



Australian Government

Australian Reinsurance Pool Corporation



# ARPC

CORPORATE PLAN

2019 – 2023

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**Australian Government**

**Australian Reinsurance Pool Corporation**

The Hon Michael Sukkar MP  
Assistant Treasurer  
PO Box 6022  
House of Representatives  
Parliament House  
CANBERRA ACT 2600

Dear Assistant Treasurer

On behalf of the Board, I am pleased to present you with the ARPC Corporate Plan for 2019 and beyond. This plan commences on 1 July 2019 and spans the four reporting periods to 30 June 2023.

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

To perform ARPC's functions under the *Terrorism Insurance Act 2003*, the Board and executive team undertake an annual strategic planning process to set the Corporation's vision, mission, strategy and values. The Corporate Plan is the principal planning document for ARPC and outlines the actions required for implementation of ARPC's strategy. The plan also details Key Performance Indicators to measure progress.

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

Yours sincerely  
(signature supplied)

Ian Carson AM  
Chair  
cc Senator the Hon. Mathias Cormann  
Minister for Finance



# 1.OVERVIEW

Australian Reinsurance Pool Corporation (ARPC) is a Corporate Commonwealth entity and Treasury portfolio agency which provides cost effective terrorism risk reinsurance. The ARPC terrorism insurance scheme has \$13.6 billion in funding (excluding industry retentions) available for claims arising from a Declared Terrorism Incident (DTI) and protects more than 835,000 eligible insured property assets valued at more than \$3.5 trillion nationwide.

The 2019-2023 ARPC Corporate Plan is the primary planning document for ARPC and addresses its purpose, environment, capabilities, risk management and performance.

ARPC's corporate purpose is to perform its statutory functions. ARPC expresses its purpose through its vision and mission. This Plan outlines its vision and mission, as well as its strategic priorities, the activities it will undertake to deliver them, and the performance measures used to determine success.

ARPC's values of integrity, collaboration, personal leadership and delivering to stakeholders underpin its workplace culture. The values also support ARPC's Code of Conduct.

ARPC was established in 2003 under the *Terrorism Insurance Act 2003 (TI Act)*. ARPC complies with the *TI Act*, the *Public Governance, Performance and Accountability Act 2013 (PGPA Act)* and the *Public Governance, Performance and Accountability Rule 2014 (PGPA Rule)*, along with other relevant legislation.

ARPC's functions 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.

Figure 1.1: ARPC’s vision, mission, strategic priorities and values

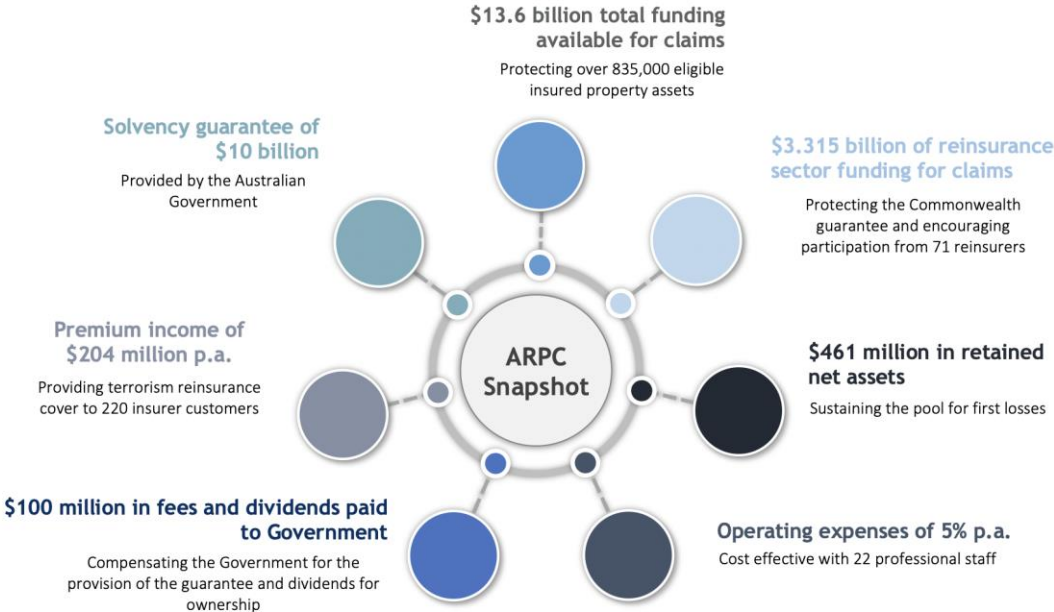


The five key performance areas of ARPC to support its functions are to:

- 1) provide reinsurance for eligible terrorism losses;
- 2) encourage private sector participation through the retrocession program;
- 3) compensate the Government;
- 4) maintain financial sustainability and organisational resilience; and
- 5) engage, understand and collaborate with stakeholders.

A snapshot view of how these performance areas are measured is shown in *Figure 1.2* with full details explained in **Section 4, Performance**, starting on page 19.

Figure 1:2 ARPC Financial Snapshot 2018-19 as at 30 June 2019



## 2. ENVIRONMENT

Following the September 11, 2001 terrorist attacks in the United States, terrorism cover was excluded from commercial and industrial property policies in Australia. Without a whole-of-market alternative, ARPC was established in 2003 to provide reinsurance cover for eligible terrorism losses.

Today, ARPC operates in a dynamic global reinsurance environment and provides funding for eligible terrorism losses arising from a Declared Terrorism Incident (DTI). The organisation exists in a political and commercial environment which requires ongoing and close engagement with all stakeholders.

There are factors and events outside ARPC's control that can significantly impact the organisation's operations.

ARPC has the power to charge premiums and a fee for service in return for reinsurance contracts. Pricing premiums is very difficult as the frequency of terror attacks is impossible to predict. Claims from a terrorism incident could also be very large in scale. Premiums can only be changed by Australian Government Ministerial Direction.

