-17: $6 million).

[11] In the Financial Statements premium income is shown as premium revenue.

ARPC modelling capabilities

ARPC has access to world class modelling through its collaboration with Geoscience Australia (GA), Australia's public-sector geoscience organisation.

Three-dimensional blast model

ARPC uses its insurer customers' sum insured aggregate figures in the three-dimensional (3D) blast model, developed in collaboration with GA. ARPC's 3D blast model is intended to accurately analyse pressure waves and resulting damage from blasts in all Tier A locations.

The blast model includes the most built-up CBD areas of Sydney, Melbourne, Brisbane, Adelaide and Perth, with multi-location analysis conducted in those cities to review expected losses from different sized charges.

Plume model

ARPC, in collaboration with GA, maintains its capability to analyse exposure and potential damage from the release of a biological or chemical agent in Sydney and Melbourne CBDs. This capability draws on the expertise of several government agencies including GA, the Bureau of Meteorology, Defence Science and Technology Group and the Australian Federal Police, as well as external consultants.

ARPC regularly analyses various plume scenarios and extended this in 2017-18 to include mobile drone delivery systems of selected agents in Sydney and Melbourne.

GA forms an integral part of ARPC's blast and plume analytical capability. ARPC plans to enter a new three-year maintenance and development program for 2018-21 to keep both models current and fulfil ARPC's needs.

Exposure risk management

A key Australian Government expectation is that ARPC will be able to advise the responsible Minister of the estimated insured losses (under the Scheme) in the event of a DTI. This estimate will be used to inform the calculation of an appropriate reduction percentage.

To address this issue, ARPC implemented a strategy to develop its capability to:

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

Global terrorism reinsurance pools

Many foreign governments and insurance markets have introduced insurance pools with government participation. Some were created in response to the events of 11 September 2001, while others were established in response to specific terrorist or war threats within each country.

Terrorism insurance pools are the global standard approach to providing cost effective reinsurance for terrorism catastrophe. *Figure 2.6* lists the international insurance pools in place today.

Figure 2.6: Terrorism reinsurance pools

Source: International Forum of Terrorism Risk Reinsurance Pools (IFTRIP)

Country	Terrorism reinsurance pool
Australia	Australian Reinsurance Pool Corporation (ARPC)
Austria	Österreichischer Versicherungspool zur Deckung von Terrorrisiken (The Austrian Terror Pool)
Bahrain	The Arab War Risks Insurance Syndicate (AWRIS)
Belgium	Terrorism Reinsurance & Insurance Pool (TRIP)
Denmark	Danish Terrorism Insurance Scheme
Finland	Finnish Terrorism Pool
France	Gestion de l'Assurance et de la Réassurance des risques Attentats et actes de Terrorisme (GAREAT)
Germany	Extremus Versicherungs-AG
Hong Kong-China	The Motor Insurance Bureau (MIB)
India	The General Insurance Corporation of India
Indonesia	Indonesian Terrorism Insurance Pool
Israel*	Terrorism (Intifada Risks)-The Victims of Hostile Actions
Namibia	Namibia Special Risks Insurance Association (NASRIA)
Netherlands	De Nederlandse Herverzekeringsmaatschappij voor Terrorismeschaden (NHT)
Northern Ireland	Criminal Damage Compensation Scheme Northern Ireland
Russia	Russian Anti-Terrorism Insurance Pool (RATIP)
South Africa	South African Special Risks Insurance Association (SASRIA)
Spain*	Consorcio de Compensacion de Seguros (CCS)
Sri Lanka	SRCC/ Terrorism Fund-Government
Switzerland	Terrorism Reinsurance Facility
Taiwan	Taiwan Terrorism Insurance Pool
United Kingdom	Pool Reinsurance Company Limited (Pool Re)
United States	Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA)

*denotes Compulsory Pool

Insurer customer review program

ARPC undertakes insurer customer reviews on a regular basis. These reviews verify that insurer customers are meeting their obligations under ARPC's reinsurance agreement. The following table details the number of reviews conducted over the past four years.

Figure 2.7: Number of ARPC insurer customer reviews

Type of review	2014-15	2015-16	2016-17	2017-18
Full review	10	42*	27**	35*
Follow up review	12	14	9	16
Total	**22**	**56**	**36**	**51**

* Includes reviews on 24 Singapore-based captive insurers which are only reviewed every other period.

** Includes reviews on Lloyd's syndicates

Insurer customers review trends

Most insurer customers were found to have high levels of compliance. ARPC has observed and addressed the following items in some reviews:

- out of date postcode tables;
- back-calculation of gross written premium (GWP);
- terrorism exclusion clauses that are ambiguous or which could have unintended consequences;
- incorrectly considering insurance contracts which contain a terrorism sub-limit to be ineligible under the TI Act;
- incorrect calculation of premium that contain broker commission which results in over or under payment of premium;
- incorrect calculation on premium that contains Withholding Tax (WHT) resulting in over or under payment of premium;
- paying premium on ineligible insurance contracts, for example, Community Housing where commercial floor space is less than 20 percent; and
- staff turnover leading to a lack of understanding around ARPC processes.

ARPC is committed to working with insurer customers to reduce the incidence of these issues.

Statistics

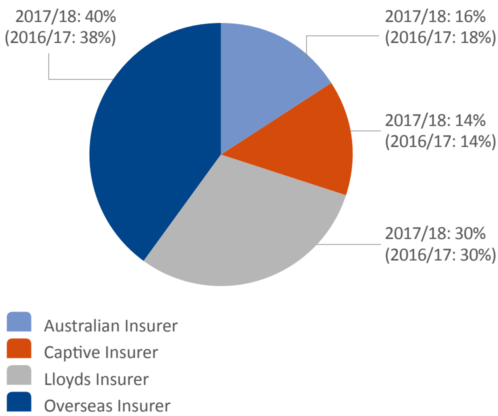
Active insurer customers' reinsurance agreements

ARPC's active reinsurance agreements (or treaties) with insurer customers decreased to 235 in 2017-18, compared to 239 in 2016-17.

The percentage split between each of the categories is illustrated in ***Figure 2.8*** below:

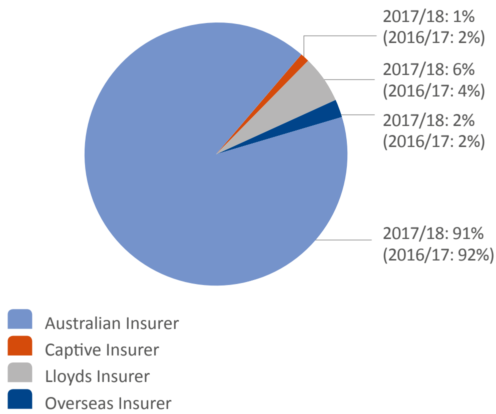
The Gross Written Premium (GWP) trend reported by insurer customers is measured by insurer customer type, premium by tier, premium by state and premium by business class. ***Figure 2.9*** illustrates the GWP by insurer customer type.

Figure 2.8: Active client reinsurance agreements*



*as at 30 June 2018

Figure 2.9: ARPC gross written premium by insurer customer type



Figures 2.10, 2.11 and ***2.12*** illustrate that the GWP by tier, state and business class between 2011 and 2018 has remained stable with the majority of exposures observed in Tier B followed by Tier C.

Figure 2.10: ARPC gross written premium by tier

	Actual				
	2017-18 %	2016-17 %	2015-16 %	2014-15 %	2013-14 %
Tier A	21%	19%	19%	18%	18%
Tier B	57%	57%	56%	56%	56%
Tier C	22%	24%	25%	26%	26%
Total GWP $'000	180,265*	158,697	130,602	128,608	126,707

* The premium revenue for the 2017-18 underwriting year of $180 million is the amount as at 09 August 2018

Figure 2.11: ARPC Gross written premium by state

	Actual				
	2017-18 %	2016-17 %	2015-16 %	2014-15 %	2013-14 %
NSW	32.0%	30.7%	31.9%	31.8%	30.3%
VIC	24.9%	24.5%	23.1%	22.5%	22.4%
QLD	20.1%	20.2%	20.6%	20.3%	21.5%
WA	12.2%	13.2%	13.3%	14.4%	14.2%
SA	7.0%	7.4%	7.1%	7.1%	7.5%
TAS	1.3%	1.4%	1.5%	1.3%	1.3%
NT	1.3%	1.4%	1.3%	1.5%	1.6%
ACT	1.2%	1.2%	1.2%	1.1%	1.2%
Total GWP $'000	180,265*	158,697	130,602	128,608	126,707
Cumulative total $'000	1,762,271	1,582,006	1,423,309	1,292,707	1,164,099

* The premium revenue for the 2017-18 underwriting year of $180 million is the amount as at 09 August 2018

Figure 2.12: ARPC gross written premium by business class (actual)

	Actual				
	2017-18 %	2016-17 %	2015-16 %	2014-15 %	2013-14 %
Fire/ISR/BI	85%	85%	84%	83%	83%
Contract Works	8%	6%	7%	8%	7%
Burglary	3%	4%	4%	4%	4%
Miscellaneous Accident	1%	2%	2%	2%	2%
Mobile Plant	2%	2%	2%	2%	3%
Glass	1%	1%	1%	1%	1%
Farm	0%	0%	0%	0%	0%
Total GWP $'000	180,265*	158,697	130,602	128,608	126,707
Cumulative total $'000	1,762,271	1,582,006	1,423,309	1,292,707	1,164,099

* The premium revenue for the 2017-18 underwriting year of $180 million is the amount as at 09 August 2018

Insurance premium report

Figure 2.13 shows that the annual growth in ARPC premium revenue since 2010 is similar to the growth in insurer customer GWP and aggregate sum insured. This steady growth is indicative of ARPC's portfolio which mainly consists of insurance policies covering commercial (non-corporate) risks and small-to-medium enterprises (SMEs).

Figure 2.13: Insurance risk report, as at 30 June 2018 by underwriting year

Underwriting year	ARPC premium revenue ($ million)	Insurer customer sum insured ($ million)	Insurer customer GWP $ million)	ARPC premium as % of GWP
2010-11	112.0	2,963,560	3,159.2	3.5%
2011-12	124.7	3,080,062	3,517.8	3.5%
2012-13	129.9	3,009,662	3,712.6	3.5%
2013-14	126.7	3,114,901	3,611.2	3.5%
2014-15	128.6	3,425,056	3,663.0	3.5%
2015-16	130.6	3,593,017	3,504.1	3.7%
2016-17	158.7	3,681,649	3,367.1	4.7%
2017-18	180.3*	**	3,706.3	4.9%

* The premium revenue for the 2017-18 underwriting year of $180 million is the amount to 30 June 2018 as at 09 August 2018

** The 2017-18 risk reports are submitted into RISe from July 2018 to September 2018. Therefore, this information is not available as at 30 June 2018.

Figure 2.14 shows the breakdown of premium income and sum insured by tier, indicating that ARPC's exposure is mostly located within Tier B, closely followed by Tier C. This is consistent with ARPC's portfolio being mainly 'business package' risks located in suburban areas followed by ISR policies in rural areas.

Figure 2.14: Insurance risk report for 2016–2017 by tier, as at 30 June 2018

Tier	ARPC premium revenue ($ million)	Insurer customer sum insured ($ million)	Insurer customer GWP ($ million)	ARPC premium as % of GWP
A	30.5	418,091	192.0	15.9%
B	90.7	1,965,622	1,720.4	5.3%
C	37.5	1,297,937	1,454.7	2.6%
Aggregated	**158.7**	**3,681,650**	**3,367.1**	**4.7%**

Figure 2.15 indicates that the vast majority of ARPC's exposure is in New South Wales, Victoria and Queensland. Much of the premium income is derived from NSW, followed by Victoria, due to the higher volume of risks located in Tier B.

Figure 2.15: Insurance risk report for 2016–17 by state, as at 30 June 2018

State	ARPC premium revenue ($ million)	Insurer customer sum insured ($ million)	Insurer customer GWP ($ million)	ARPC premium as % of GWP
NSW	48.7	1,149,169	958.3	5.1%
VIC	38.8	812,643	747.7	5.2%
QLD	32.0	812,389	740.2	4.3%
WA	21.0	516,855	526.7	4.0%
SA	11.8	212,707	224.3	5.3%
NT	2.2	48,934	63.0	3.5%
TAS	2.2	73,370	67.5	3.3%
ACT	1.9	55,583	39.3	4.9%
Aggregated	**158.6**	**3,681,650**	**3,367**	**4.7%**

Aggregate sum insured reports

ARPC's reinsurance agreement requires each insurer customer to provide an annual aggregate sum insured report by September each year. The report summarises the aggregate sums insured amounts at postcode level for all postcodes and at street address level for the five main central business district Tier A locations as at 30 June. The information is uploaded by insurer customers 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.

Figures 2.16, 2.17 and ***2.18*** provide an overview of ARPC's total exposure based on information provided by insurer customers as at 30 June 2018.

Figure 2.16: Aggregate sum insured amounts by tier

	2016-17 $ trillion	2015-16 $ trillion	2014-15 $ trillion	2013-14 $ trillion
Tier A	0.4	0.4	0.3	0.3
Tier B	2.0	1.9	1.8	1.6
Tier C	1.3	1.3	1.2	1.2
Total aggregate sum insured $ trillion	3.7	3.6	3.3	3.1

Figure 2.17: Percentage of aggregate sum insured held by tier 2016-2017

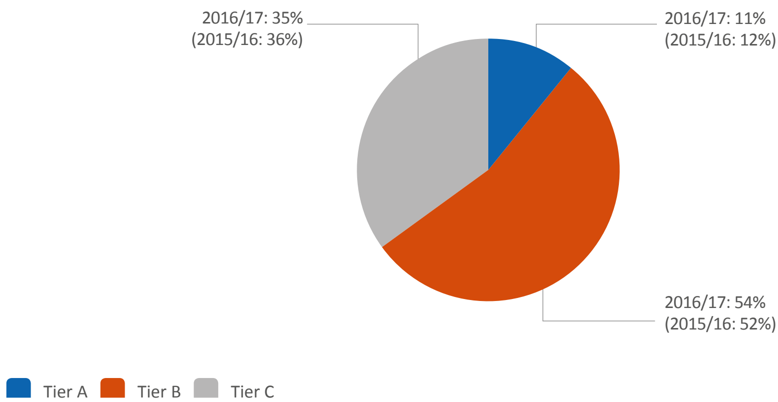
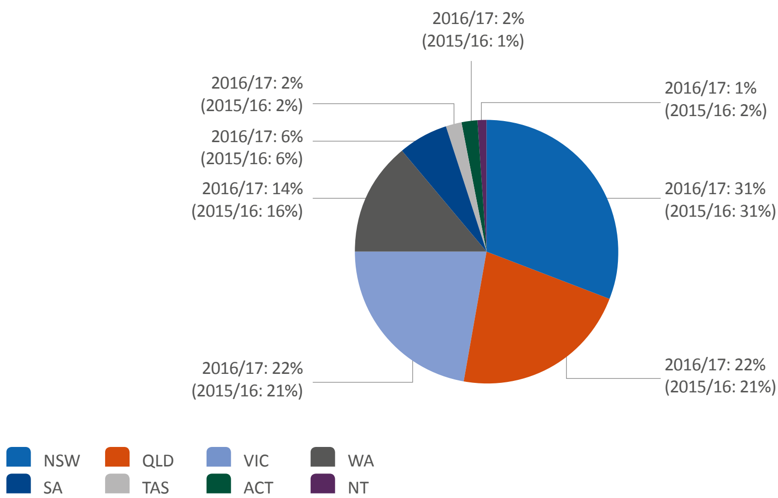
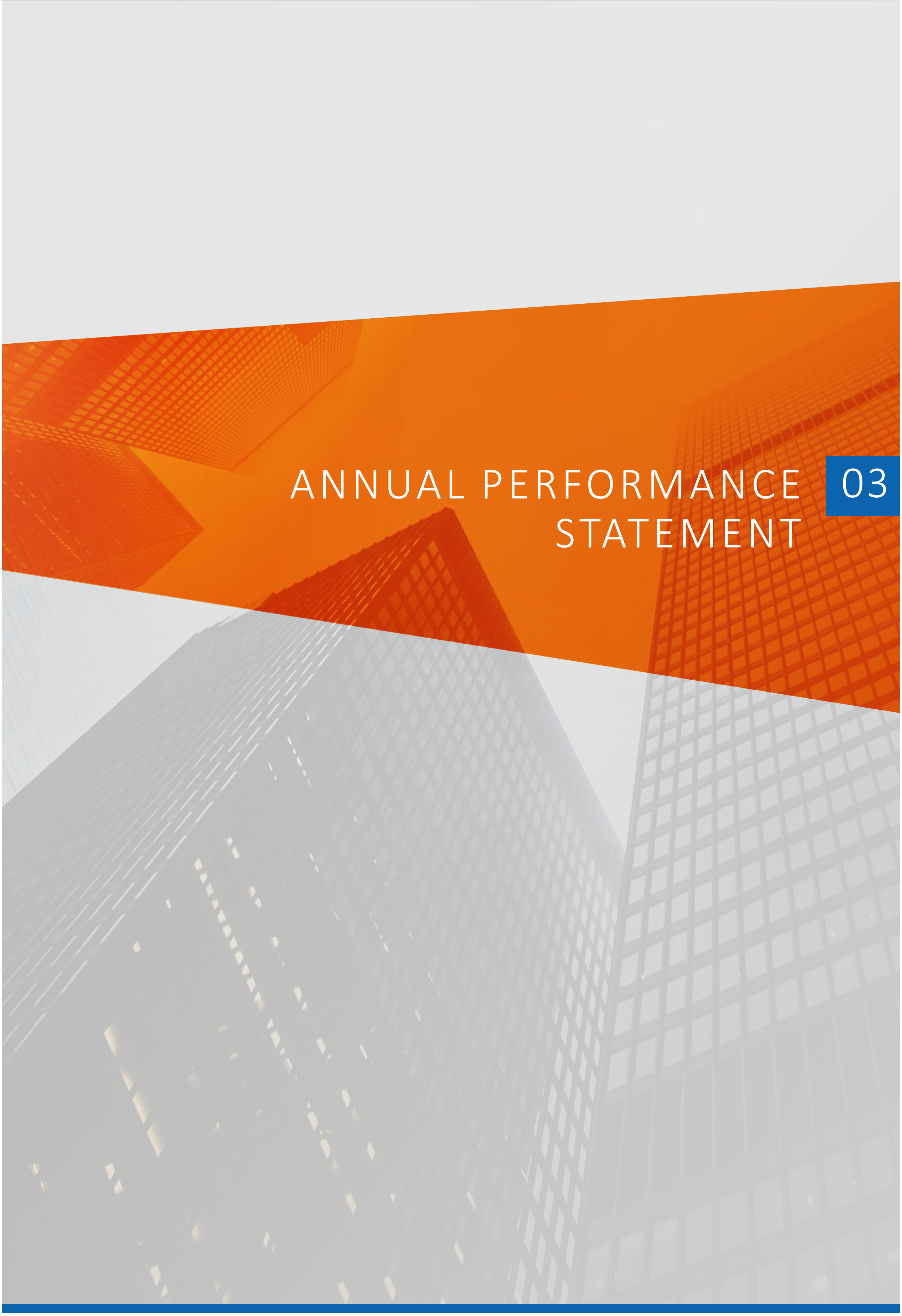


