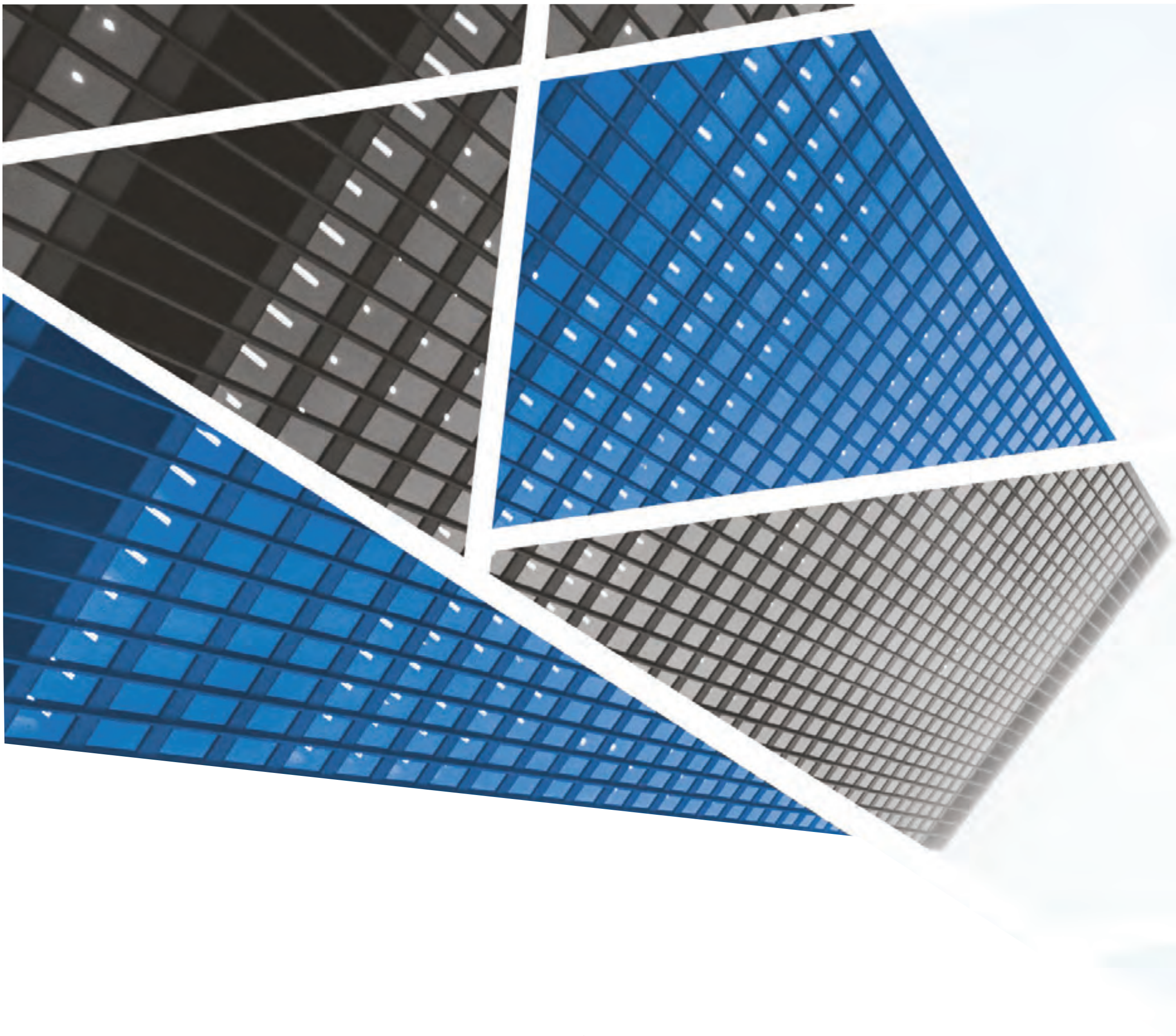
Australian Government

Australian Reinsurance Pool Corporation

ARPC

ANNUAL REPORT

2018 – 2019



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2018 – 2019

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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

27 September 2019

The Hon. Michael Sukkar MP
Assistant Treasurer
Parliament House
CANBERRA ACT 2600

Dear Minister

I have pleasure in presenting to you the annual report of Australian Reinsurance Pool Corporation (ARPC) for the year ended 30 June 2019. 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 Ian Carson AM
BEc PGDip Professional Accounting FAICD
Chair

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Our strategy

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 claim, we will pay claims and deliver on our promise.
- **Support recovery** following a terrorism incident.
- **Provide links** between government, national security and the private insurance market to enhance understanding of the risk.
- Address a **market failure** and provide cover for terrorism where the private insurance market is unable to.
- Lead **international collaboration** on terrorism risk insurance.