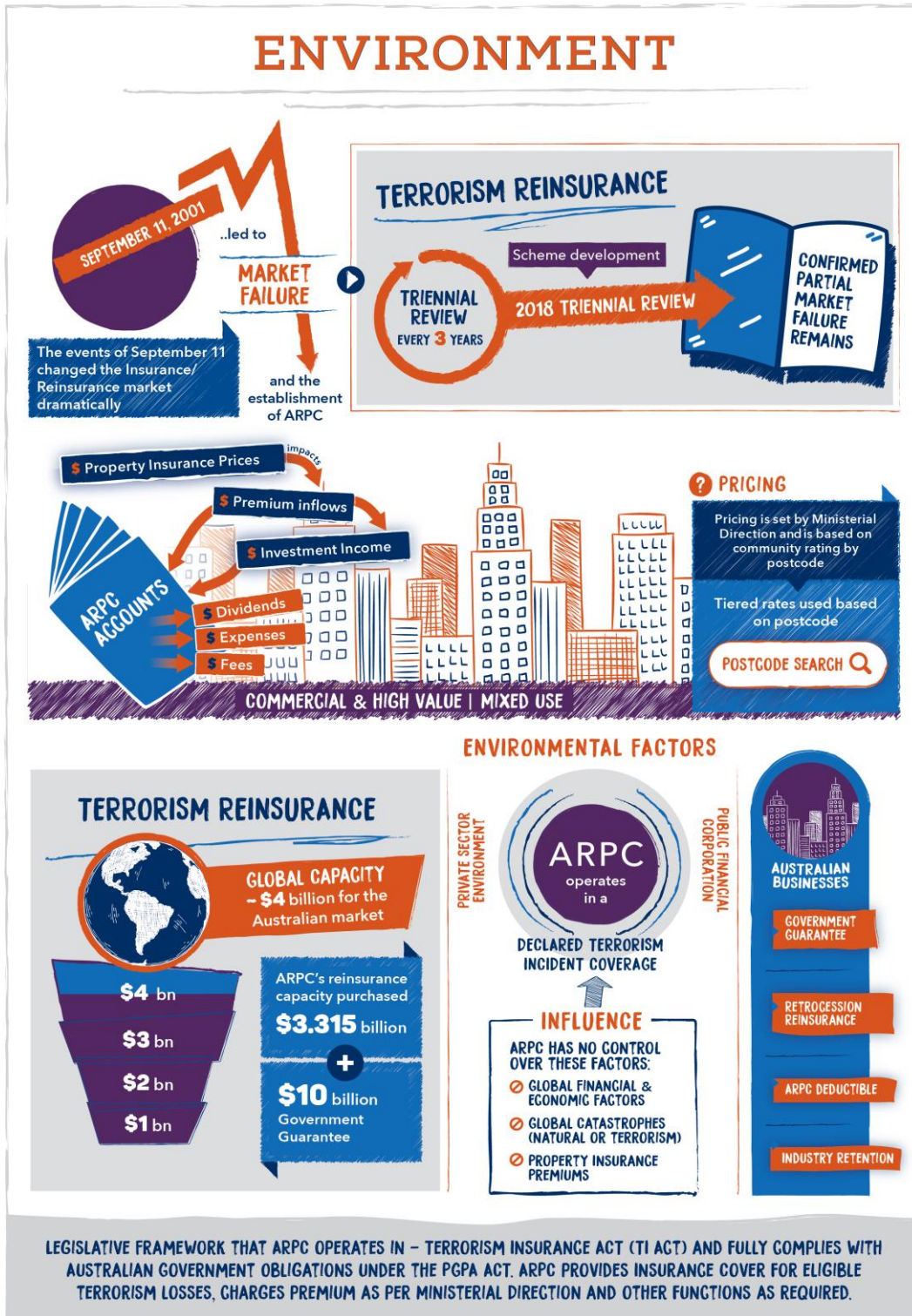
Income is linked to the property insurance market and as such is affected by property insurance premiums, global catastrophes, financial market fluctuations and global terrorism incidents, all of which impact the underlying price of property insurance.

Modelling terrorism risks is difficult due to the unpredictable nature of the peril. ARPC can model the potential severity of a loss event but it is impossible to predict a terrorist attack.

See Figure 2.1 for a pictorial view of ARPC's environment



Figure 2.1: ARPC's Environment



## MARKET GAPS

ARPC was established to address market gaps in the terrorism risk insurance market for Australian commercial properties.

The scheme is subject to a Treasury review every three years (triennial review) to test whether market failure still exists and whether there is still a need for the scheme to exist.

The 2015 Triennial Review of the Terrorism Insurance Act concluded that market failure still exists and extended the scheme's coverage to include high value mixed use property and high value residential property (specifically strata).

The 2018 Triennial Review of the Terrorism Insurance Act, completed in December 2018, concluded that 'in the absence of the (TI) Act there would likely be a market failure in the terrorism insurance market with wider economic implications' and that global terrorism insurance capacity for commercial property was insufficient to cover against 'large, but possible, terrorism incidents'.

The 2018 Review estimated that terrorism risk reinsurance available to Australian insurers at a reasonable price totals around \$4 billion, well below the \$13.6 billion of reinsurance cover provided by the Scheme administered by ARPC.

The review made the following recommendations and findings:

- That the TI Act remain in force.
- That ARPC pay an additional temporary dividend of \$10 million a year for three years commencing in 2018-19 and terminating in 2020-21, with the Government to consider again the appropriate level of payments when this dividend ceases.
- That the current structure of pricing for the range of risks currently covered by the TI Act and the approach to declaring a terrorism incident remains appropriate.
- Cyber terrorism is an emerging risk and there is yet to be a clear and evident market failure in relation to physical property damage from cyber terrorism requiring government intervention through the TI Act 'at this time'.

## PRICING TERRORISM INSURANCE

ARPC is a Public Financial Corporation operating in a private sector environment that is subject to global economic factors. There are often events outside ARPC's control that can significantly impact the organisation's operations.

The TI Act states that the Corporation has the power to do everything necessary or convenient to be done for, or in connection with, the performance of its functions, including:

- a) the power to charge premiums in respect of contracts of insurance for which it is the insurer; and
- b) the power to charge fees for services that it provides in connection with the performance of its functions.

ARPC's current rates are flat percentages of the premium charged by insurers based on postcode tiers and are community rated. ARPC's pricing is based on population density and is split into city, suburban and other area tiers.

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

Over the past 12 months, increased underlying premiums in commercial property insurance has led to increased premium income for ARPC. Hardening of commercial property insurance rates commenced in 2017-18 and continued through 2018-19 after a decade of soft premium rates. It is expected that rate increases will moderate and flatten in 2019-20.