Figure 2.18: Sum insured by state



2017	Tier A	Tier B	Tier C
Spread:	11%	54%	35%
	AUD$418 billion	AUD$1,965 billion	AUD$1,297 billion

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.



ANNUAL PERFORMANCE STATEMENT 03

ANNUAL PERFORMANCE STATEMENT 03

This annual performance statement is provided for Australian Reinsurance Pool Corporation (ARPC) as required under section 39(1)(a) of the Public Governance, Performance and Accountability Act 2013 (PGPA Act) and (other applicable legislation) for the 2017-18 financial year.

This annual performance statement accurately presents ARPC's performance in accordance with section 39(2) of the PGPA Act and is based on properly maintained records.

As outlined in Chapter 1, this Annual Report has been approved by ARPC Board members in accordance with a Member resolution.

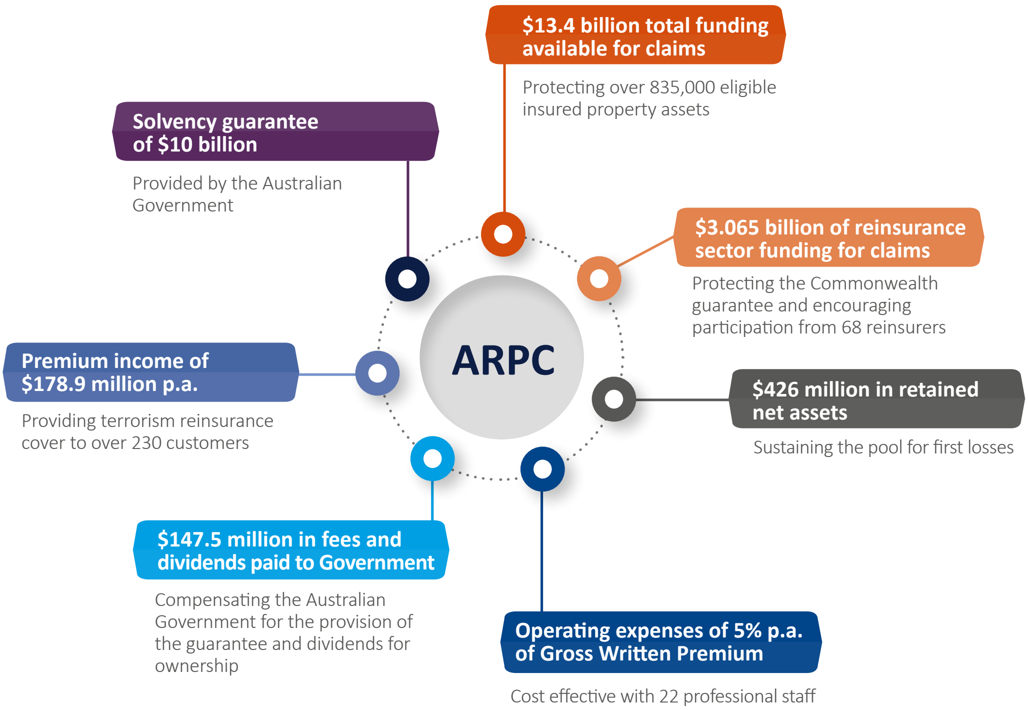
Entity purpose

ARPC remains true to the Scheme's original policy objectives and is focused on creating value for stakeholders.

Purpose: to protect Australia from economic losses caused by terrorism catastrophe.	**Role**: ARPC uses expertise to provide cost effective reinsurance to support the economic resilience of the nation.

Current snapshot

Figure 3.1 ARPC by numbers as at June 2018



Results

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

Performance criteria

ARPC's performance against the Corporate Plan over the reporting year is measured against four key performance indicators:

- KPI One: Providing reinsurance for eligible terrorism losses;
- KPI Two: Encouraging private sector participation through retrocession;
- KPI Three: Compensating the Government; and
- KPI Four: Maintaining financial sustainability.

Performance statement summary

ARPC met or exceeded all performance criteria for the 2017-18 reporting period. A summary of achievements against the Corporate Plan 2017-21 can be seen in *Figure 3.2*.

Figure 3.2: Achievements against 2017-21 Corporate Plan objectives

KPI	Description	Measure and source	Result against performance criterion
One: Providing reinsurance for eligible terrorism losses.	Over the period covered by the corporate plan, success for this activity will be measured by; ▪ ARPC's total premium income (as per ARPC's functional obligation as prescribed by section 10 of the TI Act); ▪ ARPC's scheme capacity and total funding available; and ▪ Level of insurance market involvement.	Measure 1 – GWP income.[12] Measure 2 – Scheme capacity, before the Commonwealth guarantee, per calendar year.[13] Measure 3 – Insurance market involvement.[14]	Exceeded – GWP $178.9 million vs target of $140 million. Exceeded – Retrocession capacity $3.065 billion vs target of $2.5 billion. Exceeded – Cover provided for greater than $3.6 trillion sum insured.
Two: Encouraging private sector participation through retrocession	The number and quality of retrocessionaires on ARPC's retrocession program is to encourage private sector participation.	Measure 4 – Private sector participation.[15]	Exceeded – 68 reinsurers participated on the 2018 program v target of 15, and 60.6% of participants are ARPC regulated against a target of 50.0%.
Three: Compensating the Government	ARPC is to pay the Australian Government a fee for use of the Commonwealth guarantee plus a dividend to catch up for the early years of the Scheme where no fee was required to be paid. A capital holding fee is also to be paid to recognise the capital ARPC is holding to fund future claim payments.	Measure 5 – Payments to Government.[16]	Met – $147.5 million payment by the due date comprising a $57.5 million dividend, a $55.0 million guarantee fee and a $35.0 million capital holding fee.
Four: Maintaining financial sustainability	ARPC must maintain sufficient net assets to support targets within ARPC's Capital Management Policy.	Measure 6 – Net Assets against ARPC target and minimum capital.[17] Note: A change to the capital management framework was approved by the Board on 6 March 2018 to take minimum capital from $510 million to $345 million, and target capital from $860 million to $400-490 million.	Exceeded – Net assets at June 2018 – $425.9 million vs a minimum of $345 million and a target of $400-490 million.

[12] ARPC Corporate Plan 2017-21, page 26
[13] ARPC Corporate Plan 2017-21, page 27
[14] ARPC Corporate Plan 2017-21, page 29
[15] ARPC Corporate Plan 2017-21, page 30
[16] ARPC Corporate Plan 2017-21, page 31
[17] ARPC Corporate Plan 2017-21, page 32

PERFORMANCE STATEMENT DETAIL

KPI ONE: Providing reinsurance for eligible terrorism losses

Description

This is ARPC's functional obligation as prescribed by section 10 of the TI Act. Over the period covered by the Corporate Plan, success for this activity is measured by ARPC's total premium income. The target premium income for the forecast period was $140.0 million per annum.

Measure 1:

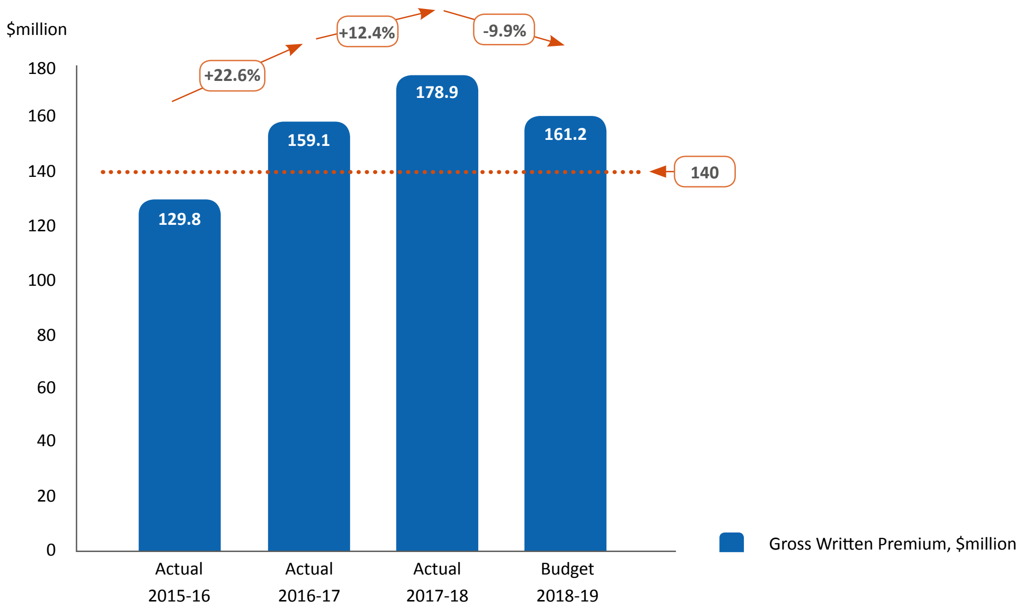
To improve financial sustainability and achieve higher than target premium in each plan period.

Source

Measure 1, Gross Written Premium income, ARPC Corporate Plan 2017-21, page 26.

Result

Figure 3.3: Gross Written Premium



ARPC's objective for Measure 1 for 2017-18 was to achieve actual premium income greater than the Corporate Plan target of $140.0 million. For premium income in 2016-17, the financial budget was $160.4 million, while actual was $159.1 million.

ARPC receives premium income through the reinsurance contracts it establishes with its insurer customers. The level of premium income demonstrates its performance against this measure. Along with a target premium level, ARPC has a financial budget for premium income, set at a higher level, which reflects its forecast performance for the reporting period.

ARPC's premium income (shown as premium revenue in the financial statements) in 2017-18 was $178.9 million which was $38.9 million better than its Corporate Plan target, and $17.7 million higher than (better than) its financial budget.

ARPC's gross written premium income is based on market prices for eligible commercial property insurance premiums after applying the applicable tier rate. The primary driver for the result being higher than the previous year was increasing commercial property insurance premiums supported by the implementation of the 2015 Triennial Review recommendations around high value mixed use buildings and high rise residential greater than $50 million which grew the underlying sum insured base.

Measure 2:

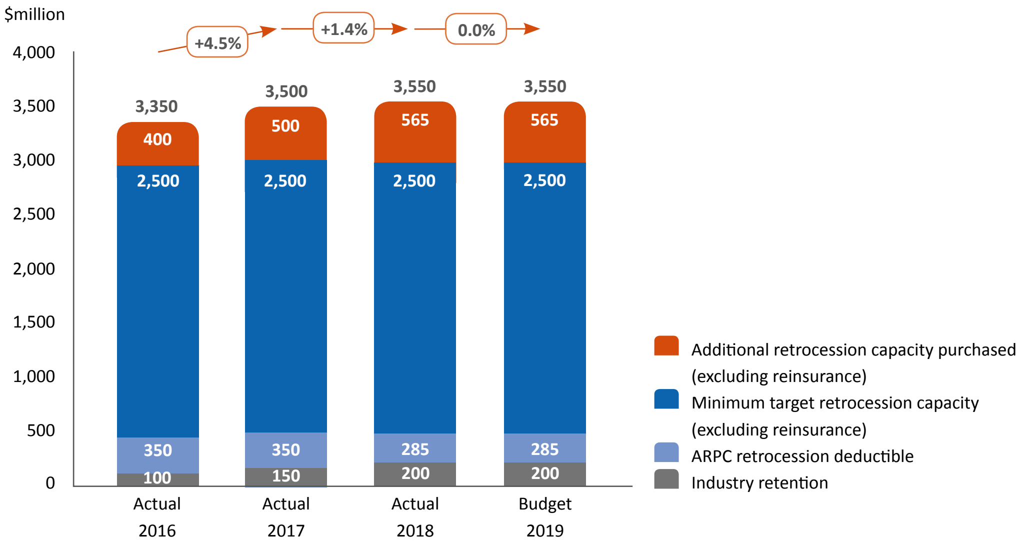
To protect the government from losses through the purchase of greater than $2.5 billion in retrocession in each program period.

Source

Measure 2, Scheme capacity, before the Commonwealth guarantee, per calendar year, ARPC Corporate Plan 2017-21, page 27.

Result

*Figure 3.4:** Scheme capacity before the Commonwealth guarantee – calendar year



*Assumes no change to the current scheme.

ARPC's objective for Measure 2 was to achieve a retrocession program capacity greater than the corporate plan target of $2,500 million ($2.5 billion). ARPC now has in place a $3,065 million ($3.065 billion) retrocession program for the 2018 calendar year.

The target measure supports ARPC's policy objective to 'provide insurance cover for eligible terrorism losses (whether by entering into contracts or by other means)' by increasing funds available for claims. ARPC uses the retrocession program capacity as a significant contributor to the first layers of funding for eligible terrorism losses before the Commonwealth guarantee is drawn upon. This increases ARPC's capacity to fund losses without drawing on the Commonwealth guarantee and fulfils its purpose of meeting claims through the reinsurance contracts it establishes with its insurer customers. The retrocession program capacity demonstrates ARPC's performance against this measure. The target represents a threshold or desired program size given the current environment.

ARPC has a financial budget for the premium that it can afford to spend on retrocession program capacity. Its retrocession capacity for the 2018 calendar year was $3.065 billion which was $565 million higher than (better than) its corporate plan target and within ARPC's Board approved financial budget.

Measure 3:

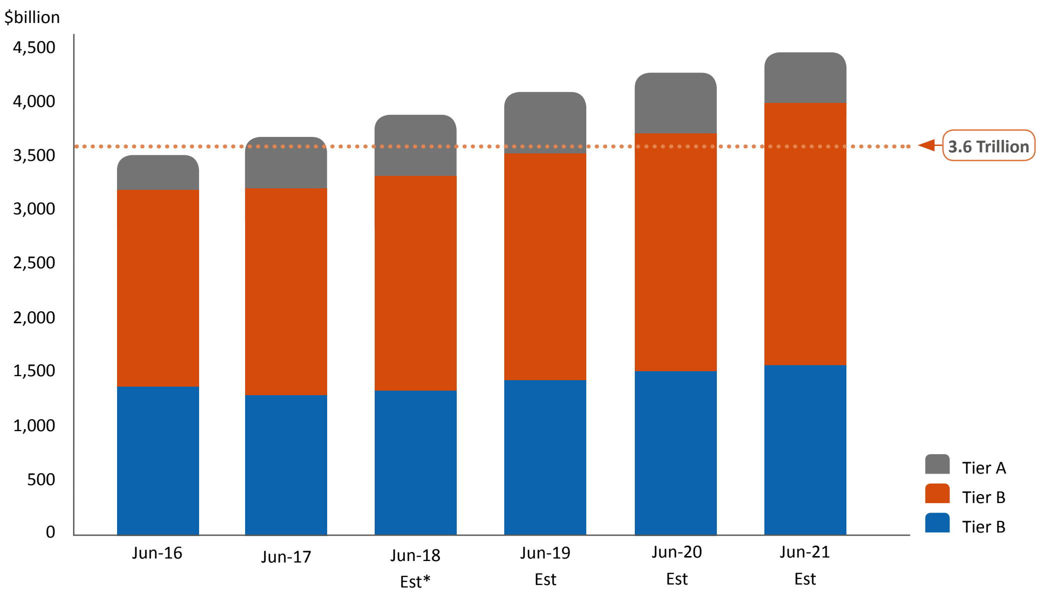
Provide reinsurance cover for $3.6 trillion of eligible commercial property.

Source

Measure 3, Insurance market involvement, ARPC Corporate Plan 2017-21, page 29.

Result

Figure 3.5: Forecast aggregate sum insured*



*The 2017-18 risk reports are submitted from July 2018 to September 2018. Therefore, this information is not currently available as at 30 June 2018.

The objective for Measure 3 for the 2018 calendar year is to provide cost effective reinsurance for the Australian commercial property market. Specifically, ARPC aims to provide cover for $3.6 trillion of sum insured which was achieved during the period.

KPI TWO: Encouraging private sector participation through retrocession

Description

Encouraging private sector participation remains a key policy objective for ARPC's terrorism insurance scheme.

The 2006 Triennial Review recommended that once the pool reached $300 million, ARPC should consider the purchase of retrocession and as such, ARPC purchased reinsurance from the private reinsurance market. ARPC has $13.4 billion total funding available for losses arising from a DTI through ARPC's retention, the retrocession market and the Australian Government guarantee.

Measure 4:

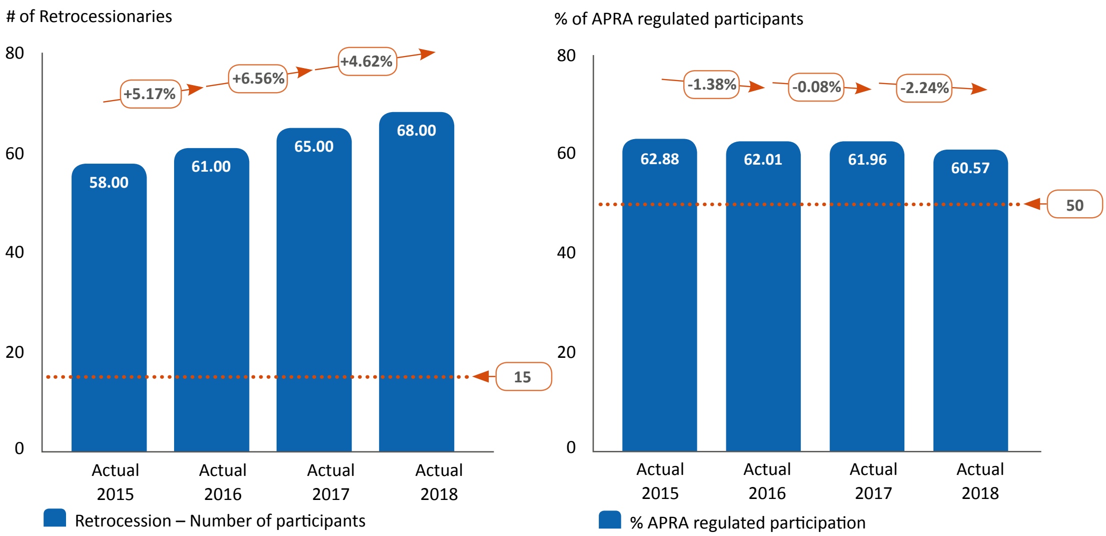
The objective is to maximise private sector participation in the retrocession program.

Source

Measure 4, Private sector participation, ARPC Corporate Plan 2017-21, page 30.

Result

Figure 3.6:* Retrocession program detail



*Assumes no change to the current scheme.

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 ARPC's retrocession program is restricted to reinsurers who hold a Standard & Poors' long-term rating of A- (or equivalent) or greater.

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 participate in the program. ARPC also aims to have more than 50 per cent of retrocession scheme capacity provided by APRA-regulated reinsurers.

To measure success in this activity, ARPC measures the total number of high credit quality reinsurers that participate in the program and the percentage of participants that are APRA regulated reinsurers. In the 2018 period ARPC had 68 participants in the program against a target of 15 and 60.6 per cent of participants were APRA-regulated reinsurers against a target of 50 per cent.

KPI THREE: Compensating the Government

Description

ARPC pays the Australian Government a fee for the use of the Commonwealth guarantee together with a dividend to catch up for the early scheme years where no fee was requested to be paid. In addition, a capital holding fee is paid to recognise the capital ARPC is holding to fund future claim payments.

Measure 5:

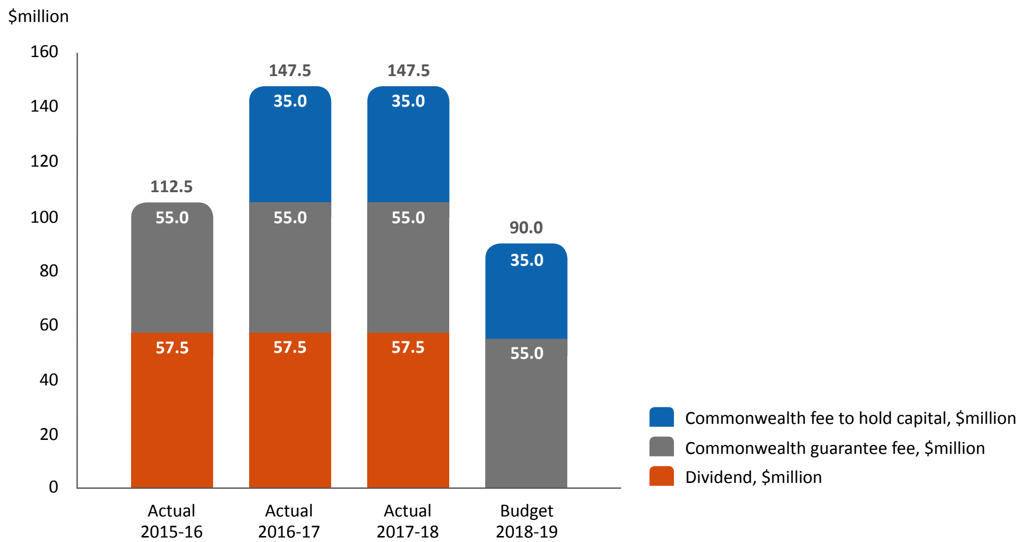
To meet ARPC's obligations, the target is to deliver the Government payments in each plan period.

Source

Measure 5, Payments to Government, ARPC Corporate Plan 2017-21, page 31.

Result

Figure 3.7: ARPC delivered payments to Government totalling $147.5 million in 2017-18.



KPI FOUR: Maintain financial sustainability

Description

As is the case with any reinsurer, to maintain operational effectiveness, ARPC remains financially sustainable by having a governance framework and internal financial controls to manage its net assets.

Key factors impacting ARPC's financial sustainability, as measured through net assets, are:

- any claims costs associated with a DTI;
- premium rates and premium income;
- the size, structure and timing of fees and dividends payable to the Australian Government;
- the size and cost of the retrocession program; and
- ARPC investment returns.

To assess financial sustainability, ARPC measures net assets, which is the final balance after all the above factors.

Measure 6:

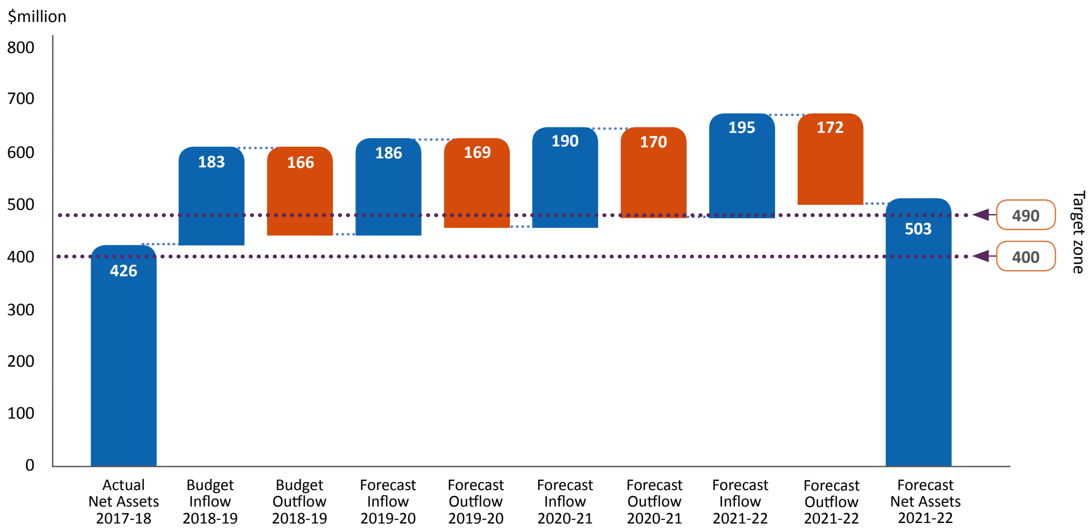
Net Assets against ARPC target and minimum capital.

Source

Measure 6, Net Assets against ARPC target and minimum capital, ARPC Corporate Plan 2017-21, page 32.

Result

Figure 3:8 Projected Net Assets using the Capital Management framework approved in March 2018.



Projections assume the following:

- no increase in prices from current rates;
- $57.5m catch-up dividend ceases in FY2018;
- Inflows represent premium income, investment income, retro commission income; and
- Outflows represent payments to the Australian Government, retrocession premiums, operating expenses

In March 2018, ARPC reviewed and amended* the Capital Management Framework to align to the cost base of paying the retrocession retention, claims handling administration cost and normal operating costs. This saw ARPC reduce minimum capital definition from $510 million to $345 million, and target capital from $860 million to a target range of $400-490 million. This change in framework to a cost-based estimate of future needs, also acknowledged the need to take recapitalisation actions post a DTI.

As at June 2018, ARPC's net assets were $426 million, which was higher than minimum and within the thresholds range for capital.

ARPC's Capital Management Policy levels include:

- **Minimum Capital** is recommended by the Board to be above $345 million. This represents one retrocession retention plus claims handling administration costs for one DTI claim event and one year's operating costs.
- **Target Capital** is recommended by the Board to be between $400-490 million. This represents one retrocession retention plus claims handling administration costs for one DTI claim event and one year's operating costs. Plus a resilience factor of $100 million to provide resilience to environmental factors such as loss of major customers, and/or increases in global retrocession costs.
- **Maximum Capital** is recommended by the Board to be above $780 million. This represents two retrocession retentions plus claims handling administration costs for two DTI claims and one year's operating costs. Plus, a resilience factor of $100 million to provide resilience to environmental factors such as loss of major customers, and/or increases in global retrocession costs.

ARPC expects net assets to remain within the target range but not grow significantly under current Australian Government payment directions and the low interest rate environment.

Influences on future performance

ARPC's two sources of income are reinsurance premiums and investment income on its pool of reserves, which is set aside to meet claims.

Reinsurance premiums charged by ARPC are expressed as a percentage of the insurer customers' premiums. ARPC's premium income is therefore subject to insurance market cycles, as insurer customer premiums rise and fall, even though reinsurance rates remain stable.

We expect a slight increase in insurance market premium rates in the short to medium term. This, combined with the increased underlying insured property value should result in an increase in GWP in the short to medium term.

ARPC paid the last retrospective dividend of $57.5 million in June 2018 to compensate the Australian Government for the early years of the Scheme when fees were not requested to be paid for the Commonwealth guarantee. ARPC notes that the end of this retrospectivity will imply that future years see a modest net cash inflow after several years of decreasing net assets.

* The change to the capital management framework was approved by the Board on 6 March 2018.

Investment assets

At 30 June 2018, ARPC held $464.7 million in term deposits and $1.6 million in cash (2017: $490.0 million and $0.8 million respectively).

ARPC has determined the following return and risk objectives:

- ARPC's return objective is to outperform the Reserve Bank of Australia's cash rate plus 50 basis points over a rolling 12-month period after fees.
- ARPC's risk objective is to limit the risk of making negative returns to 5 per cent (no more than once within a 20-year period).

ARPC's investment strategy is:

- Investments should be highly liquid to meet the retrocession retention in the event of a Declared Terrorism Incident (DTI).
- ARPC has a conservative investment strategy to meet its risk and return objectives.
- Achieve diversification using all assets classes permitted by the PGPA Act.

ARPC's investment assets are held in cash and term deposits. ARPC managed investments internally in 2017-18. All investments are held in ARPC's name.

Figure 3.9: Investments by credit rating as at 30 June each year

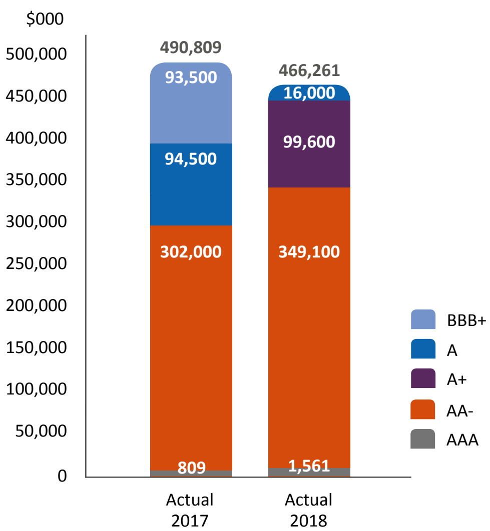
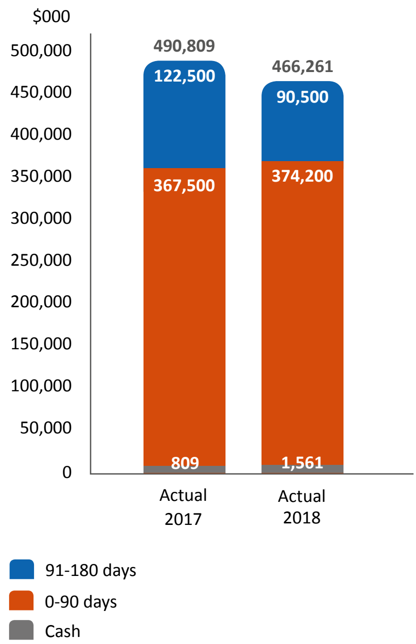


Figure 3.10: Investments by maturity as at 30 June each year



ARPC recognises the need to fund the retrocession retention of $285 million within 90 days based on actuarial analysis conducted. ARPC manages the investment maturity profile to meet this liquidity requirement.

Investment income

Investment income fell to $13.7 million (2016: $15.6 million) owing to lower interest rates than in 2016-17 and the decreased balance of invested assets as retrospective dividend payments were made. This is consistent with expectations.

Analysis of performance against purpose

During 2017-18, ARPC continued to fulfil its purpose by entering into contracts of reinsurance with insurer customers and managing its premium income and investments, costs, purchase of retrocession and cost of retrocession, while meeting Ministerial Directions to provide payments to the Australian Government. ARPC has met all its obligations and achieved better-than-budget performance across all performance criteria. During the period, the following factors impacted ARPC's performance.

These are displayed in Figure 3.11 below:

Figure 3.11: Key factors influencing ARPC's performance

Influencing factor	Detail	ARPC level of influence	Impact (positive/negative)
Property insurance market	The current year has seen commercial property insurance premiums increase, for the first time in approximately a decade. As ARPC premiums are a percentage of insurer premiums for commercial property insurance, ARPC is subject to price fluctuations and underlying asset values insured in the commercial insurance market. Influence is limited to reviewing postcode allocations between Tiers.	Limited	Moderate (positive)
2015 Triennial Review	The 2015 Triennial Review recommended several enhancements to the Scheme. During 2017-18, high value residential and mixed-use high value buildings were included as eligible policies. This increased the underlying sum insured base and therefore increased ARPC premium income.	Limited	Minor (positive)
Global reinsurance market capacity and price	Increases in capacity and increase in price for retrocession. ARPC has managed its purchase of retrocession by converting increased pricing to incremental increases in capacity and coverage under the retrocession at the same price.	Limited	Minor (positive)
Government compensation	Payments to Government in 2017-18 of $147.5 million. This has had the effect of reducing ARPC's net assets to a level considered low, but acceptable to the ARPC Board under its revised capital management framework.	Limited	Significant (neutral)

GOVERNANCE 04

Governance framework

ARPC's annual report is prepared and provided to the responsible Minister by 15 October each year in compliance with section 46 of the PGPA Act. ARPC's annual financial statements comply with accounting standards prescribed by the PGPA rules and are audited by the Auditor General as soon as practicable after preparation. The financial statements can be found in Chapter 6.