All ARPC's operations (including retrocession premiums and fee and dividend payments to government) are funded from premium income received from insurers and investment income. A fixed percentage of insurers' premiums is charged and, as a result, ARPC's premium income is linked to insurer price fluctuations. In addition, tier rates are based on the applicable postcode of each commercial property and can only be amended through a Ministerial Direction.

## SCHEME STRUCTURE

ARPC provides significant reinsurance capacity to insurer clients with \$13.6 billion reinsurance cover available in the event of a DTI.

Total capacity comprises insurer or industry retentions; ARPC net assets; retrocession (private cover from reinsurers) and the \$10 billion Commonwealth guarantee.

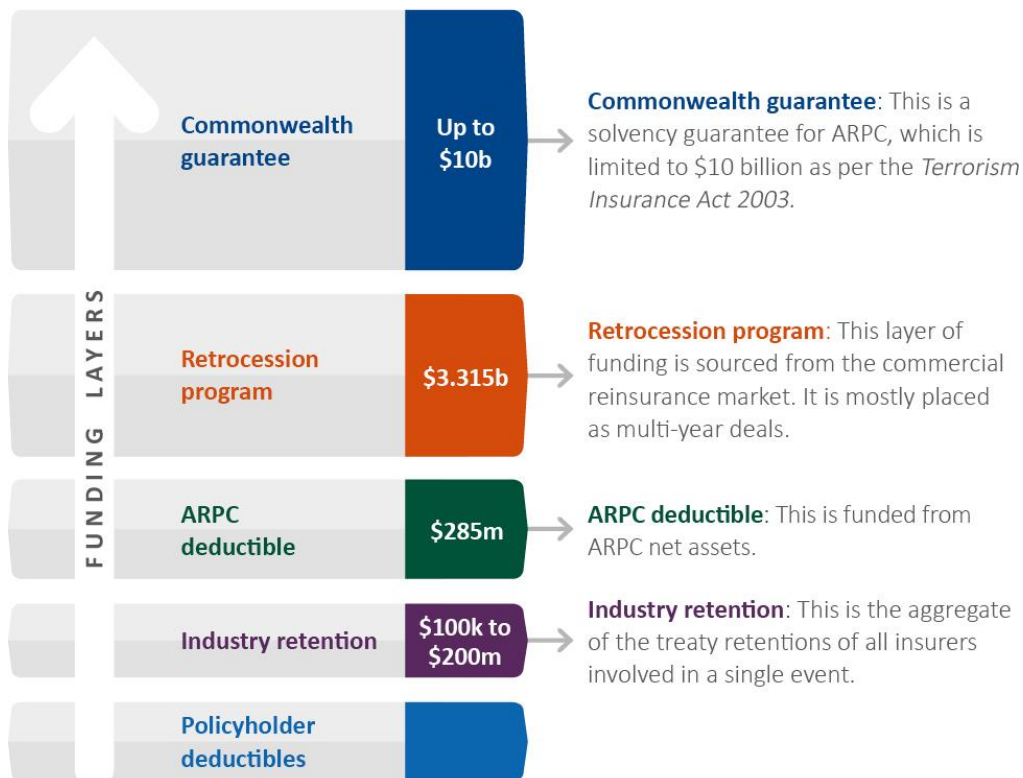
ARPC places an annual retrocession (private reinsurance) program to provide a valuable funding source for rebuilding Australian commercial infrastructure in the event of a major terrorist attack. Additionally, the program encourages the private market and reduces the risk to Government that ARPC will need to draw on the Commonwealth guarantee.

In the 2019 calendar year, ARPC purchased a \$3.315 billion retrocession program.

Although the maximum funds available to pay claims is \$13.6 billion (excluding industry retentions), the insurers who have cover with ARPC insure approximately \$3.5 trillion in Australian-based commercial property sector assets.

Figure 2:2 illustrates the funding layers of the ARPC scheme structure as at 30 June 2019.

Figure 2:2: ARPC Scheme Structure



In 2019, ARPC purchased an additional \$250 million of retrocession compared to 2018. This expanded the scheme size and further protected the Commonwealth guarantee.

In 2018, ARPC increased private reinsurance sector participation in the scheme by lowering the retrocession deductible from \$350 million to \$285 million.

## 3. CAPABILITY

ARPC uses its capability to deliver on its purpose and support the functions of the corporation under the TI Act.

### KEY PERFORMANCE AREAS

ARPC has five key performance areas to measure the delivery of its strategic priorities.

- One - provide reinsurance for eligible terrorism losses
- Two - encourage private sector participation through the retrocession program
- Three - compensate the Government
- Four - maintain financial sustainability and organisational resilience
- Five – engage, understand and collaborate with stakeholders

The relationship between ARPC’s strategic priorities, core activities and key performance areas is summarised in *Figure 3.1*.

**Figure 3.1: 2019-2023 Activities to deliver the strategic priorities**

Strategic Priority Extend thought leadership and expertise	Key Performance Areas				
	One	Two	Three	Four	Five
Core Activities					
● Prepare for the 2021 Triennial review of the scheme by the Treasury.	✓				✓
● Continually review, identify and inform the market about potential gaps in cover.	✓	✓			✓
● Continue to raise awareness of emerging terrorism risks, such as cyber terrorism.	✓			✓	✓
● Complete project with Standards Australia to develop a risk mitigation Handbook for business.		✓			✓
● Provide advice to Government as a trusted expert on terrorism risk insurance.				✓	✓

\*Core activities have been allocated to the Key Performance Area that they predominantly address

Strategic Priority Provide a world class response to terrorism incidents	Key Performance Areas				
	One	Two	Three	Four	Five
<b>Core Activities</b>					
<ul style="list-style-type: none"> <li>Continue loss estimate modelling development for blasts and biochemical events throughout Australia.</li> </ul>		✓			
<ul style="list-style-type: none"> <li>Purchase retrocession reinsurance to increase ARPC's total funds available for claims following a DTI, while minimising the need to call on the Commonwealth guarantee.</li> </ul>		✓			
<ul style="list-style-type: none"> <li>Continuous improvement of ARPC's DTI Response Procedure through regular DTI exercises, including an issues log and an external firm to track employee responses to scenarios, and monitoring the completion of outstanding improvement opportunities.</li> </ul>				✓	
<ul style="list-style-type: none"> <li>Continuous improvement of ARPC's claims response plan.</li> </ul>				✓	