ARPC must also prepare a Corporate Plan on a rolling four-year basis, in accordance with Section 35 of the PGPA Act, and provide it to the responsible Minister and the Minster for Finance by 31 August each year.

Under section 39 of the PGPA Act, ARPC also prepares an Annual Performance Statement to report on progress against purpose, as stated within the preceding Corporate Plan. ARPC's Annual Performance Statement is outlined in Chapter 3.

During the period under review, ARPC's responsible Minister was the Hon. Kelly O'Dwyer MP.

Board appointment and remuneration

Part 3 of the TI Act prescribes the establishment of ARPC, its powers and functions. It states that the constitution of the Corporation must comprise a Chair and at least four, but no more than six, other members. The Minister must appoint each member for a fixed term of no more than four years.

The remuneration for Board members, including travel and meeting allowances in 2017-18, was provided according to the Remuneration Tribunal Determinations 2017/10 and 2017/15.

Board members

During 2017-18, the Board comprised a Chair and six directors who were non-executive members. Changes to the Board during this reporting period included the appointment of Mr Ian Carson as the Chair on 1 July 2017, expiry of Mr Tom Karp's term on 4 October 2017 and appointment of Ms Karen Payne as a Member from 5 October 2017. On 30 June 2018, Ms Elaine Collins, Ms Janet Torney and Mr John Peberdy's term expired and they were all reappointed by the Minister for a further three years from 1 July 2018 to 30 June 2021.

The names and details of ARPC Board members who held office during 2017-18 are outlined below.

Mr Ian Carson AM
Chair

BEc PGDip Professional Accounting FAICD
Term: 1 July 2017 – 30 June 2020

Mr Ian Carson was appointed Chair of the Board on 1 July 2017.

On August 1, 2018 Ian became a Partner at PwC Australia. Previously he was a Partner and the Chair of PPB Advisory, a professional advisory firm, of which he was also a founding partner.

He is also co-founder of SecondBite, a for purpose organisation which rescues nutritious food that would otherwise go to landfill. SecondBite transformed Australia by creating scale in fresh food rescue. In 2018, SecondBite will rescue enough food to create 26 million meals. He is a Trustee of The Melbourne Cricket Ground. He is a registered liquidator and a fellow of the Australian Institute of Company Directors.

Ms Janet Torney
Member

BEc (Hons) FAICD FASFA TFASFA
Term: 1 July 2018 – 30 June 2021

Ms Janet Torney was appointed a Member of the Board on 1 July 2015 and is Chair of the Audit & Compliance Committee.

Janet is a non-executive director with strong expertise in strategy, governance, risk and change management and investments. She is Chair of Whitehelm Capital and Deputy Chair of Club Plus Super. In the last 18 months, she has also been a director of Techfront Australia and the Fire Brigades Employees' Credit Union. In the not-for-profit sector, Janet is a Director of the Australian Cricketers' Association and Girl Guides Australia and is a member of Basketball Australia's Nominations Committee.

Janet's career spans over 30 years in the financial services sector – superannuation, investments, infrastructure, banking and insurance, in the engineering sector – manufacturing and consulting, and in the member-focussed sector – notably sport and female related. Janet is a fellow of the Australian Institute of Company Directors and a fellow of the Association of Superannuation Funds of Australia.

Ms Elaine Collins
Member

BSc (Hons) MEc FIAA GAICD
Term: 1 July 2018 – 30 June 2021

Ms Elaine Collins was appointed a Member of the Board on 1 July 2015 and is a member of the Audit and Compliance Committee.

Elaine is a non-executive director and actuary, with a career spanning 25 years in the Insurance Industry in Australia, New Zealand, Hong Kong, Singapore and Papua New Guinea.

She is a non-executive Director of Zurich Insurance Australia Ltd (ZAIL) and Chair of its Risk, Compliance and Audit Committee. Elaine is also a non-executive Director of the Motor Accident Insurance Board (MAIB) and Chair of its Audit Committee.

Elaine is a Fellow of the Actuaries Institute and a Graduate of the Australian Institute of Company Directors. She is a member of the Actuaries Institute's Professional Standards Committee and a sessional lecturer at the University of New South Wales.

She served in senior roles with KPMG and as a Partner with Deloitte, carrying out Appointed Actuary roles for more than ten years, with key expertise in policy formulation, capital allocation and strategic risk management.

Mr John Peberdy
Member

GAICD, ANZIIF (Snr Assoc) CIP
Term: 1 July 2018 – 30 June 2021

Mr John Peberdy was appointed a Member of the Board on 1 July 2015.

John has a proven track record as a strategic senior executive, having delivered improved business outcomes, in Australia and New Zealand, within Ansvar Insurance, a market leader in the care, community, faith and education insurance sector. John 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. His expertise includes strategy and planning, business management, leadership and people management, risk management and general insurance.

Among his current directorship roles, John is the Chair, EA Insurance Services Pty Ltd, Victoria; Deputy Chair, Christian Super, and Chair, Victorian Managed Insurance Authority.

Mr Mike Callaghan AM PSM
Member

BEc (Hons) LLB GAICD
Term: 5 October 2016 – 4 October 2019

Mr Mike Callaghan was appointed a Member of the Board on 5 October 2016.

Mike is Chair of the Aged Care Financing Authority and Chair of the Asian Development Bank's replenishment of the Asian Development Fund. He is also a Non-resident Fellow at the Lowy Institute for International Policy. In 2017, he was the Chair of the Australian Government Review of the Petroleum Resource Rent Tax. He also led the review into the Economic Impact of the Government's Regulation Agenda.

In 2015, Mike headed the Northern Australia Insurance Premiums Taskforce. Between 2012 and 2014, Mike was Program Director of the G20 Studies Centre at the Lowy Institute.

Mike was Deputy Secretary, International, in the Department of The Treasury from 2008 until 2012. He also served as the Prime Minister's Special Envoy, International Economy. He has had 39 years' experience in the Australian Treasury and the International Monetary Fund.

Ms Robin Low
Member

BComm FCA
Term: 5 October 2016 – 4 October 2019

Ms Robin Low was appointed a Member of the Board on 5 October 2016 and is a member of the Audit and Compliance Committee.

Robin is a non-executive director. She is the Deputy Chair of the Auditing and Assurance Standards Board and is on the board of four listed companies: Appen Limited, AUB Group Limited, CSG Limited and IPH Limited. She also sits on the boards of several not-for-profit organisations, including the Sydney Medical School Foundation, Primary Ethics and the Public Education Foundation.

Robin is a chartered accountant, with over 25 years' experience with PricewaterhouseCoopers, including more than 17 years as an assurance partner specialising in financial services, particularly insurance.

Ms Karen Payne
Member

BComm MComm LLB
Term: 5 October 2017 – 4 October 2020

Ms Karen Payne was appointed a Member of the Board on 5 October 2017 and is a member of the Audit and Compliance Committee.

Karen is currently the CEO (part time) and member (part time) of the Board of Taxation and has over 20 years' experience as a specialist taxation advisor, specialising in the financial services sector. Ms Payne is a solicitor admitted in NSW and the High Court of Australia, chartered accountant and chartered tax adviser. Ms Payne is a member of the Australian Institute of Company Directors, the Tax Institute and Chartered Accountants in Australia and New Zealand.

Mr Tom Karp
Member

BA (Hons) FIAA
Term: 29 August 2008 – 4 October 2017

Mr Tom Karp was a member of ARPC since 29 August 2008 (apart from the period 1 March 2012 until 30 June 2012). He was also a member of the Audit and Compliance Committee since February 2014 and Chair of the Audit and Compliance Committee since 1 July 2015. Tom's term expired on 4 October 2017 and he did not seek reappointment.

Board meetings

The Board convened six meetings during the 2017–18 financial year, comprising five meetings for general business and one two-day strategic planning workshop. *Figure 4.1* lists the number of meetings attended by each member during the reporting period.

Figure 4.1: Number of meetings attended by each Member of the Board in 2017-18.

Name	Number of meetings entitled to attend	Number of meetings attended
Mr Ian Carson	6	6
Ms Janet Torney	6	6
Ms Elaine Collins	6	6
Mr John Peberdy	6	6
Mr Mike Callaghan	6	6
Ms Robin Low	6	6
Ms Karen Payne	4	4
Mr Tom Karp	2	2

Audit and compliance committee

The Board established the Audit and Compliance Committee (Committee) to support the administration and 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.

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

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

ARPC's Committee meets all these requirements and in addition, it monitors ARPC's compliance with all statutory obligations, oversees the work of internal and external auditors and has oversight of ARPC's governance framework. The Committee also provides a general forum for communication between members, ARPC executive, the internal and external auditor.

During the reporting period, the Committee reviewed all reports received from ARPC's internal auditors, PwC, and external auditors, Australian National Audit Office (ANAO). ANAO subcontracts the field work to KPMG. The Committee monitored the implementation of internal audit recommendations and reviewed and accepted ANAO's terms of engagement. It also reviewed the financial statements to assist the Board with its declaration under subsection 41(2) and 42(2) of the PGPA Act 2013.

During 2017–18, four Committee meetings were held. The Committee members who held office during this period attended the following number of meetings, outlined in *Figure 4.2*.

Figure 4.2: Meetings attended by each member of the Audit and Compliance Committee in 2017-18

Name	Number of meetings entitled to attend	Number of meetings attended
Ms Janet Torney	4	4
Ms Elaine Collins	4	4
Ms Robin Low	4	4
Ms Karen Payne	3	3
Mr Tom Karp	1	1

Corporate governance practices

The Board and ARPC's leadership team remain committed to maintaining the best practice corporate governance standard. ARPC's corporate governance framework is underpinned by the Board Charter, the Audit and Compliance Committee Charter and the Enterprise Risk Management Framework (ERMF). These publications are supported by other ARPC policies and procedures in areas such as financial management, capital management, investment, privacy, delegations, people management, fraud control, conflict of interest, public interest disclosure, security management and business continuity planning.

ARPC continues to monitor governance trends across a range of sources through government and the private sector.

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 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 also authorises the Committee to obtain independent advice it considers necessary.

Confidentiality agreements

Upon commencement, all ARPC staff and Board members are required to sign a confidentiality agreement which outlines their obligations relating to the non disclosure of confidential information.

Indemnity and insurance of directors and officers

ARPC has entered into a deed of indemnity with each Board Member. In 2017-18, ARPC maintained and paid premiums for insurance covering members and senior executives 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 Directors' and Officers' Indemnity Insurance in 2017-18 was $35,957 ($33,560 in 2016-17).

Judicial and administrative decisions and review

In 2017-18, it was considered that there were no judicial decisions or decisions of administrative tribunals that could significantly affect ARPC's operations. There was one third party report on ARPC's operations observed during the reporting period – the annual ANAO report on ARPC's financial statements (see Chapter 6).

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 18 May 2018, the Hon. Kelly O'Dwyer, Minister for Revenue and Financial Services, gave a written direction to ARPC under the ***Terrorism Insurance Act 2003*** – Payments Direction 2018. In accordance with the direction, ARPC paid a combined fee of $90 million and a dividend of $57.5 million on 20 June 2018.

General policy orders

Under section 22 of the PGPA Act, the Finance Minister may make an order (a Government 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.

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 also has oversight of the Enterprise Risk Management Framework (ERMF), which is regularly reviewed. The Risk Management Strategy, which is a key component of the ERMF, outlines strategies and controls that the Board and senior management establish and maintain to keep risks within tolerance levels.

ARPC uses a risk matrix to measure the likelihood and severity of incidents. These risks are reviewed by management prior to Board meetings and by the Board at its meetings and updated as appropriate for continued relevance or to record emerging risks identified by management and/or the Board.

ARPC's control environment for governance, business continuity and security management continue to be refined to address emerging risks.

Internal audit

ARPC's internal audit function is delivered by our outsourced partner PwC, and overseen by the Audit and Compliance Committee. During 2017-18, PwC continued to provide internal audit services to ARPC. The updated five-year rolling Strategic Internal Audit Plan (SIAP), which is closely aligned to the risk register and risk appetite and tolerance statement, was approved by the Committee and included in the 2017-18 Internal Audit work plan.

PwC works closely with the Committee, CEO and senior management to identify and analyse business risks. The Committee meets with PwC as its internal auditor independent of management at each meeting. Audit findings are reported to the Committee. Management actions or improvements identified through audits are agreed with management, approved by the Committee and tracked to completion on the Audit Issue Register. Internal audit has routine discussions with external audit to avoid any duplication of work and external audit has full access to internal audit work.

2017-18 Internal audit program

The Internal Audit Workplan for 2017-18 has been successfully completed, with all management actions or improvements accepted, recorded and tracked on the Audit Issues Register. The annual program also has flexibility to accommodate Board or management requests for ad hoc audit reviews.

The following reviews were completed during 2017-18:

- Retrocession and agreement processes;
- Records and information management;
- Financial scenario and cashflow forecasting;
- Legislative compliance; and
- IT governance and security.

Legislative compliance

Routine information sessions are provided for staff, so they remain aware of all legislative obligations in relation to their daily operations within ARPC.

All senior managers must complete quarterly compliance attestations which cover key legislative acts (including underlying regulations) such as the *Terrorism Insurance Act 2003, Public Performance and Accountability Act 2013, Privacy Act 1998 and Public Interest Disclosure Act 2013*. Compliance with internal policies and Government processes are also covered under these attestations.

As part of ARPC's staff induction process, all staff provide a written acknowledgement that they have read and understood their obligations within each key policy. This is further tested through regular compliance modules and ongoing internal training.

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 wrongdoing. It also protected people who make disclosures and required agencies to act.

In accordance with requirements under the PID Act, ARPC has created a PID Policy which is made available on the ARPC webpage. During the reporting period, ARPC received no public interest disclosure notifications.

Information publication scheme statement

In accordance with the Freedom of Information (FOI) Act and the Information Public Scheme (IPS), ARPC publishes a range of information on its website. In compliance with the Act and IPS, ARPC publishes its organisational structure, functions, appointments, annual reports, consultation arrangements, submissions to Parliament, routinely requested information and details of the freedom of information officer.

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

Business continuity

ARPC maintains a Business Continuity Policy and Procedure. Staff continue to access and test an alternative site up to three times per year. The site could be used if the organisation was unable to operate out of its Sydney CBD office. In addition, all staff are provided with the necessary tools to work remotely if required.

Fraud prevention and control

Every two years, ARPC reviews and updates the ARPC Fraud Control Policy and underlying fraud risk assessments. The Fraud Control Policy allocates responsibilities for fraud risk management and control among the Audit and Compliance Committee, the CEO, ARPC management and staff. The Policy outlines legislative and governance requirements, and is framed around key fraud control strategies:

- prevention;
- detection;
- response; and
- monitoring, evaluation and reporting.

The Fraud Control Policy complies with requirements under section 10 of the ***Public Governance, Performance and Accountability Rule 2014***, which provides the minimum standard for the management of risk and incidents of fraud by accountable authorities (the Board). ARPC staff are provided with regular information sessions in compliance with the Fraud Control Policy 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.

ARPC employees regularly meet 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 in Chapter 1.

Consultancies

ARPC uses consultants to provide specialist skills to assist with key projects and tasks. During 2017-18, consultants were engaged (following the appropriate procurement processes outlined in ARPC's Procurement Policy), to assist in the following areas:

- strategic planning and stakeholder engagement facilitation;
- specialist technical projects and maintenance e.g. Cloud migration;
- capital management advice;
- retrocession advice;
- independent review/advice on legal, and accounting issues;
- staff development and training; and
- work health and safety and recruitment.

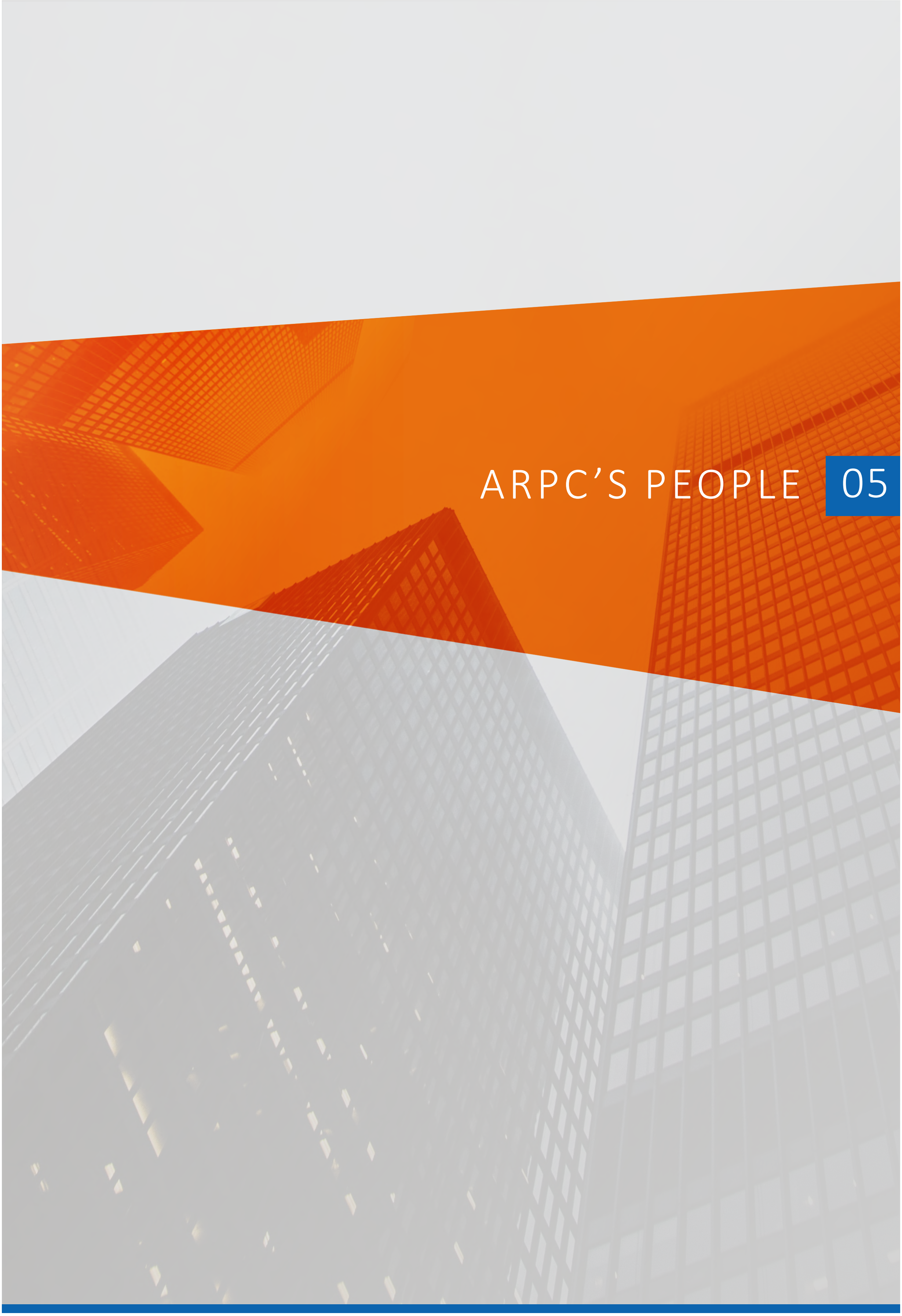
Ecologically sustainable development

ARPC continues to pursue initiatives designed to minimise waste, conserve energy and minimise water usage in the office, such as using electronic meeting papers, double-sided printing and scanning and energy efficient lighting throughout the office. ARPC's premise has a NABERS 4.5-star energy and 3.5-star water rating.

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

Figure 4.3: Steps taken to minimise energy, waste and water

Theme	Sydney office
Energy efficiency	The Sydney office has achieved a 5% Greenhouse emissions reduction and a 2% reduction in electricity consumption on the previous year. Use of sensor lighting throughout the office. Shutting down computers outside of working hours. Purchasing and use of carbon neutral paper.
Waste	Using double sided printing or scanning to reduce the volume of paper used. Recycling of paper, cardboard, print cartridges, plastics, glass E-waste and fluorescence tubes.
Water	The building has been accredited with a 3.5-star water rating.



ARPC’S PEOPLE 05

ARPC'S PEOPLE 05

ARPC's people make it what it is, enabling ARPC to deliver to its customers. ARPC is committed to promoting diversity across all areas and is proud to support Australia's Indigenous traineeship program through Career Trackers. ARPC acknowledges the dedication and commitment of its staff and thanks them for their continuing efforts.

Senior executive team

ARPC's senior executive team is headed by the Chief Executive, who was appointed by the Corporation under the provisions of the TI Act.

Dr Christopher Wallace
Chief Executive

BEc (Hons) PhD(Econ), AMP (INSEAD) ANZIIF (Fellow) CIP GAICD

Chris is an insurance executive with experience in general insurance, workers compensation, health insurance and 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. Through his role with ARPC, Chris is also a member of the OECD High Level Advisory Board for the Financial Management of Large Scale Catastrophe Risks. Previous professional roles include being General Manager Workers Compensation at GIO, Executive Director at Ernst & Young, and 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.

Michaela Flanagan
Chief Operating Officer

B.Bus ANZIIF (Snr Assoc) CIP DipFS AMP (Melbourne Business School)

Michaela commenced with ARPC in December 2016. She brings deep experience in insurance coupled with extensive experience in developing and implementing corporate strategy, business plans and projects.

Michaela has over 20 years' experience in the general insurance sector spanning underwriting (workers compensation, liability, property and packages), information technology, strategy and operations. Her role immediately prior to joining ARPC was Head of Strategy and Customer proposition, Corporate and Speciality, for QBE.

Michaela is responsible for the development and ongoing communication and management of ARPC's strategy along with executive oversight of the technology, communications, governance and compliance and claims functions.

Michaela holds a Bachelor of Business degree majoring in management and information technology from the University of Technology, Sydney and has completed an Advanced Management Program via the University of Melbourne, Melbourne Business School.

John Park
Chief Financial Officer

B.Ec MBA (Exec) CA ANZIIF (Fellow) CIP GAICD

John is a Chartered Accountant and has more than 20 years' experience as a finance executive in the insurance and reinsurance industry. John joined ARPC in June 2016. John's career includes previous roles as Finance Manager for Gen Re, Financial Controller for HCF, CFO for MGIC, and Financial Controller for Munich Re Australia's direct insurance business.

John oversees the finance, investments, enterprise risk and crisis response, insurance audit and human resources teams.

John holds a Bachelor of Economics from Macquarie University and an Executive MBA from AGSM at the University of New South Wales. He is also a Chartered Accountant, a Fellow and Certified Insurance Professional with ANZIIF and a Graduate of the Australian Institute of Company Directors.

Michael Pennell PSM
Chief Underwriting Officer

BE AMP (Wharton) GAICD ANZIIF Fellow

Michael has almost 30 years industry experience, having held reinsurance management roles with Swiss Re and General Re prior to his role at ARPC. He started his early career as a civil engineer.

Michael assists insurers and brokers to understand the Scheme and is responsible for negotiating and implementing ARPC's annual retrocession program. Michael also leads various projects that enable ARPC to develop and enhance its loss estimation modelling capabilities.

Michael is the Chair of the Reinsurance Faculty Advisory Board of the Australian and New Zealand Institute of Insurance and Finance and teaches reinsurance at the Institute's annual Reinsurance Study Course Seminar.

Michael holds a Bachelor of Engineering from the University of Technology, Sydney, has completed the Advanced Management Program at University of Pennsylvania (Wharton School), and is a Fellow and Certified Insurance Professional with ANZIIF.

Michael was awarded the Public Service Medal as part of the Australia Day 2017 Honours List for outstanding public service in the development of the terrorism insurance scheme.

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 5.1: ARPC Values

Staffing information

In 2017-18, ARPC restructured its executive team resulting in the removal of two senior executive level roles and the creation of two senior manager roles.

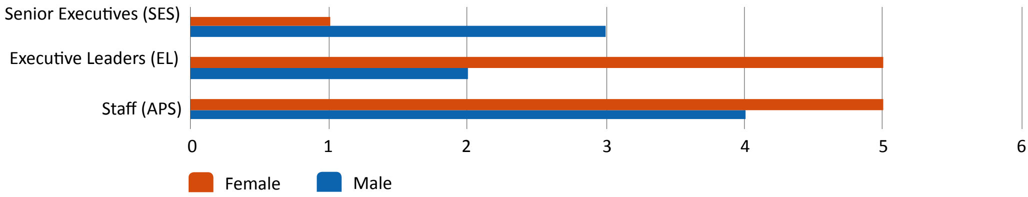
The restructure reduced the number of direct reports to the CEO and in doing so streamlined ARPC's operations. The restructure will further develop the strong skills and capabilities ARPC has across the organisation with the new structure unlocking deeper levels of collaboration and better use of collective expertise moving forward.

ARPC thanks former colleagues Michael Stallworthy (formerly General Manager, Insurance Audit and Claims) and Joshua Everson (formerly General Manager, Governance Risk and Compliance) who both left ARPC as a result of the restructure. We appreciate the service of Michael and Joshua and wish them well for the future.

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

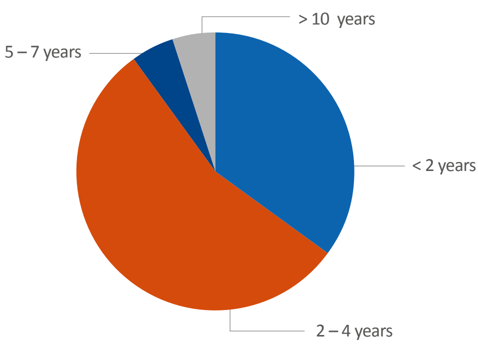
The following three tables illustrate classification, gender and staff service length for ARPC employees as at 30 June 2018.

Figure 5.2: Number of permanent on-going employees by classification and gender as at 30th June 2018



At 30 June 2018, ARPC had two vacant positions at the EL2 level. Included in the above figures is an Indigenous-identified role of Communications Intern.

Figure 5.3: Length of service as at 30th June 2018



The following table provides the annual base salary bands for all non-SES staff who are covered under the Enterprise Agreement as at 30 June 2018. In addition to base salary, staff receive 15.4 per cent superannuation.

Figure 5.4: Classification level base salary bands for non-SES staff

Classification level	Salary band
ARPC level 1	$46,323–$50,305
ARPC level 2	$53,395–$56,929
ARPC level 3	$60,465–$63,997
ARPC level 4	$67,532–$71,067
ARPC level 5	$75,929–$80,789
ARPC level 6	$85,649–$103,767
Executive Level 1	$111,719–$128,156
Executive Level 2	$136,462–$156,613

Human resources

Human Resources (HR) provides people-related advice and support to ARPC staff. It develops and implements HR strategic plans and policies including:

- employment contracts and remuneration;
- engagement and enablement;
- performance planning and appraisals;
- learning and development; and
- work health and safety.

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

Employment terms and conditions

ARPC's Enterprise Agreement 2016-19 (the Agreement) came into effect on 27 May 2016 to provide employment terms and conditions for non-SES staff. SES staff employment terms and conditions are provided in individual contracts.

Performance and Development Management System

ARPC's Performance Management and Appraisal Framework and technology software (Cognology) supports the management of staff performance and development.

The performance appraisal process commences with the initial setting of performance and development objectives. Performance conversations are held frequently during the year, with formal discussions held mid-year and year-end. The aim of this approach is to measure progress against agreed objectives with a focus on achievement, continuous development and growth.

The framework appraises staff on both:

- achievement of outcomes against specific role-based objectives; and
- demonstration of classification-level capabilities (based on the Australian Public Service Integrated Leadership System) and ARPC's corporate values.

Supported by Human Resources, final performance ratings are calibrated and finalised during a collaborative leadership team meeting.

Staff are rated on a five-scale system from 1 (not meeting standard) to 5 (exceeds standard), with an overall rating of 3 (meets standard) required for salary advancement.

Learning and development

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

Development programs attended by staff during the year included:

- Internal ARPC policy awareness sessions;
- Introduction to Reinsurance Workshop;
- Reinsurance Study Course (Australian and New Zealand Institute of Insurance and Finance (ANZIIF);
- Advanced Management Program (INSEAD);
- Advanced Management Program (Melbourne Business School – University of Melbourne);
- The Effective Leader Course (Macquarie Graduate School of Management (MGSM);
- Reinsurance Discussion Group Seminars and Events;
- Company Directors' Course (Australian Institute of Company Directors);
- Governance Summit (Australian Institute of Company Directors);
- IFTRIP Conference;
- Financial Services Accountants Association Conference;
- Agile Project Management training (SMS);
- OECD – Unleashing the Potential of the Cyber Insurance Market Conference;
- Insurance Council of Australia Annual Forum; and
- Insurance discussions and conventions through the National Insurance Brokers' Association (NIBA).

Study assistance

ARPC offers a study assistance program for all permanent staff. Staff members undertaking studies aligned with ARPC's core business may access study support including paid time off and financial assistance.

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

- Certificate IV in General Insurance;
- Institute of Chartered Accountants (Australian and New Zealand) Graduate Diploma;
- Graduate Certificate in Public Sector Management (Flinders University);
- AHRI Practising Certification Program (Australian Human Resources Institute);
- PA-CRP PARIMA-ANZIIF Certified Risk Professional Certificate (ANZIIF); and
- Post-Graduate Certificate in Marketing (Charles Sturt University).

Work health and safety

Work Health Safety (WHS) updates are provided weekly to the Executive and regularly to the Board. No significant incidents were reported in 2017-18. ARPC appoints First Aid representatives and Emergency Wardens who are provided with formal training, as required. A number of staff attended fire extinguisher training during the year.

Wellbeing

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

Wellbeing Committee

A staff-led Wellbeing Committee supported by HR coordinates a range of activities each quarter addressing topics of physical and mental wellbeing, professional and personal development and community service.

Employee assistance program

Confidential counselling and support services are available to all staff and immediate family members through the Employee Assistance Program (EAP), accessed through the Treasury.

Lifestyle payment

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

Staff inclusion

ARPC holds regular all-staff meetings. These meetings provide an informal, open forum with the CEO for questions and discussions relating to ARPC business activities and operations.

Other staff programs

Other staff-led activities in the period included a running group, futsal and basketball team. There are also occasional social activities.

Workplace diversity program

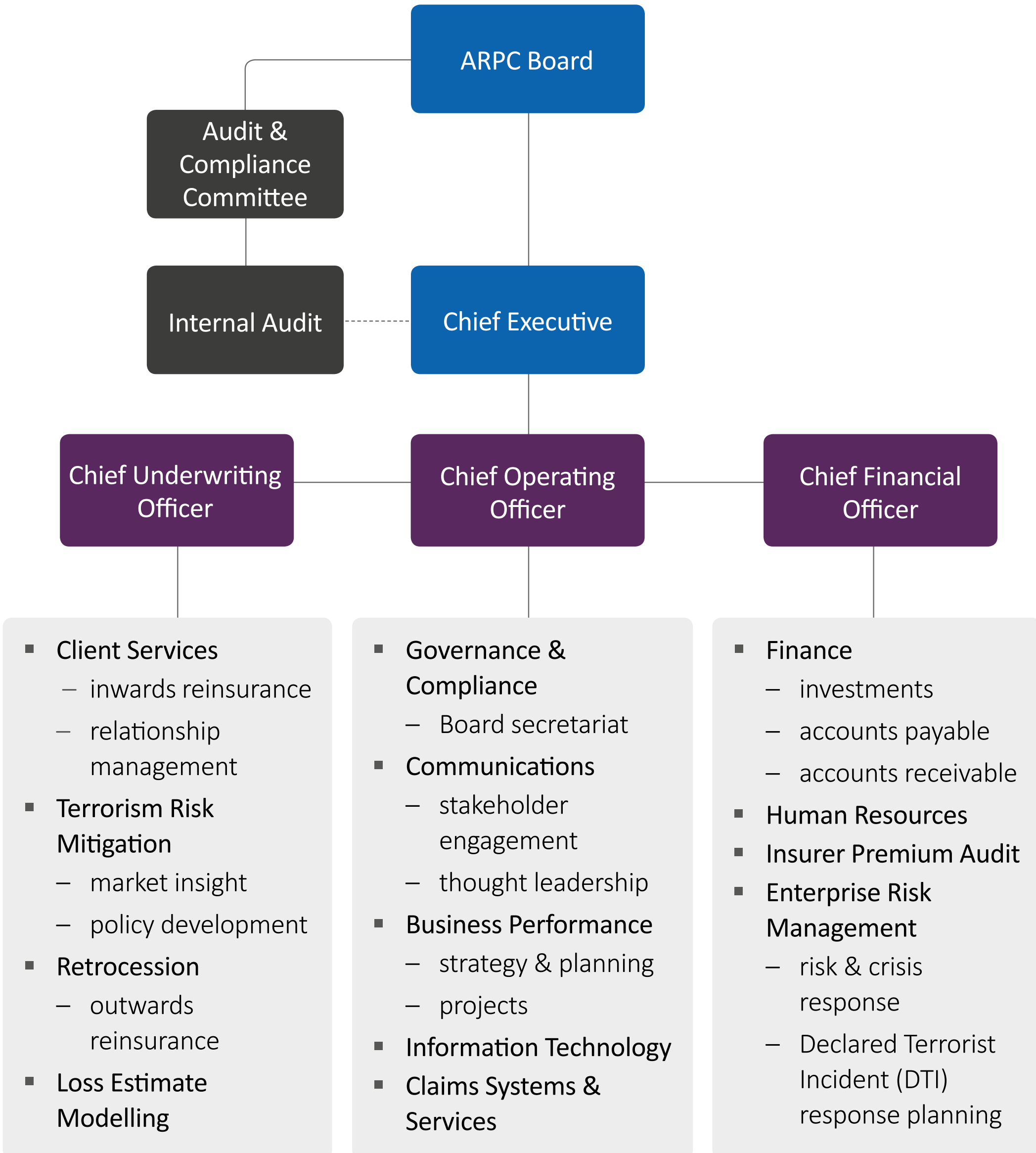
ARPC's Diversity and Equal Employment Opportunity (EEO) policies are provided by the Treasury under the MoU. We strive to provide a workplace that demonstrates diversity and EEO through our recruitment processes. We also provide flexible work-life balance opportunities, including arrangements to work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

As at 30 June 2018, ARPC met the Indigenous employment target of 3 per cent set by the Australian Government in response to the Forrest Review.