\*Core Activities have been allocated to the Key Performance Area that they predominantly address

Strategic Priority Embrace and evolve to a changing market environment	Key Performance Areas				
	One	Two	Three	Four	Five
<b>Core Activities</b>					
<ul style="list-style-type: none"> <li>Complete cyber terrorism research project and share findings with industry and government to advance understanding and solutions.</li> </ul>	✓			✓	✓
<ul style="list-style-type: none"> <li>Share ownership model feasibility report findings with government and progress model.</li> </ul>		✓		✓	
<ul style="list-style-type: none"> <li>Maintain postcode changes and rating tiers for accurate pricing.</li> </ul>			✓		
<ul style="list-style-type: none"> <li>Continue to review and upgrade the IT environment for maximum operational effectiveness.</li> </ul>				✓	

\*Core Activities have been allocated to the Key Performance Area that they predominantly address

Strategic Priority Enhance and strengthen resilience and preparedness of our people and organisation	Key Performance Areas				
	One	Two	Three	Four	Five
<b>Core Activities</b>					
<ul style="list-style-type: none"> <li>Complete modelling capability project to include Geospatial (3D) modelling.</li> </ul>		✓		✓	
<ul style="list-style-type: none"> <li>Make payments to government as per Ministerial Direction.</li> </ul>			✓		
<ul style="list-style-type: none"> <li>Continue professional development for employees.</li> </ul>				✓	
<ul style="list-style-type: none"> <li>Update employee engagement survey and action plans.</li> </ul>				✓	
<ul style="list-style-type: none"> <li>Continue to monitor the Capital Management Policy to support ARPC's financial sustainability.</li> </ul>				✓	
<ul style="list-style-type: none"> <li>Implement governance and compliance redesign to maintain best practice.</li> </ul>				✓	

\*Core Activities have been allocated to the Key Performance Area that they predominantly address

Strategic Priority Engage, understand and collaborate with stakeholders	Key Performance Areas				
	One	Two	Three	Four	Five
<b>Core Activities</b>					
<ul style="list-style-type: none"> <li>Enhance stakeholders' understanding of terrorism reinsurance pooling.</li> </ul>	✓				✓
<ul style="list-style-type: none"> <li>Develop and launch a stakeholder engagement survey to set a baseline for effectiveness.</li> </ul>	✓				✓
<ul style="list-style-type: none"> <li>Deliver the annual <i>Terrorism Risk Insurance Seminar</i> to share knowledge of global and local terrorism trends.</li> </ul>	✓				✓
<ul style="list-style-type: none"> <li>Participate in global and local forums on terrorism risk insurance and catastrophe insurance and financing.</li> </ul>		✓			✓
<ul style="list-style-type: none"> <li>Participate in the OECD High Level Advisory Board for the Financial Management of Large-Scale Catastrophe.</li> </ul>		✓			
<ul style="list-style-type: none"> <li>Participate in discussions on terrorism risk with Australian government departments.</li> </ul>			✓		

\*Core Activities have been allocated to the Key Performance Area that they predominantly address

## PEOPLE CAPABILITY

ARPC's success is dependent on the quality and commitment of staff members and their ability to deliver on ARPC's purpose and strategic priorities.

ARPC values emphasise understanding and collaborating with stakeholders, therefore its organisational structure supports stakeholder engagement. These stakeholders include the Australian Government, together with the insurance, reinsurance, investment and property sectors.

Through workforce and succession planning, ARPC ensures its staff has suitable capabilities to undertake core functions during business as usual periods and in the event of a DTI. The primary staff capabilities within ARPC include:

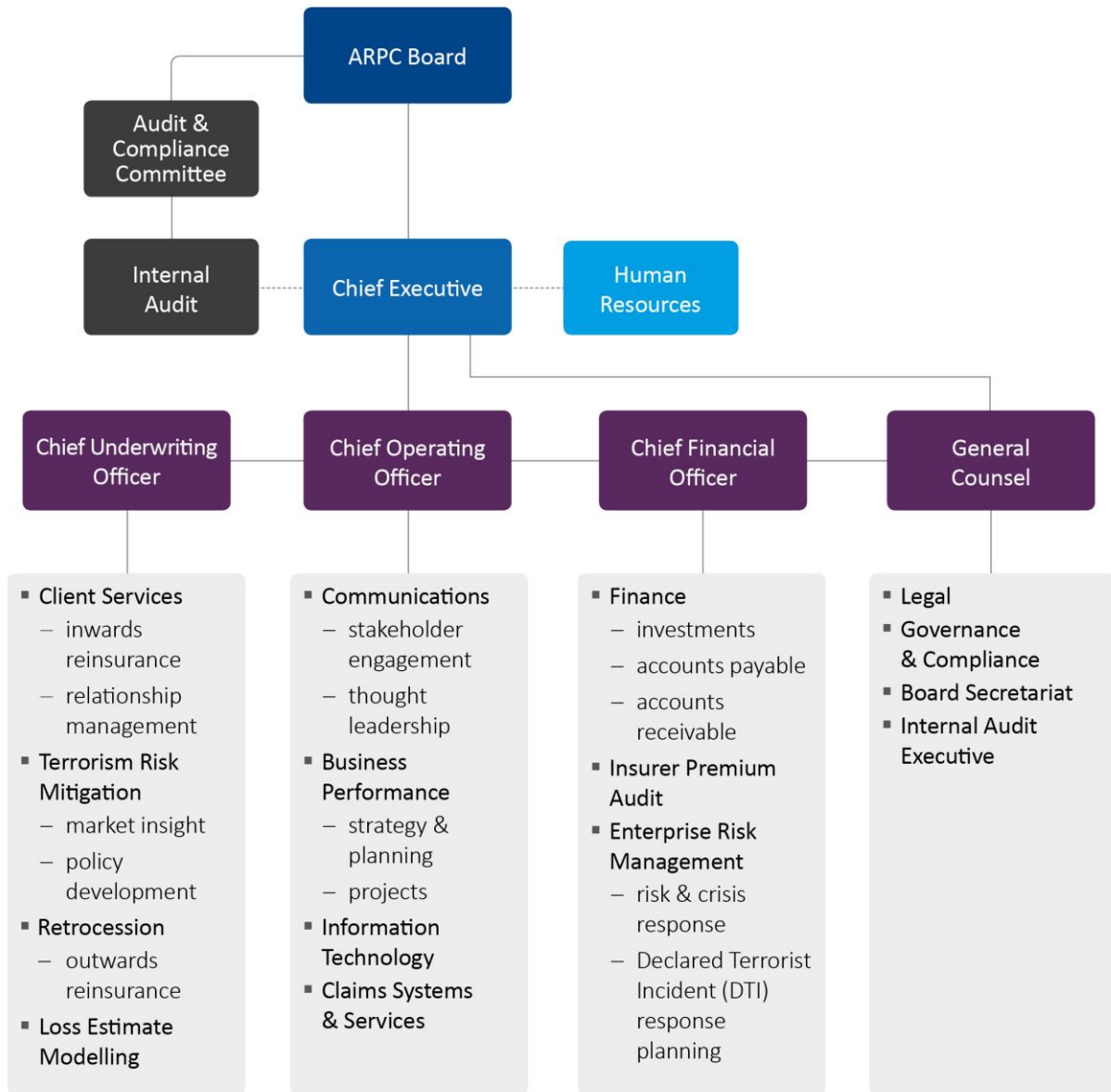
- DTI response expertise (communications, operations, claims handling, customer interaction, corporate governance and security);
- insurance and reinsurance expertise;
- external market liaison staff;
- regulatory expertise;
- financial management expertise;
- stakeholder engagement and communications expertise; and
- technology expertise (to enable delivery).