Promoting an ethical working environment

ARPC continues to promote ARPC's Values and Code of Conduct.

Figure 5.5: ARPC organisational chart



FINANCIAL STATEMENTS 06

Certification 76

Primary financial statement 79

Statement of Comprehensive Income 80

Statement of Financial Position 81

Statement of Changes in Equity 82

Cash Flow Statement 83

Overview 85

Notes to the financial statements 87

1. Financial performance **87**

1.1 Revenue 87

1.2 Expenses 89

2. Financial position **92**

2.1 Financial assets 92

2.2 Non-financial assets 94

2.3 Unearned liabilities 97

2.4 Payables 97

2.5 Other provisions 98

3. People and relationships **99**

3.1 Employee provisions 99

3.2 Key management personnel remuneration 100

3.3 Related party disclosures 100

4. Managing uncertainties **102**

4.1 Risk management 102

4.2 Financial risk management 104

4.3 Contingent assets and liabilities 110

4.4 Financial instruments 111

4.5 Fair value measurement 112

INDEPENDENT AUDITOR'S REPORT

To the Assistant Treasurer

Report on the Annual Financial Statements

Opinion

In my opinion, the financial statements of the Australian Reinsurance Pool Corporation for the year ended 30 June 2018:

(a) comply with Australian Accounting Standards – Reduced Disclosure Requirements 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 2018 and its financial performance and cash flows for the year then ended.

The financial statements of the Australian Reinsurance Pool Corporation, which I have audited, comprise the following statements as at 30 June 2018 and for the year then ended:

- Statement by the Accountable Authority, the Chief Executive Officer and the Chief Financial Officer;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement; and
- Notes to the financial statements, comprising a Summary of Significant Accounting Policies and other explanatory information.

Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Australian Reinsurance Pool Corporation in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Accountable Authority's Responsibility for the Financial Statements

As the Accountable Authority of the Australian Reinsurance Pool Corporation, the Board is 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 – Reduced Disclosure Requirements and the rules made under that Act. The Board is also responsible for such internal control as the Board determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the Australian Reinsurance Pool Corporation's ability to continue as a going concern, taking into account whether the entity's operations will cease as a result of an administrative restructure or for any other reason. The Board is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Australian National Audit Office

Bola Oyetunji

Senior Executive Director

Delegate of the Auditor-General

Canberra

STATEMENT BY THE ACCOUNTABLE AUTHORITY, CHIEF EXECUTIVE AND CHIEF FINANCIAL OFFICER

In our opinion, the attached financial statements for the year ended 30 June 2018 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)

Mr Michael Callaghan AM PSM

Member
25 September 2018

(signature supplied)

Dr Christopher Wallace

Chief Executive
25 September 2018

(signature supplied)

Mr John Park

Chief Financial Officer
25 September 2018

STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 JUNE 2018

	Notes	2018 $'000	2017 $'000
Premium revenue	1.1A	169,625	147,208
Outwards retrocession premium expense	1.1A	(62,369)	(61,546)
Commonwealth guarantee fee	1.1A	(55,000)	(55,000)
Net premium revenue		52,256	30,662
Claims expense		–	–
Retrocession and other recoveries revenue		–	–
Net claims incurred		–	–
Retrocession commission income	1.1B	5,979	5,953
Acquisition costs	1.2G	(1,843)	(2,072)
Other operating expenses	1.2G	(6,873)	(6,291)
Underwriting result		49,519	28,252
Investment income	1.1C	13,675	15,574
Other income	1.1D	25	176
Finance charges	1.2E	(2)	(3)
Operating result before capital holding fee		63,217	43,999
Capital holding fee	1.2D	(35,000)	(35,000)
Operating result		28,217	8,999

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

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Notes	2018 $'000	2017 $'000
ASSETS			
Financial assets			
Cash and cash equivalents	2.1A	1,561	809
Trade and other receivables	2.1B	48,121	43,124
Investments	2.1C	464,700	490,000
Deferred insurance assets	2.1D	33,252	31,377
Total financial assets		547,634	565,310
Non-financial assets			
Leasehold improvements	2.2A	590	678
Plant and equipment	2.2A	181	137
Intangibles	2.2A	35	71
Other non-financial assets	2.2B	35	97
Total non-financial assets		841	983
Total assets		548,475	566,293
LIABILITIES			
Unearned liabilities			
Unearned premium liability	2.3A	85,117	75,842
Unearned commission liability	2.3A	3,086	2,943
Total unearned liabilities		88,203	78,785
Payables			
Suppliers	2.4A	33,050	31,029
Other payables	2.4B	25	25
Total payables		33,075	31,054
Provisions			
Employee provisions	3.1A	403	420
Other provisions	2.5A	901	858
Total provisions		1,304	1,278
Total liabilities		122,582	111,117
Net assets		425,893	455,176
EQUITY			
Accumulated reserves		–	–
Asset revaluation reserve		60	60
Claims handling reserve		25,098	24,513
Reserve for claims		400,735	430,603
Total equity		425,893	455,176

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

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2018

	Accumulated reserves		Asset revaluation reserve		Claims handling reserve		Reserve for claims		Total equity	
	2018 $'000	2017 $'000	**2018 $'000**	2017 $'000	**2018 $'000**	2017 $'000	**2018 $'000**	2017 $'000	**2018 $'000**	2017 $'000
Opening balance at 1 July	**–**	–	**60**	60	**24,513**	24,036	**430,603**	479,581	**455,176**	503,677
Income and expenses										
Net operating result	**28,217**	8,999	**–**	–	**–**	–	**–**	–	**28,217**	8,999
Total income and expenses	**28,217**	8,999	**–**	–	**–**	–	**–**	–	**28,217**	8,999
Asset revaluation reserve	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Transfers between equity components										
Transfer to reserve for claims	**(28,217)**	(8,999)	**–**	–	**–**	–	**–**	–	**(28,217)**	(8,999)
Claims handling reserve	**–**	–	**–**	–	**585**	477	**–**	–	**585**	477
Transfer to reserve for claims from accumulated reserves	**–**	–	**–**	–	**–**	–	**27,632**	8,522	**27,632**	8,522
Transactions with owners										
Distributions to owners	**–**	–	**–**	–	**–**	–	**(57,500)**	(57,500)	**(57,500)**	(57,500)
Closing balance at 30 June	**–**	–	**60**	60	**25,098**	24,513	**400,735**	430,603	**425,893**	455,176

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

Accounting Policy

Transactions with Government as owners

Pursuant to section 38(3)(a) of the Terrorism Insurance Act 2003 (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 ARPC. 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 on 14 May 2018, to pay to the Commonwealth a sum of $90 million in the nature of a combined fee ($55 million Commonwealth guarantee fee and $35 million capital holding fee) (s.38(3)(a)) and a sum of $57.5 million as a dividend for retrospective compensation when no guarantee fee was charged (s.38(3)(b)). ARPC has made payments to the Commonwealth during 2018 totalling $147.5 million (2017: $147.5 million).

Reserves

The intention of the Australian Government in establishing ARPC was that premiums would be used to fund a reserve pool. The reserve for claims has been created to enable ARPC to build up the required pool.

CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 JUNE 2018

	Notes	**2018 $'000**	2017 $'000
OPERATING ACTIVITIES			
Cash received			
Premiums		189,847	171,931
Commission		6,578	6,565
Interest		13,766	18,122
Rent		–	100
Other cash received		25	76
Total cash received		210,216	196,794
Cash used			
Retrocession payments		64,841	64,136
Employees		4,226	3,906
Suppliers		94,329	94,449
Net GST paid		13,757	12,247
Total cash used		177,153	174,738
Net cash from operating activities		33,063	22,056
INVESTING ACTIVITIES			
Cash received			
Proceeds from maturities of term deposits		1,582,500	1,292,000
Total cash received		1,582,500	1,292,000
Cash used			
Placement of term deposits		1,557,200	1,258,000
Purchase of property, plant and equipment		111	27
Total cash used		1,557,311	1,258,027
Net cash from investing activities		25,189	33,973
FINANCING ACTIVITIES			
Cash used			
Distributions to owners		57,500	57,500
Total cash used		57,500	57,500
Net cash used by financing activities		(57,500)	(57,500)
Net increase/(decrease) in cash held		752	(1,471)
Cash and cash equivalents at the beginning of the reporting period		809	2,280
Cash and cash equivalents at the end of the reporting period	2.1A	1,561	809

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

Objectives of Australian Reinsurance Pool Corporation

Australian Reinsurance Pool Corporation (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 was established to protect Australia from economic losses caused by terrorism catastrophe.

The role of ARPC is to administer the terrorism reinsurance scheme and reduce losses arising from catastrophic events caused by terrorism, using our expertise to provide cost effective reinsurance to support national resilience. Specifically, ARPC provides primary insurers with reinsurance for commercial property and associated business interruption losses arising from a Declared Terrorism Incident (DTI). The TI Act operates by overriding terrorism exclusion clauses in eligible insurance contracts to the extent that losses excluded are eligible terrorism losses arising from a 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 present programs is dependent upon Australian Government policy.

The basis of preparation

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

The financial statements have been prepared in accordance with:

a) *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR) for reporting periods ending on or after 1 July 2015; and

b) the Australian Accounting Standards and Interpretations – Reduced Disclosure Requirements issued by the Australian Accounting Standards Board that apply for the reporting period.

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 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 stated.

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

New accounting standards

Consistent with Australian Government policy, no accounting standard has been adopted earlier than the application date as stated in the standard.

The adoption of new standards and amendments that came into effect for this financial year did not have a significant impact on the financial statements.

A number of new and revised Australian Accounting Standards apply to ARPC's financial statements in later years. ARPC's assessment of the main effect of these standards on its financial statements is set out below.

AASB 9 – Financial instruments

AASB 9 contains new requirements for the classification, measurement and de-recognition of financial assets and liabilities. It will replace the corresponding AASB 139 Financial Instruments: Recognition and Measurement. ARPC will apply the new standard in the 2018-19 financial year. The transition to AASB 9 is unlikely to result in a reclassification or impairment of ARPC's financial instruments.

AASB 16 – Leases

AASB 16 requires the net present value of payments under most operating leases to be recognised as assets and liabilities. ARPC has $2.110 million in operating lease commitments as at 30 June 2018. ARPC will apply the new standard in the 2019-20 financial year. The transition to AASB 16 will likely result in a right-of-use asset and lease liability being recognised on ARPC's Balance Sheet to the value of the remaining operating lease commitment at transition date.

AASB 17 – Insurance contracts

AASB 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It will replace the corresponding AASB 1023 General Insurance Contracts. ARPC will apply the new standard in the 2021-22 financial year. The transition to AASB 17 will have an impact on ARPC's financial position, however it is not possible to quantify the impact at present.

Taxation

ARPC is exempt from income tax by virtue of section 36 of the TI Act. ARPC is subject to Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST). Revenues, expenses and assets are recognised net of the amount of GST except:

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

Insurance

ARPC has insured its operating risks with a number of leading insurers using the brokering services of Aon Risk Services Australia Limited. The insurance coverage includes Directors and Officers Liability, Public and Products Liability, Group Journey Injury Insurance, Corporate Travel Insurance, Cyber Insurance and Business Package Insurance. Workers compensation is insured through Comcare Australia.

Outstanding claims liability

The financial statements have not included a liability for outstanding claims (2017: $0).

There were no declared terrorist incidents announced during the reporting period or outstanding claims from incidents in prior periods. Any such declaration must be announced by the Treasurer after consultation with the Attorney-General.

ARPC considers that there are no significant inherent uncertainties in respect of the liability estimate. Accordingly, ARPC has not established a central estimate and has not, therefore, applied a prudential margin in respect of the outstanding claims liability. This is in accordance with AASB 1023 General Insurance Contracts.

In the event of a declared terrorist incident, an actuary will be engaged to independently assess the outstanding claims liability at the balance date when it is possible that claims will be in excess of the primary insurer's deductible.

Net claims incurred

There were no declared terrorist incidents during the reporting period. Net claims incurred from prior year declared terrorist incidents did not exceed the individual primary insurer's deductible.

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.

Events after the reporting period

ARPC is not aware of any significant events that have occurred since reporting date which warrant disclosure in these financial statements.

1. Financial performance

This section analyses the financial performance of ARPC for the financial year ended 30 June 2018.

1.1 Revenue

	2018 $'000	2017 $'000
1.1A: Net premium revenue		
Gross written premium	178,900	158,486
Movement in unearned premium reserve	(9,275)	(11,278)
Total premium revenue	169,625	147,208
Outwards retrocession premium expense	(62,369)	(61,546)
Commonwealth guarantee fee	(55,000)	(55,000)
Net premium revenue	52,256	30,662

Accounting policy

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 2018 are recognised as premiums receivable in the Statement of Financial Position. The proportion of premium received or receivable not earned in the Statement of Comprehensive Income at the reporting date is recognised in the Statement of Financial Position 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 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 contract indemnity period. This is in accordance with the expected pattern of the incidence of risk ceded.

Commonwealth guarantee fee

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 ARPC. A direction was given by the Minister on 14 May 2018, to pay to the Commonwealth a sum of $55 million in the nature of a Commonwealth guarantee fee. The Commonwealth guarantee operates as retrocession protection above the private market retrocession layers. The guarantee is an unlimited solvency guarantee, but the reduction percentage mechanism is designed to limit the guarantee to $10 billion.

	2018 $'000	2017 $'000
1.1B: Retrocession commission income		
Retrocession commission income	5,979	5,953
Total retrocession commission income	5,979	5,953

Accounting policy

Retrocession commission revenue is recognised in the Statement of Comprehensive Income in accordance with the pattern of retrocession expenses incurred.

	2018 $'000	2017 $'000
1.1C: Investment income		
Cash at bank	117	179
Term deposits	13,558	15,395
Total investment income	13,675	15,574

Accounting policy

Interest revenue is recognised using the effective interest method.

	2018 $'000	2017 $'000
1.1D: Other income		
Rental income	–	100
Other revenue	25	76
Total other income	25	176

1.2 Expenses

	2018 $'000	2017 $'000
1.2A: Employee benefits		
Wages and salaries	3,243	2,916
Superannuation		
Defined contribution plans	436	418
Defined benefit plans	6	7
Leave and other entitlements	383	345
Separation and redundancies	191	–
Total employee benefits	4,259	3,686

Accounting policy

Accounting policies for employee related expenses are contained in the People and Relationships section.

	2018 $'000	2017 $'000
1.2B Suppliers		
Goods and services supplied or rendered		
Consultants	1,085	908
Reinsurance broker services	537	674
Information & communications technology	341	376
Shared services	336	332
Assurance services	298	352
Travel	247	245
Conferences and training	240	283
Deferred acquisition costs	200	46
Legal fees	125	70
Other	402	319
Total goods and services supplied or rendered	3,811	3,605
Goods supplied	82	81
Services rendered	3,729	3,524
Total goods and services supplied or rendered	3,811	3,605
Other supplier expenses		
Operating lease rentals	415	488
Workers compensation insurance	40	33
Total other supplier expenses	455	521
Total supplier expenses	4,266	4,126

Leasing commitments

ARPC in its capacity as lessee currently has one agreement relating to office accommodation. Lease payments are subject to regular increases in accordance with rent reviews and pre-determined percentage increases. The remaining period of the lease agreement is six (6) years. This operating lease is effectively non-cancellable.

	2018 $'000	2017 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within 1 year	350	334
Between 1 to 5 years	1,580	1,507
More than 5 years	180	603
Total operating lease commitments	2,110	2,444

Accounting policy

An operating lease is a lease where the lessor retains substantially all risks and benefits in the underlying asset. Operating lease payments are expensed on a straight-line basis which is representative of the pattern of benefits derived.

	2018 $'000	2017 $'000
1.2C Depreciation and amortisation		
Depreciation		
Leasehold improvements	109	105
Property, plant and equipment	45	25
Total depreciation	154	130
Amortisation		
Intangibles – computer software	36	421
Total amortisation	36	421
Total depreciation and amortisation	190	551

Accounting policy

Accounting policies for depreciation and amortisation are contained in the non-financial assets section.

	2018 $'000	2017 $'000
1.2D Capital holding fee paid to the Commonwealth		
Capital holding fee	35,000	35,000
Total capital holding fee	35,000	35,000

	2018 $'000	2017 $'000
1.2E Finance charges		
Bank charges	2	3
Total finance charges	2	3

Accounting policy

All finance charges are expensed as incurred.

	2018 $'000	2017 $'000
1.2F Losses from asset sales		
Property, plant and equipment		
Carrying value of assets disposed	1	–
Total losses from asset sales	1	–

	2018 $'000	2017 $'000
1.2G: Reconciliation of expenses to the Statement of Comprehensive Income		
Expenses by nature		
Employee benefits	4,259	3,686
Suppliers	4,266	4,126
Depreciation and amortisation	190	551
Capital holding fee paid to the Commonwealth	35,000	35,000
Finance charges	2	3
Losses from asset sales	1	–
Total expenses by nature	43,718	43,366
Expenses by function		
Acquisition costs	1,843	2,072
General and administration expenses	41,875	41,294
Total expenses by function	43,718	43,366
Reconciliation of expenses to the Statement of Comprehensive Income		
General and administration expenses	41,875	41,294
Less: Capital holding fee paid to the Commonwealth	(35,000)	(35,000)
Less: Finance costs	(2)	(3)
Other operating expenses	6,873	6,291

2. Financial position

This section analyses ARPC's assets used to conduct its operations and the operating liabilities incurred as a result. Employee-related information is disclosed in the People and relationships section.

2.1 Financial assets

	2018 $'000	2017 $'000
2.1A: Cash and cash equivalents		
Cash at bank	1,561	809
Total cash and cash equivalents	1,561	809

Accounting policy

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

	2018 $'000	2017 $'000
2.1B: Trade and other receivables		
Premium receivable	42,438	37,482
Commission receivable	3,061	2,919
Interest receivable	2,599	2,689
Net GST receivable from the Australian Taxation Office	23	34
Total receivables	48,121	43,124

Credit terms are net 30 days (2017: 30 days). Trade debtors are non-interest bearing.

Interest receivable

Effective interest rates range from 0.9 per cent to 2.75 per cent (2017: 0.9 per cent to 2.71 per cent) and the frequency of payment is monthly for cash accounts and on maturity for term deposits.

Accounting policy

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 receivables impairment 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 provision established 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.

		2018 $'000	2017 $'000
2.1C: Investments			
Fixed interest term deposits		464,700	490,000
Total investments		464,700	490,000

Term deposits at balance date are held with local banks regulated by the Australian Prudential Regulation Authority (APRA). These deposits earn an effective rate of interest of 2.61 per cent (2017: 2.53 per cent). Interest is payable on maturity for all term deposits. Terms are between 91 and 182 days (2017: 91 and 367 days).

Accounting policy

Fixed interest deposits are carried at the face value of the amounts deposited. The carrying amounts are an approximate to their fair value.

		2018 $'000	2017 $'000
2.1D: Deferred insurance assets			
(i) Deferred insurance assets as at 1 July			
Deferred retrocession premium	2.1D(ii)	32,487	30,412
Deferred acquisition costs	2.1D(iii)	765	965
Total deferred insurance assets		33,252	31,377
(ii) Deferred retrocession premium as at 1 July			
Deferred retrocession premium as at 1 July		30,412	31,629
Retrocession premium deferred		32,487	30,412
Amortisation charged to expense		(30,412)	(31,629)
Deferred retrocession premium as at 30 June		32,487	30,412
(iii) Deferred acquisition costs as at 1 July			
Deferred acquisition costs as at 1 July		965	1,012
Acquisition costs deferred		765	965
Amortisation charged to expense		(965)	(1,012)
Deferred acquisition costs as at 30 June		765	965

Accounting policy

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 in that it represents future benefits to ARPC, 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 benefit received. The amount deferred represents the future economic benefit to be received from the retrocession contracts.

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 (2017: $0). Accordingly, there has been no write down in ARPC's deferred acquisition costs.

2.2 Non-financial assets

2.2A: Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment and Intangibles for 2018

	Leasehold improvements $'000	Plant and equipment $'000	Intangibles – computer software purchased $'000	Total $'000
As at 1 July 2017				
Gross book value	799	189	2,661	3,649
Accumulated depreciation, amortisation and impairment	(121)	(52)	(2,590)	(2,763)
Total as at 1 July 2017	678	137	71	886
Additions	21	90	–	111
Depreciation and amortisation expense	(109)	(45)	(36)	(190)
Asset disposal as expense in Statement of Comprehensive income	–	(1)	–	(1)
Total as at 30 June 2018	590	181	35	806
Total as at 30 June 2018				
Gross book value	820	277	2,661	3,758
Accumulated depreciation, amortisation and impairment	(230)	(96)	(2,626)	(2,952)
Total as at 30 June 2018	590	181	35	806

No indicators of impairment were found for property, plant and equipment and intangibles (2017: Nil).

No property, plant and equipment and intangibles are expected to be sold or disposed of within the next 12 months (2017: Nil).

Revaluations of non-financial assets

All revaluations were conducted in accordance with the revaluation accounting policy stated below.

Accounting policy

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. Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and income at their fair value at the date of acquisition.

Asset recognition threshold

Purchases of property, plant and equipment are recognised initially at cost in the Statement of Financial Position, 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 also relevant to make good provisions in property leases taken up by ARPC where there exists an obligation to restore the property back 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

Following initial recognition at cost, property, plant and equipment are carried at fair value less subsequent accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets did not differ materially from the assets' fair values as at the reporting date. The regularity of independent valuations depended upon the volatility of movements in market values for the relevant assets.

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 reversed a previous revaluation decrement of the same asset class that was previously recognised in the surplus/deficit. Revaluation decrements for a class of assets are recognised directly in the surplus/deficit except to the extent that they reversed a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the revalued amount. Depreciation is recalculated over the remaining estimated useful life of the asset.

Depreciation

Depreciable plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to ARPC using 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:

	2018	2017
Leasehold improvements	Lease term	Lease term
Plant and equipment	3 to 8 years from purchase date	3 to 8 years from purchase date

Impairment

All assets were assessed for impairment at 30 June 2018. 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 of disposal and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Intangibles

Software development expenditure that meets the criteria as an intangible asset is capitalised in the Statement of Financial Position 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 project commitment are treated as research costs and are expensed as incurred.

ARPC's intangibles comprise purchased 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 lives of ARPC's software assets are 4 years (2017: 4 years).

All software assets were assessed for indications of impairment as at 30 June 2018.

	2018 $'000	2017 $'000
2.2B Other non-financial assets		
Prepayments	35	97
Total other non-financial assets	35	97

2.3 Unearned liabilities

	Notes	2018 $'000	2017 $'000
2.3A: Unearned liability			
Unearned premium liability	2.3B	**85,117**	75,842
Unearned commission liability	2.3C	**3,086**	2,943
Total unearned liability		88,203	78,785
2.3B: Unearned premium liability			
Unearned premium liability as at 1 July		**75,842**	64,563
Deferral of premiums on contracts written in the period		**85,117**	75,842
Earning of premiums written in the previous periods		**(75,842)**	(64,563)
Unearned premium liability as at 30 June		85,117	75,842
2.3C: Unearned commission liability			
Unearned commission liability as at 1 July		**2,943**	3,058
Deferral of commissions on contracts written in the period		**3,086**	2,943
Earning of commissions written in the previous periods		**(2,943)**	(3,058)
Unearned commission liability as at 30 June		3,086	2,943

2.4 Payables

	2018 $'000	2017 $'000
2.4A: Suppliers payable		
Retrocession payable	**32,222**	30,164
Accruals	**828**	865
Total suppliers payables	33,050	31,029

Retrocession payable:

In accordance with ARPC's retrocession treaty expiring 31 December 2018, the retrocession premium is paid quarterly in advance. Settlement is made net 30 days.

Trade creditors:

Settlement is made net 30 days.

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

	2018 $'000	2017 $'000
2.4B: Other payables		
Salaries and wages	**22**	22
Superannuation	**3**	3
Total other payables	**25**	25

Accounting policy

Accounting policies for employee related payables are contained in the People and Relationships section.

2.5 Other provisions

	Lease incentive $'000	**Provision for restoration $'000**	**Other provisions $'000**	**Total $'000**
2.5A: Other provisions				
Carrying amount as at 1 July 2017	85	122	651	858
Additional provisions made	34	–	9	43
Amounts used	–	–	–	–
Unwinding of discount	–	–	–	–
Amounts owing at 30 June 2018	119	122	660	901

The lease end date for ARPC's Market Street, Sydney office is 30 November 2023.

Provisions noted in Other provisions relate to future premium refund payable (2017: future premium refund payable).

The financial statements have not included a provision for outstanding claims (2017: nil).

Accounting policy

Lease incentives

Lease incentives taking the form of rent free periods are recognised as liabilities when received and subsequently reduced by allocating lease payments between rental expense and a reduction of the lease liability over the lease term.

3. People and relationships

This section describes a range of employment and post-employment benefits provided to our people and our relationships with other key people.

3.1 Employee provisions

	2018 $'000	2017 $'000
3.1A: Employee Provisions		
Leave	403	420
Total employee provisions	403	420

Accounting policy

Liabilities for short-term employee benefits and termination benefits expected within twelve months of the end of the reporting period are measured at their nominal amounts.

Other long-term employee benefits are measured as the net total of the present value of the defined benefit obligation at the end of the reporting period.

Leave

The liability for employee benefits includes provision for annual leave, long service leave and purchased lease. 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 sick leave entitlement.

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

The liability for long service leave is the present value of employee entitlements based on the Australian Government shorthand method as per the FRR. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Superannuation

Superannuation guarantee contributions are made by ARPC for employees and Members.

The default superannuation scheme is AustralianSuper.

The liability for superannuation recognised as at 30 June 2018 represents the outstanding contributions for the final fortnight of the year.

3.2 Key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of ARPC, directly or indirectly, including any director (whether executive or otherwise) of ARPC. ARPC has determined the key management personnel to be the responsible Portfolio Minister and Cabinet, ARPC's seven Board Members, the Chief Executive, the Chief Underwriting Officer, the Chief Operating Officer and the Chief Financial Officer.

Key management personnel remuneration is reported in the table below:

	2018 $	2017 $
Short-term employee benefits	**1,912,225**	1,770,273
Post-employment benefits	**179,154**	201,099
Other long-term employee benefits	**166,612**	170,388
Termination benefits	**191,376**	–
Total key management personnel remuneration expense[1]	**2,449,367**	2,141,760

3.3 Related party disclosures

Members of ARPC at 30 June 2018 were:

Mr Ian Carson

Ms Karen Payne

Mr John Peberdy

Ms Elaine Collins

Ms Janet Torney

Ms Robin Low

Mr Michael Callaghan

New appointments during the year:

- Mr Ian Carson was appointed on 1 July 2017 for a 3-year term.
- Ms Karen Payne was appointed on 5 October 2017 for a 3-year term.

Changes in membership during the year:

- Mr Tom Karp's term expired on 4 October 2017.
- Ms Janet Torney's term expired on 30 June 2018 and she was re-appointed effective 1 July 2018 for a 3-year term.
- Ms Elaine Collins' term expired on 30 June 2018 and she was re-appointed effective 1 July 2018 for a 3-year term.
- Mr John Peberdy's term expired on 30 June 2018 and he was re-appointed effective 1 July 2018 for a 3-year term.

Other than where noted, Members held their positions for the full year.

1. The above key management personnel remuneration excludes the remuneration and other benefits of the responsible Portfolio Minister and Cabinet. The Portfolio Minister and Cabinet's remuneration and other benefits are set by the Remuneration Tribunal and are not paid by ARPC.

Key management personnel employed by ARPC at 30 June 2018 were:

- Dr Christopher Wallace – Chief Executive
- Mr Michael Pennell – Chief Underwriting Officer
- Ms Michaela Flanagan – Chief Operating Officer
- Mr John Park – Chief Financial Officer

Related party relations:

ARPC is an Australian Government controlled entity established by section 9 of the TI Act. ARPC is only authorised to transact business and carry out functions as provided in the TI Act or as approved or directed by the Minister. ARPC's liabilities are guaranteed by the Commonwealth by virtue of section 35 of the TI Act. Related parties to ARPC are the Members, Key Management Personnel including the Portfolio Minister and Cabinet, and other Australian Government entities.

Transactions with related parties:

ARPC's Chair Ian Carson AM became a partner with PricewaterhouseCoopers (PwC) effective 1 August 2018, when his previous firm PPB Advisory was aquired by PwC. APRC purchases internal audit services from PwC, this contract is overseen by ARPC's Audit and Compliance Committee of which Mr Carson is not a member. As this is an event subsequent to the balance date there were no transactions with PwC during the current financial year when Mr Carson was a partner.

Given the breadth of Government activities, related parties may transact with the government sector in the same capacity as ordinary citizens. These transactions are disclosed in the table below. Apart from the items disclosed in the table below and in note 3.2 relating to the remuneration and expenses of key management personnel during the year, there were no further related party transactions.

The following cash transactions with related parties occurred during the year:

		2018 **$**	2017 $
Related party	**Purpose**		
Geoscience Australia	Development of loss estimate model	**411,800**	389,400
The Treasury	Provision of corporate support services to ARPC	**336,325**	331,958
Department of Foreign Affairs and Trade	Transfer of employee leave liability	**53,556**	–
Comcare	Workers compensation insurance premiums	**46,229**	41,097
Australian Government Solicitor	Provision of legal services	**19,287**	7,640
Artbank	Hire of artwork	**2,913**	3,210
Department of Communications and the Arts	Copyright fees	**2,711**	1,009
Attorney General's Department	Course registration fees	**–**	2,250
		872,821	776,564

4. Managing uncertainties

This section analyses how ARPC manages risks within its operating environment.

4.1 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.

ARPC senior management have developed, implemented and maintained a RMS. The Board reviews the RMS at each meeting and confirms there are systems in place to manage and mitigate the risk of breaching legislative and prudential requirements.

The broad risk categories discussed below are:

- insurance risk;
- operational risk;
- capital risk; and
- financial risks (considered in Note 4.2).

Within each of these categories, risks are evaluated before considering the impact of mitigating controls. The existence and effectiveness of such mitigating controls are measured such 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, with retentions to share risk exposure with each cedant;
- ARPC undertakes a cedant review program to verify premium levels;
- ARPC's exposure to insurance risk concentrations is mitigated by the fact the TI Act applies to all eligible insurance contracts. The TI Act wording is designed to facilitate concentration risk diversification both geographically and by type of risk.

Claims risk

Claims submitted to ARPC associated with the 2014 DTI did not exceed the retentions of the reinsured. Therefore, no claims expense has been incurred and no liability has been 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 ARPC 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 validate that all claims advices are captured and updated on a timely basis;
- a standing agreement with an actuarial firm to value claims arising from a DTI;
- collecting annual aggregate exposure data from cedants;
- supporting the continued development of blast and plume models estimating terrorism losses to support advice given regarding a reduction percentage and ultimate claim costs;
- the asset mix which ARPC invests in is regulated by section 59 of the PGPA Act. The management of investments is closely monitored to confirm the liquidity of funds to match the cash needs of ARPC;
- maintaining a claims handling reserve. The purpose of this reserve is to validate that there are sufficient monies set aside to allow ARPC to continue to operate in order to finalise any claims and reinsurance recoveries following the scheme cessation or a significant DTI. The claims handling reserve as at 30 June 2018 is $25.10 million (2017: $24.51 million).

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 risks within the entity's enterprise wide risk management framework. ARPC's mitigation strategies for operational risk include:

- effective staff recruitment and retention policies;
- 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; and
- ongoing management of ARPC's Business Continuity Plan.

Capital risk

ARPC's capital structure to cover claims from declared terrorist incidents is outlined below:

- ARPC has access to its reserve for claims in cash and investments of $400 million (2017: $431 million);
- In the event of a DTI, ARPC would be required to pay $285 million (2017: $350 million) before claiming on its retrocession program;
- ARPC has access to a $3.065 billion retrocession program in excess of the $285 million retention (2017: $3.0 billion retrocession program, in excess of $350 million);
- ARPC has access to a Commonwealth guarantee for the due payment of money that may become payable by ARPC 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 (2017: $10 billion).

4.2 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 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 (owing to fluctuations in foreign exchange rates);
- interest rate risk (owing to fluctuations in market interest rates); and
- price risk (owing to fluctuations in market prices).

Foreign currency risk

Foreign currency risk refers to the risk that the value of the Australian dollar will fluctuate because of changes in foreign exchange rates.

All foreign transactions are converted to Australian dollars at the exchange rate at the date of the transaction. There have been no foreign currency transactions recognised in the financial statements (2017: $0).