ARPC aspires to connect, develop, and empower all staff to execute meaningful work. The organisational structure has been designed to support this aspiration.

See *Figure 3.3* to view the Organisational Chart as at August 2019.



Figure 3.3: Organisational Chart



## VALUES

ARPC strives to be high achieving, with its culture underpinned by its values of collaboration, integrity, personal leadership and delivering for our stakeholders.

The organisation promotes a values-based approach to its workforce and decision-making. These values support ARPC' strategic priorities and are fundamental to the success of the organisation. *Figure 3.4* shows the detail of ARPC's values.

**Figure 3.4: ARPC's values**



## 4. PERFORMANCE

To comply with the PGPA Act, ARPC must remain financially sustainable and manage its public resources in an efficient, effective, economical and ethical manner.

There are five key performance areas ARPC will measure over the reporting period.

The key performance areas are listed in *Figure 4.1*, together with the measures and assessment criteria used to determine success.

**Figure 4.1: Key Performance Areas and Measures**

Key Performance Area	Measure	Assessment Criteria	Level of ARPC Influence
<b>One: Provide reinsurance for eligible terrorism losses</b>	<b>Measure 1:</b> Income – Gross Written Premium	Gross Written Premium (GWP) against target	Limited
	<b>Measure 2:</b> Scheme Capacity – Total Funding Available	Purchase of > \$2.5 billion in retrocession within approved budget <sup>1</sup>	Moderate
<b>Two: Encourage private sector participation through the retrocession program</b>	<b>Measure 3:</b> Private sector participation	Number and quality of retrocessionaires (reinsurers) in the program	Moderate
<b>Three: Compensate the Government</b>	<b>Measure 4:</b> Payments to government	Payments made as per Ministerial Direction	Limited
<b>Four: Maintain financial sustainability and organisational resilience</b>	<b>Measure 5:</b> Net assets against ARPC target and minimum capital	Net assets at or above \$400 million	Limited
	<b>Measure 6:</b> Strategic Projects - timeliness, cost effectiveness	Strategic projects progressed or completed to plan	High
<b>Five: Engage, understand and collaborate with stakeholders</b>	<b>Measure 7:</b> Stakeholder survey	Develop and launch baseline stakeholder survey and use to improve stakeholder outcomes	High

<sup>1</sup> Purchase must also be value for money.

## KEY PERFORMANCE AREAS DETAIL

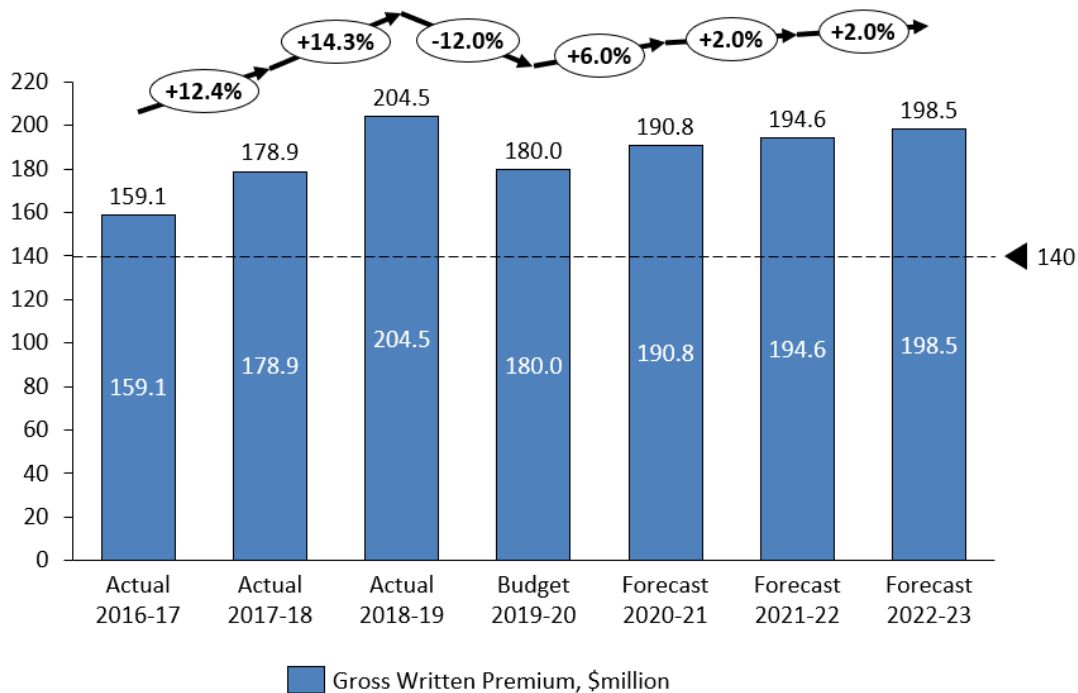
### ONE: PROVIDE REINSURANCE FOR ELIGIBLE TERRORISM LOSSES

#### Measure 1: Income – Gross written premium

To improve financial sustainability and achieve at least the target premium in each plan period.