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

		Floating interest rate	**Fixed interest rate maturing in**			**Total**
		1 year or less	**1 year or less**	**1-5 years**	**> 5 years**	
	Notes	**2018 $'000**	**2018 $'000**	**2018 $'000**	**2018 $'000**	**2018 $'000**
Interest bearing financial assets						
Cash and cash equivalents	2.1A	1,561	–	–	–	1,561
Fixed term deposits	2.1C	–	464,700	–	–	464,700
Total		1,561	464,700	–	–	466,261
Weighted average interest rate		1.06%	2.61%	–	–	2.61%

		Floating interest rate	**Fixed interest rate maturing in**			**Total**
		1 year or less	**1 year or less**	**1-5 years**	**> 5 years**	
	Notes	2017 $'000	2017 $'000	2017 $'000	2017 $'000	2017 $'000
Interest bearing financial assets						
Cash and cash equivalents	2.1A	809	–	–	–	809
Fixed term deposits	2.1C	–	490,000	–	–	490,000
Total		809	490,000	–	–	490,809
Weighted average interest rate		1.05%	2.53%	–	–	2.53%

The Department of Finance deemed a 20-basis point change to be reasonably possible and ARPC adopted this when reporting interest rate risk (2017: 30-basis point change). ARPC has considered the implied financial impact of the deemed 20-basis point change. 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	
	2018 %	2017 %	**2018 $'000**	2017 $'000	**2018 $'000**	2017 $'000
Interest rate movement						
Interest bearing	**+0.20**	+0.30	**933**	1,472	**933**	1,472
Financial assets	**-0.20**	-0.30	**(933)**	(1,472)	**(933)**	(1,472)

Price risk

Price risk is the risk that the fair value of a financial instrument's future cash flows will fluctuate because of market price changes, other than those arising from interest rate or currency risk. These changes can be caused by factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instruments traded on the market.

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

Credit risk

Credit risk is the risk that one party to a financial instrument will cause financial loss to the other party by failing to discharge an obligation. The following policies and procedures are in place to mitigate ARPC's credit risk:

- premium debtors in respect of credit risk is monitored monthly; and
- an approved investment policy document, compliance with which is monitored and reported monthly.

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

	Notes	Credit rating						
		AAA	**AA-**	**A+**	**A**	**BBB+**	**Unrated**	**Total**
		2018 $'000	**2018 $'000**	**2018 $'000**	**2018 $'000**	**2018 $'000**	**2018 $'000**	**2018 $'000**
ARPC								
Cash and cash equivalents	2.1A	1,561	–	–	–	–	–	1,561
Receivables	2.1B	–	–	–	–	–	48,121	48,121
Fixed term deposits	2.1C	–	349,100	99,600	16,000	–	–	464,700
Total		1,561	349,100	99,600	16,000	–	48,121	514,382

	Notes	Credit rating						
		AAA	**AA-**	**A+**	**A**	**BBB+**	**Unrated**	**Total**
		2017 $'000	2017 $'000	2017 $'000	2017 $'000	2017 $'000	2017 $'000	2017 $'000
ARPC								
Cash and cash equivalents	2.1A	809	–	–	–	–	–	809
Receivables	2.1B	–	–	–	–	–	43,124	43,124
Fixed term deposits	2.1C	–	302,000	94,500	–	93,500	–	490,000
Total		809	302,000	94,500	–	93,500	43,124	533,933

The carrying amount of the relevant asset classes in the Statement of Financial Position 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.

		Not past due or impaired		Past due		Total	
	Notes	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Financial assets							
Premium receivables	2.1B	42,413	37,452	25	30	42,438	37,482
Commission receivables	2.1B	3,061	2,919	–	–	3,061	2,919
Interest receivable	2.1B	2,599	2,689	–	–	2,599	2,689
Net GST receivable	2.1B	23	34	–	–	23	34
Total		48,096	43,094	25	30	48,121	43,124

Ageing of financial assets past due

		0 to 30 days	31 to 60 days	61 to 90 days	90+ days	Total
	Notes	2018 $'000	2018 $'000	2018 $'000	2018 $'000	2018 $'000
Financial assets						
Premium receivables	2.1B	–	–	6	19	25
Total		–	–	6	19	25

Ageing of financial assets past due

		0 to 30 days	31 to 60 days	61 to 90 days	90+ days	Total
	Notes	2017 $'000	2017 $'000	2017 $'000	2017 $'000	2017 $'000
Financial assets						
Premium receivables	2.1B	18	–	10	2	30
Total		18	–	10	2	30

Retrocession counterparty risk

ARPC purchases retrocession to encourage commercial market reinsurance capacity to return to the terrorism insurance market, control exposure to DTI losses and protect capital. ARPC's strategy for retrocession selection, approval and monitoring is addressed by:

- placing treaty retrocession in accordance with ARPC's retrocession management strategy requirements;
- regularly reassessing retrocession arrangements based on current exposure information; and
- actively monitoring the credit quality of retrocessionaires.

Counterparty exposures and limits are reviewed by management on a regular basis. Retrocession is only placed with counterparties that have a Standard and Poor's credit rating of A- and above and concentration risk is managed through 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 Poor's credit ratings.

Retrocession program counterparty credit rating

	AAA	**AA+**	**AA**	**AA-**
	2018 $'000	**2018 $'000**	**2018 $'000**	**2018 $'000**
ARPC total exposure	–	71,660	86,188	414,511

	A+	**A**	**A-**	**Total**
	2018 $'000	**2018 $'000**	**2018 $'000**	**2018 $'000**
ARPC total exposure	1,243,960	780,594	468,087	3,065,000

Retrocession program counterparty credit rating

	AAA	**AA+**	**AA**	**AA-**
	2017 $'000	2017 $'000	2017 $'000	2017 $'000
ARPC total exposure	–	49,995	70,976	522,729

	A+	**A**	**A-**	**Total**
	2017 $'000	2017 $'000	2017 $'000	2017 $'000
ARPC total exposure	1,225,558	708,234	422,508	3,000,000

Liquidity risk

ARPC's financial liabilities are payables. Liquidity risk is the risk of encountering difficulty in meeting obligations associated with financial liabilities. ARPC has the internal policies and procedures in place such that there are sufficient resources to meet its financial obligations. ARPC's liquidity risk is also mitigated through the strategy of short-term investments that provides for ready access to assets.

The table below summarises 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	
	Notes	**2018 $'000**	2017 $'000	**2018 $'000**	2017 $'000	**2018 $'000**	2017 $'000
Financial liabilities							
Payables	2.4A	**33,050**	31,029	**–**	–	**33,050**	31,029
Total		**33,050**	31,029	**–**	–	**33,050**	31,029

4.3 Contingent assets and liabilities

Quantifiable contingencies

As at 30 June 2018 ARPC had no quantifiable contingencies (2017: Nil).

Unquantifiable contingencies

As at 30 June 2018 ARPC had no unquantifiable contingencies (2017: Nil).

Accounting policy

Contingent assets and liabilities

Contingent assets and liabilities are not recognised in the Statement of Financial Position 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, but not virtually certain, and contingent liabilities are recognised when settlement is greater than remote.

4.4 Financial instruments

	Notes	2018 $'000	2017 $'000
4.4A: Categories of financial instruments			
FINANCIAL ASSETS:			
Financial assets at fair value through profit and loss			
Cash and cash equivalents	2.1A	**1,561**	809
Fixed term deposits	2.1C	**464,700**	490,000
Total financial assets at fair value through profit and loss		**466,261**	490,809
Loans and receivables			
Receivables (gross)	2.1B	**48,121**	43,124
Total loans & receivables		**48,121**	43,124
Total financial assets		**514,382**	533,933
FINANCIAL LIABILITIES:			
Financial liabilities measured at amortised cost			
Suppliers payables	2.4A	**33,050**	31,029
Other payables	2.4B	**25**	25
Total financial liabilities measured at amortised cost		**33,075**	31,054
4.4B: Net income from financial assets			
Investment income	1.1C	**13,675**	15,574
Net gains from financial assets		**13,675**	15,574

Accounting policy

Financial assets

Financial assets are designated at fair value through the Statement of Comprehensive Income.

Initial recognition is at cost in the Statement of Financial Position and subsequent measurement is at fair value. Any resultant unrealised profits and losses are recognised in the Statement of Comprehensive Income.

Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial asset and 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.

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 the 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 (irrespective of having been invoiced).

All payables are unsecured and are paid within credit terms.

Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to the financial asset cash flows 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 (2017: $0).

4.5 Fair value measurement

4.5A: Fair value measurement

		Fair value measurements at the end of the reporting period	
	Notes	**2018 $'000**	2017 $'000
Financial assets			
Cash and cash equivalents	2.1A	**1,561**	809
Receivables (gross)	2.1B	**48,121**	43,124
Fixed term deposits[1]	2.1C	**464,700**	490,000
Total financial assets		**514,382**	533,933
Financial liabilities			
Suppliers payables	2.4A	**33,050**	31,029
Other payables	2.4B	**25**	25
Total		**33,075**	31,054

1. 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.

INDEX 07

Acronyms and abbreviations

AASB	Australian Accounting Standards Board
AGA	Australian Government Actuary
AGD	Attorney General's Department
ANAO	Australian National Audit Office
ANZIIF	Australian and New Zealand Institute of Insurance and Finance
AMB	A.M. BEST
APRA	Australia Prudential Regulation Authority
APSC	Australian Public Service Commission
ARPC	Australian Reinsurance Pool Corporation
ASX	Australian Stock Exchange
ATO	Australian Taxation Office
CAC Act	Commonwealth Authorities and Companies Act 1997
CAE	Chief Audit Executive
CBD	Central business district
CEO	Chief Executive Officer
CIPMA	Critical Infrastructure Protection Modelling and Analysis
COO	Chief Operating Officer
CY	Calendar year
DTI	Declared terrorist incident
FMO	Finance Minister's Orders
FOI Act	Freedom of Information Act 1982
GA	Geoscience Australia
GST	Goods and services tax
GWP	Gross written premium

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

HR	Human resources
ILS	Integrated Leadership System
IPS	Information Publication Scheme
OECD	Organisation for Economic Co-operation and Development
PGPA	*Public Governance, Performance and Accountability Act 2013*
PID	*Public Interest Disclosure Act 2013*
PMS	Performance Management System
RBA	Reserve Bank of Australia
RISe	Reinsurance information system, ARPC's client information management system
RMS	Risk management strategy
SBS	Special Broadcasting Service
S&P	Standard and Poor's
SES	Senior executive staff
TI Act	*Terrorism Insurance Act 2003*
UBSW	Union Bank of Switzerland Warburg
WCAG 2.0	Web Content Accessibility Guidelines 2.0
WHS Act	*Work Health and Safety Act 2011*
WHS	Work Health and Safety

Glossary

Aggregate sums insured	The total of all a cedant's property sums in a reporting zone, such as ARPC's tiers.
Calendar year	Refers to 1 January to 31 December of a particular year.
Capacity	The ability of an insurer, reinsurer, syndicate or market to absorb risk.
Captive insurer	An insurance company that is wholly owned by one or more entities (parent organisations) and whose main purpose is insuring the parent company's risks.
Co-reinsurance	A 'co-reinsurance' warranty may be imposed on some catastrophe excess of loss and stop loss contracts. The effect is to require the reinsured to retain net and unprotected a specified percentage of a layer such that it maintains an interest in economical loss settlement once the deductible has been exceeded.
Deductible	The 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 customer	An insurer that transfers all or part of a risk to a ceding reinsurer.
Reinsurance	Reinsurance is insurance that is purchased by an insurance company from one or other insurance companies (the reinsurer) directly or through a broker as a means of risk management.
Retention	The amount retained by a reinsured after placing reinsurance.
Retrocession	Reinsurance purchased by reinsurance companies as a means of risk management.
Retrocessoinaire	A reinsurer that accepts retrocession business, reinsuring reinsurers.
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).

List of figures

Figure 0.1: Summary of Key Financial Metrics 2017-18	5
Figure 1.1: National Terrorism Threat Advisory System (NTTAS)	12
Figure 1.2: Activities undertaken to progress ARPC's strategic priorities	13
Figure 1.3: 2018-22 strategic priorities	14
Figure 2.1 ARPC funding layers for terrorism claims from all sources	24
Figure 2.2: Tier rates as at 30 June 2018	27
Figure 2.3: Tier and broad geographical location	27
Figure 2.4 Retrocession program detail	28
Figure 2.5: Retrocession program counterparty credit rating CY 2017.	28
Figure 2.6: Terrorism reinsurance pools	30
Figure 2.7: Number of ARPC insurer customer reviews	31
Figure 2.8: Active client reinsurance agreements	32
Figure 2.9: ARPC gross written premium by insurer customer type	32
Figure 2.10: ARPC gross written premium by tier	32
Figure 2.11: ARPC Gross written premium by state	33
Figure 2.12: ARPC gross written premium by business class (actual)	33
Figure 2.13: Insurance risk report, as at 30 June 2018 by underwriting year	34
Figure 2.14: Insurance risk report for 2016-2017 by tier, as at 30 June 2018	34
Figure 2.15: Insurance risk report for 2017-18 by state	35
Figure 2.16: Aggregate sum insured amounts by tier	36
Figure 2.17: Percentage of aggregate sum insured held by tier 2016-2017	36

Figure 2.18: Sum insured by state	36
Figure 3.1: ARPC by numbers	40
Figure 3.2: Achievements against 2017-21 Corporate Plan objectives	41
Figure 3:3 Gross written premium	42
Figure 3:4 Scheme capacity before the Commonwealth guarantee – calendar year	43
Figure 3:5 Forecast aggregate sum insured	44
Figure 3:6 Retrocession program detail	45
Figure 3.7: ARPC delivered payments to government totalling $147.5 million in 2017-18	46
Figure 3:8 Projected net assets using the capital management framework endorsed in March 2018	47
Figure 3.9: Investments by credit rating as at 30 June each year	49
Figure 3.10: Investments by maturity as at 30 June each year	49
Figure 3.11: Key factors influencing ARPC's performance	50
Figure 4.1: Number of meetings attended by each Member of the Board in 2017-18	58
Figure 4.2: Meetings attended by each member of the Audit and Compliance Committee in 2017-18	59
Figure 4.3: Steps taken to minimise energy, waste and water	62
Figure 5.1: ARPC Values	68
Figure 5.2: Number of permanent on-going employees by classification and gender as at 30th June 2018	69
Figure 5.3: Length of service as at 30th June 2018.	69
Figure 5.4: Classification level base salary bands for non-SES staff	69
Figure 5.5: ARPC organisational chart	72

Index

A

Acronyms and abbreviations 115, 117

Active treaties 32

Annual performance statement 37, 39, 76

B

Board of ARPC 6, 53, 100

– Board members E, 54, 55, 56, 57

– meetings 58

– remuneration 53, 100

Business continuity 59, 60, 61, 103

C

Cloud 4, 13, 62

Compliance 58, 61, 72

Committees

– Audit and Compliance 58, 59, 60, 101

Corporate governance practices 59

Corporate Plan 12, 14, 40, 41, 53

Coverage 3, 5, 11, 23, 50

D

Dividend 26, 27, 40, 41, 47, 60, 82

E

Ecologically sustainable development 62

Employee assistance program 71

Executive team 6, 66

Expenses 40, 59, 80, 82, 89

Exposure risk management 29

– aggregate exposure reports 35

– loss estimation modelling 13, 29

F

Financial statements 53, 75, 79-112

– Statement of Financial Position 81

– Cash flow statement 83

– Financial statement notes 87-112

Fraud 59, 61, 77

Freedom of information 61

G

Governance, 53-62

Gross written premiums 43, 87

I

Indemnities and insurance premiums 59

Industry involvement 15, 21

Influences on future performance XX

Information publication scheme 15, 61

Insurer customer review 31

Internal Audit 58, 60, 76

Investment 5, 27, 47-50

– investment income 5, 48, 49, 80, 88, 93, 111

– investment assets 5, 49, 106, 111

J

Judicial and administrative decisions and reviews 59

L

Learning and development 70

Legal and legislative requirements 59

– right to legal advice 59

Lifestyle payment 71

M

Market failure 11, 26

Minister 4, 11, 21, 25, 26, 29, 50, 53, 101

Ministerial Directions 50, 60

O

Work health and safety 71

Organisational structure 6, 61

P

Performance Management System 60

Pool 4, 21, 22, 40, 48

Premiums 5, 21, 27, 36, 43, 48, 83, 87, 94, 97

Purpose of ARPC 3, 11, 39, 44, 50

R

Reduction percentage 4, 22, 25, 29, 88, 103

Reserves 48, 81, 82

Responsible minister 4, 26, 29, 53, 60, 76

Retentions 4, 21, 24, 25, 48, 102, 103

Retrocession 3, 4, 6, 12, 13, 15, 24, 25, 27, 28, 41, 43, 44, 45, 48

– benefits 27

– financial impact 47, 50

– future of the program 41, 46

– placement 4, 27

– structure 47, 104

Review of the scheme 3, 6, 11, 13, 26, 43, 45, 50

Risk management 21, 29, 58, 60-62, 102-104

Risk mitigation handbook 13, 17

Role of ARPC 11, 17, 39, 85

S

Scheme 5, 11, 19-36

Significant events 86, 103

Stakeholder engagement 4, 6, 13, 15, 16, 62, 68

Standards Australia 13, 17

Staff inclusion 71

Staff information 68, 103

Study assistance 71

T

Team building 68