Notwithstanding ARPC's limited capacity to influence this key performance area, providing reinsurance for eligible terrorism losses is ARPC's function under section 10 of the TI Act. Over the period covered by the Corporate Plan, the success for this activity will be measured by ARPC's total premium income, with the minimum target premium level for the forecast period being \$140 million.

Figure 4.2: Gross written premium



During the current year, there have been continued increases in commercial property insurance premiums after a decade of soft premium rates. Rates are expected flatten in the forecast years.

## Measure 2: Scheme capacity – Total funding available

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

ARPC uses its premium income to purchase retrocession (reinsurance cover from private sector reinsurers) and to compensate the Australian Government for the Commonwealth guarantee. Through ARPC's retrocession program and the Commonwealth guarantee, ARPC has \$13.6 billion in funding available to meet DTI claims as at 30 June 2019.

ARPC purchases retrocession from global terrorism reinsurers, thereby transferring a large proportion of risk to the private sector and reducing risk to the Australian Government. For 2019, reinsurers, or 'retrocessionaires', provide \$3.315 billion<sup>2</sup> private cover for claim payments above the \$285 million ARPC deductible and any industry retentions.

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

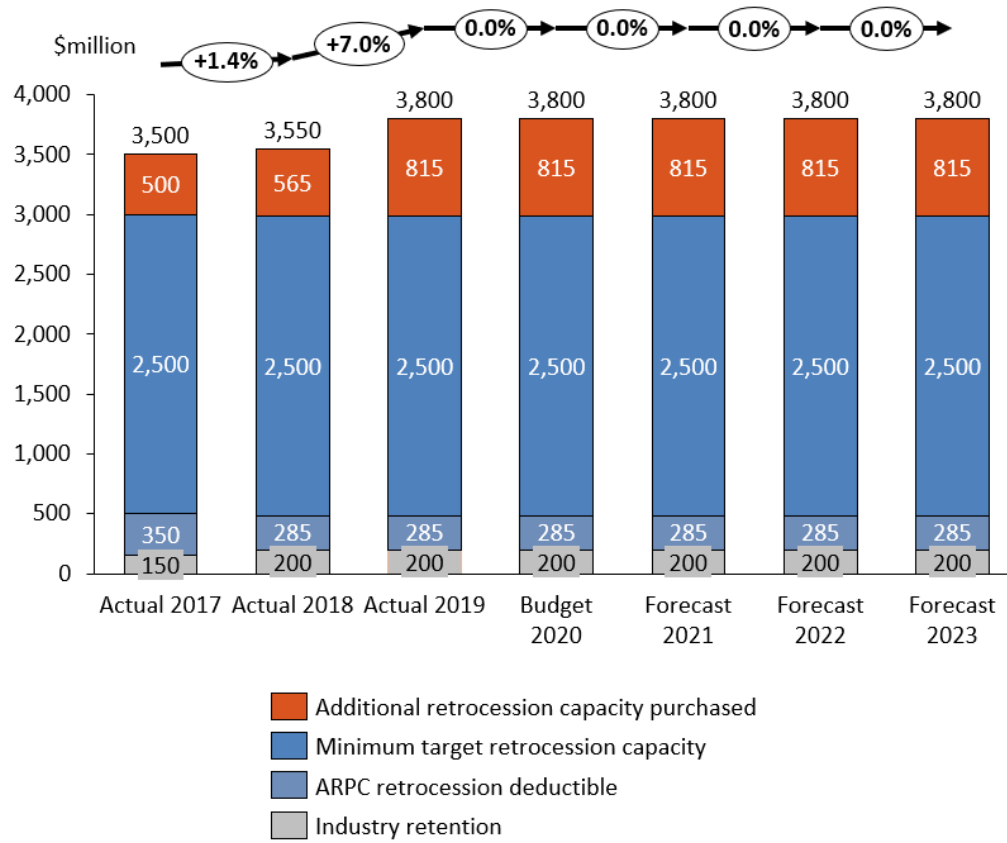
To measure success in this activity, ARPC measures total retrocession capacity purchased each calendar year and the total purchase cost, while monitoring the number of participating retrocessionaires.

Scheme capacity details can be viewed in *Figure 4:3*.

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<sup>2</sup> Representative of the tranche of cover commencing in that calendar year.

Figure 4.3: Scheme capacity (including retrocession) before the Commonwealth guarantee



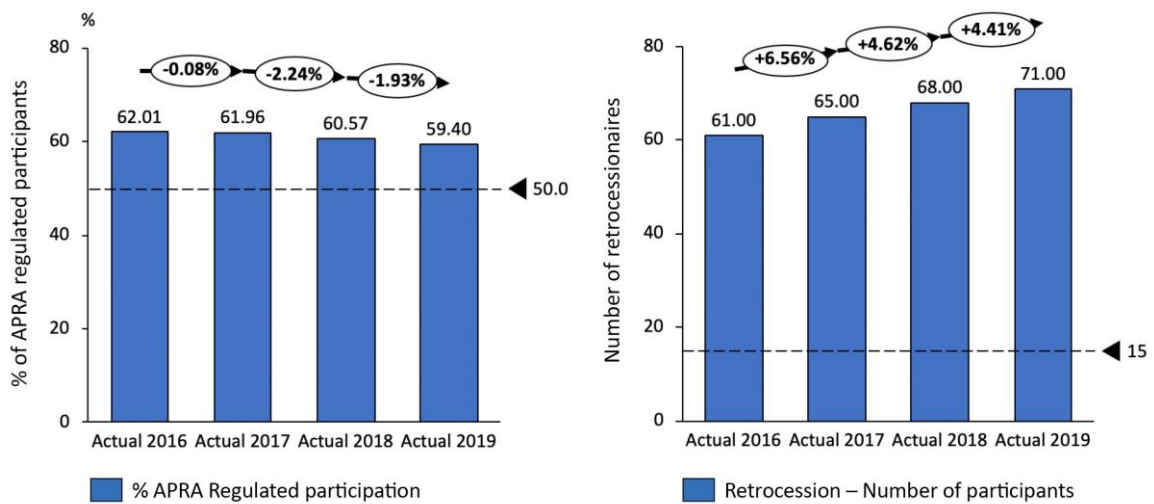
## TWO: ENCOURAGE PRIVATE SECTOR PARTICIPATION THROUGH THE RETROCESSION PROGRAM

### Measure 3: Private reinsurance sector participation

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

ARPC aims to maximise the participation of high credit quality reinsurers in the annual ARPC retrocession program, subject to retrocession being available at a cost that provides value to ARPC. Each year, ARPC seeks more than 15 high credit quality reinsurers<sup>3</sup> to participate in the program. ARPC also aims to have more than 50 per cent of retrocession scheme capacity provided by APRA regulated reinsurers.

Figure 4.4: Retrocession Program Detail



<sup>3</sup> Reinsurers who hold a Standard & Poor's long-term rating of A- (or equivalent) or greater.

### THREE: COMPENSATE THE GOVERNMENT

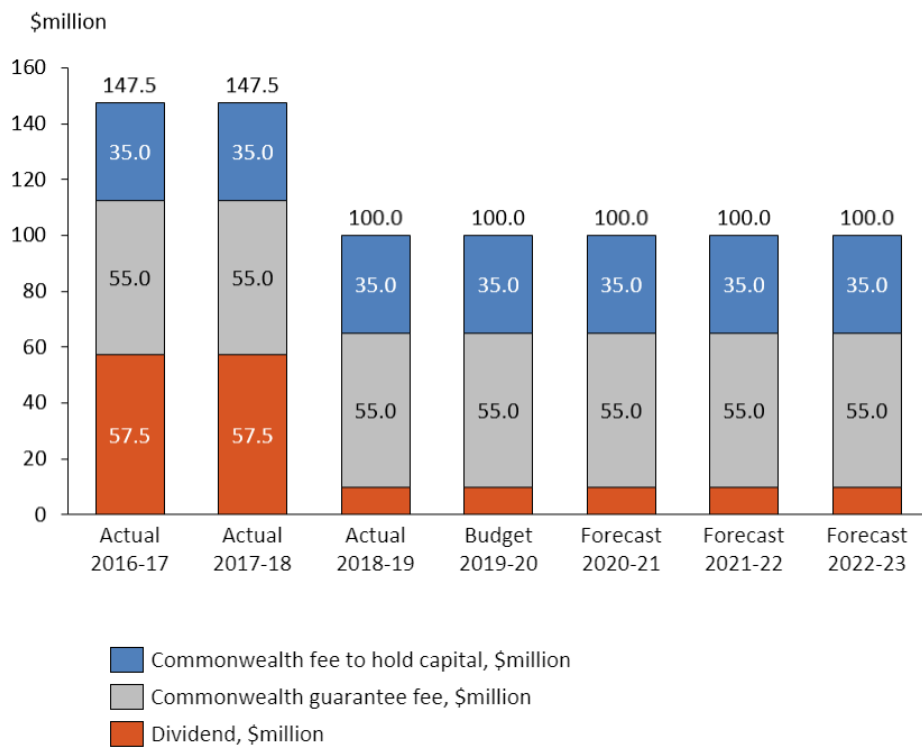
#### Measure 4: Payments to Government

To meet ARPC’s obligations, the objective is to deliver scheduled Government payments in each plan period.

ARPC pays the Australian Government a fee for provision of the Commonwealth guarantee together with a capital holding fee for the Australian Government’s ownership of ARPC and dividends. These payments are implemented through Ministerial Direction.

ARPC compensates the government annually through a \$55 million fee for the Commonwealth guarantee plus a \$35 million capital holding fee and for 2018-19, 2019-20, and 2020-21, a dividend of \$10 million.

Figure 4.5: Payments to Government





## FOUR: MAINTAIN FINANCIAL SUSTAINABILITY AND ORGANISATIONAL RESILIENCE

### Measure 5: Net assets against ARPC target and minimum capital

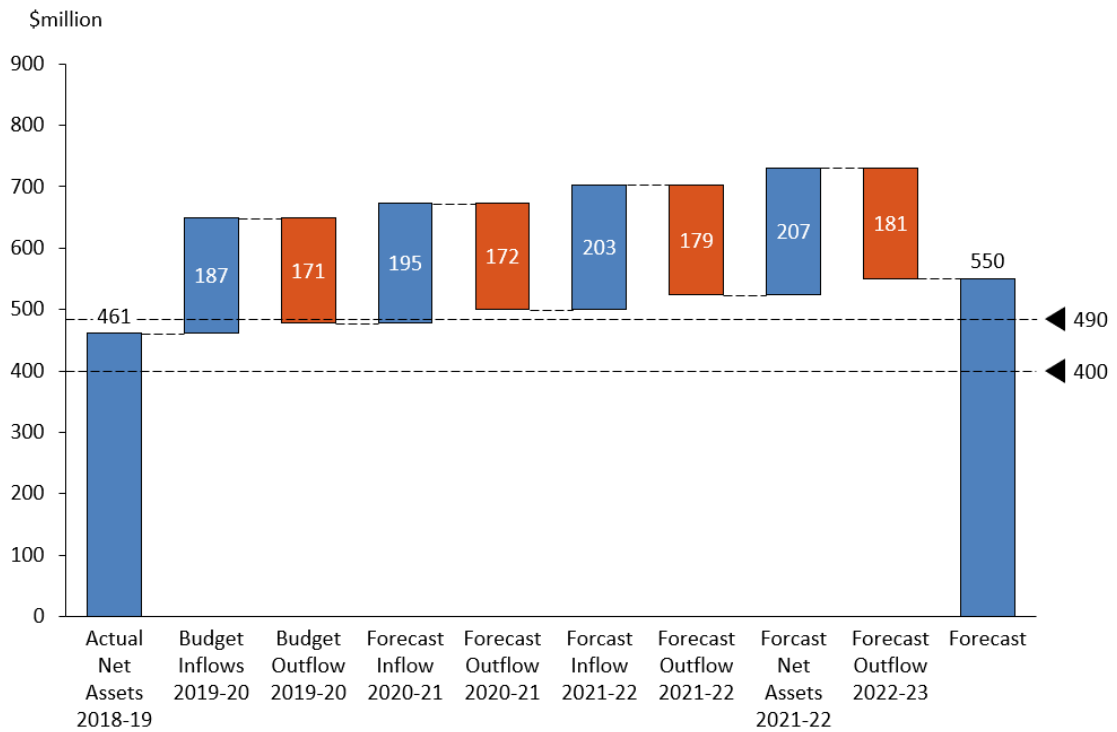
Maintain sufficient net assets to support targets in ARPC Capital Management Policy.

The Board approved Capital Management Policy was designed in consultation with management and ARPC's actuarial advisory firm Finity. The Board has set capital thresholds after consideration of:

- the financial position of ARPC;
- ARPC's risk appetite and tolerances for its financial, operational and strategic risks; and
- reducing the risk of drawing upon the Commonwealth guarantee.

Zone	Monetary Boundaries	Actions Required
<b>Red Zone</b>	Less than Minimum Capital. <b>Below \$345 million</b>	Actions are required to return to the Target Zone (Green Zone).
<b>Yellow Zone</b> Watch and Act	Less than the bottom of the Target Zone but greater than Minimum Capital <b>Between \$345 million and \$400 million</b>	Actively monitor the capital position and take corrective action to return to the Target Zone (Green Zone) where the capital position is forecast to deteriorate further.
<b>Green Zone</b> Target Zone	Approximately +/- 10% of Target Capital <b>Between \$400 million and \$490 million</b>	Monitor and report capital position as business as usual.
<b>Blue Zone</b>	Greater than the top of the Target Zone and up to Maximum Capital. <b>Between \$490 million and \$780 million</b>	Capital Accumulation Zone, where ARPC can accumulate additional capital to provide additional resilience following a DTI.

**Figure 4.6: Projected Net Assets**



**Projections assume the following:**

- No change in prices from current rates
- Inflows represent premium income, investment income, retrocession commission income
- Outflows represent payments to the Commonwealth, retrocession premiums, operating expenses

## Measure 6: Strategic Projects

Complete and/or progress major projects according to plan.

Figure 4.7: Performance Information on Major Projects for the 2019-23 period

Project	Performance Criteria	Assessed as	Methodology	Timeline
Geospatial modelling	Work with specialist providers to enhance ARPC's modelling capability.	Complete 3D (geospatial) project within parameters agreed with ARPC.  Integrate modelling successfully within ARPC modelling capability.	Scope provided to Risk Frontiers.	Due for completion in calendar year 2019.
Cyber terrorism research project	Work with appointed providers and industry on a research project: 'Insurance risk assessment of cyber terrorism in Australia'.  The project will provide insight to the nature and cost of physical damage risk to commercial property caused by acts of cyber terrorism.	Final research reports submitted to ARPC by October 2019.  Two reports leveraged to produce a high-quality final product for sharing with Government and industry stakeholders.	Project manager appointed.  Complementary scopes provided to researchers OECD and Cambridge Centre for Risk Studies.  Workshops with IT and re/insurance experts and desktop research.	Complete, deliver and launch consolidated ARPC report to industry and government stakeholders in 2020.
Ownership model feasibility study	Work with Government and industry to assess future structures for ARPC.	Present the Ownership Model Feasibility Study report to Government for consideration.	Feedback from Government on next steps.	The feasibility study has been completed  Insurer stakeholders consulted.

Project	Performance Criteria	Assessed as	Methodology	Timeline
Risk mitigation project through Standards Australia	Collaborate with Standards Australia to lead a cross-industry committee of 30 contributors authoring HB-188 Handbook 'Physical Protective Security Treatments for Buildings'. Use existing approaches from the various security, building and risk/insurance industries.	Standards Australia publish in various formats in 2020.  Commercial property owners and operators embrace this resource for informed decision-making, creating a higher quality risk in the insurance market.	Project manager appointed to represent ARPC, manage stakeholder relationships, research/draft content, work with editors to publish, and deliver resource to industry.	Project due for completion at the end of the 2019 calendar year.

## FIVE: ENGAGE, UNDERSTAND AND COLLABORATE WITH STAKEHOLDERS

### Measure 7: Stakeholder Survey

Develop and launch baseline stakeholder survey and use to improve stakeholder outcomes.

In June 2019, an external provider was appointed by ARPC to develop and implement a stakeholder engagement survey. The survey will be prepared in Q3 2019 and launched in Q4 2019.

The results from the 2019 survey will form a baseline target in order to assess the effectiveness of stakeholder engagement for subsequent surveys and will be shared in annual reports from 2019-20.

## 5. RISK OVERSIGHT AND MANAGEMENT

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

ARPC's approach to risk management involves supporting all staff to anticipate uncertain events, identify opportunities and respond appropriately to potential weaknesses. This includes:

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

### ARPC RISK MANAGEMENT POLICY

As a Public Financial Corporation under the PGPA Act, ARPC has an obligation to establish risk management systems and controls. The ARPC Risk Management Policy assists ARPC in meeting its risk management obligations under the PGPA Act. The Risk Management Policy outlines the commitment of the Board and senior management to promote a supportive risk aware culture, set risk objectives, provide training and resources for risk management activities, manage and report risk information, and monitor, review and continually improve. ARPC's risk management principles and policy objectives are consistent with the Commonwealth Risk Management Policy and the international standard for risk management ISO 31000.

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

### ACCOUNTABILITIES

As the accountable authority, the ARPC Board has overall responsibility for providing strategic direction, risk oversight and setting the organisation's risk appetite and tolerance. Risk responsibilities are also outlined in the Risk Management Policy.

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

## **RISK APPETITE AND TOLERANCE STATEMENTS**

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

## **LEGISLATIVE COMPLIANCE**

ARPC staff are made aware of legislative requirements through ongoing information and training. ARPC conducts regular testing in relation to compliance with legislative requirements.

In addition, ARPC monitors regulatory updates from a range of subscription and alert services and implements ongoing training and information sessions to make staff aware of legislative requirements.

## CONTACT ARPC

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