Values

- Integrity
- Collaboration
- Personal Leadership
- Delivering to our stakeholders

About us

ARPC is a public financial corporation established by the *Terrorism Insurance Act 2003* to administer the terrorism insurance scheme. ARPC provides insurers with reinsurance for commercial property and associated business interruption losses arising from a declared terrorism incident.

Total funding available for claims

$13.6 billion

Protecting more than 835,000 eligible insured property assets

Solvency guarantee

$10 billion

Provided by the Australian Government

Cash and investments

$505 million

Retained assets

$461 million

To sustain the terrorism insurance pool for first losses

22 staff

Premium income

$204 million

Providing terrorism reinsurance cover to more than 220 insurer customers

Reinsurance sector funding for claims

$3.315 billion

Protecting the Government guarantee and encouraging participation by more than 70 reinsurers

Payments to Government

$100 million
in fees and dividends

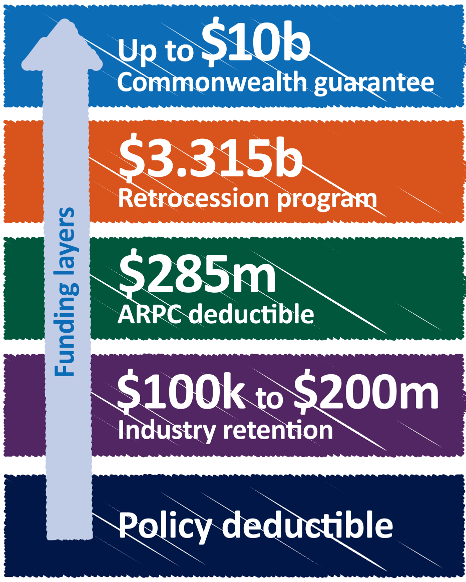
Compensating the Government for providing the guarantee and dividends for ownership

Operating expenses

5% p.a.

Cost effective with 22 professional staff

2019 Scheme structure



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 deals.

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.

HB 188 Handbook

Working with Standards Australia to develop a handbook to assist physical protection decisions made by businesses to reduce exposure to terrorism losses

Geospatial modelling

Working with specialist providers to enhance ARPC's modelling capability

Cyber Terrorism Research Project

Working with insurers, the OECD and the Centre for Risk Studies at Cambridge University to explore cyber terrorism issues

Governance redesign

Working with PwC to redesign the governance and compliance environment and continually apply best practice

Our story

ARPC

STRATEGIC PROJECTS

2019
ARPC designs geospatial loss model with Risk Frontiers – a 3D loss modelling capability for all mainland locations

2018
ARPC embarks on risk mitigation handbook for buildings project with Standards Australia

ARPC commissions OECD and Cambridge Centre for Risk Studies to research potential cyber terrorism scenarios and losses

2017
Expanded scheme to include high value residential and mixed-use commercial/ residential buildings and biochemical attacks

2016
ARPC hosts inaugural IFTRIP Conference with OECD in Canberra

2015
ARPC moves from Canberra to Sydney to be closer to stakeholders

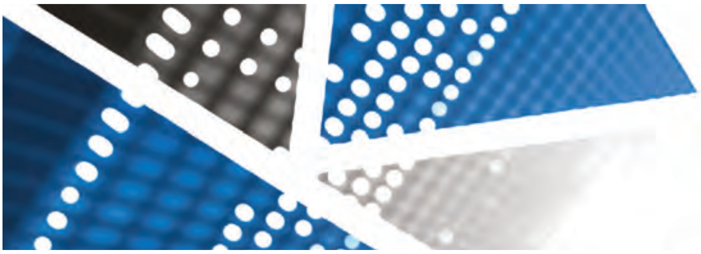
2012
ARPC starts paying the Federal Government fees and dividends

2009
ARPC buys a reinsurance program on global markets for the first time

2008
ARPC begins designing loss estimation models with Geoscience Australia

2003
ARPC established under the *Terrorism Insurance Act 2003*

2001
World Trade Centre terrorist attacks in New York City 'September 11'



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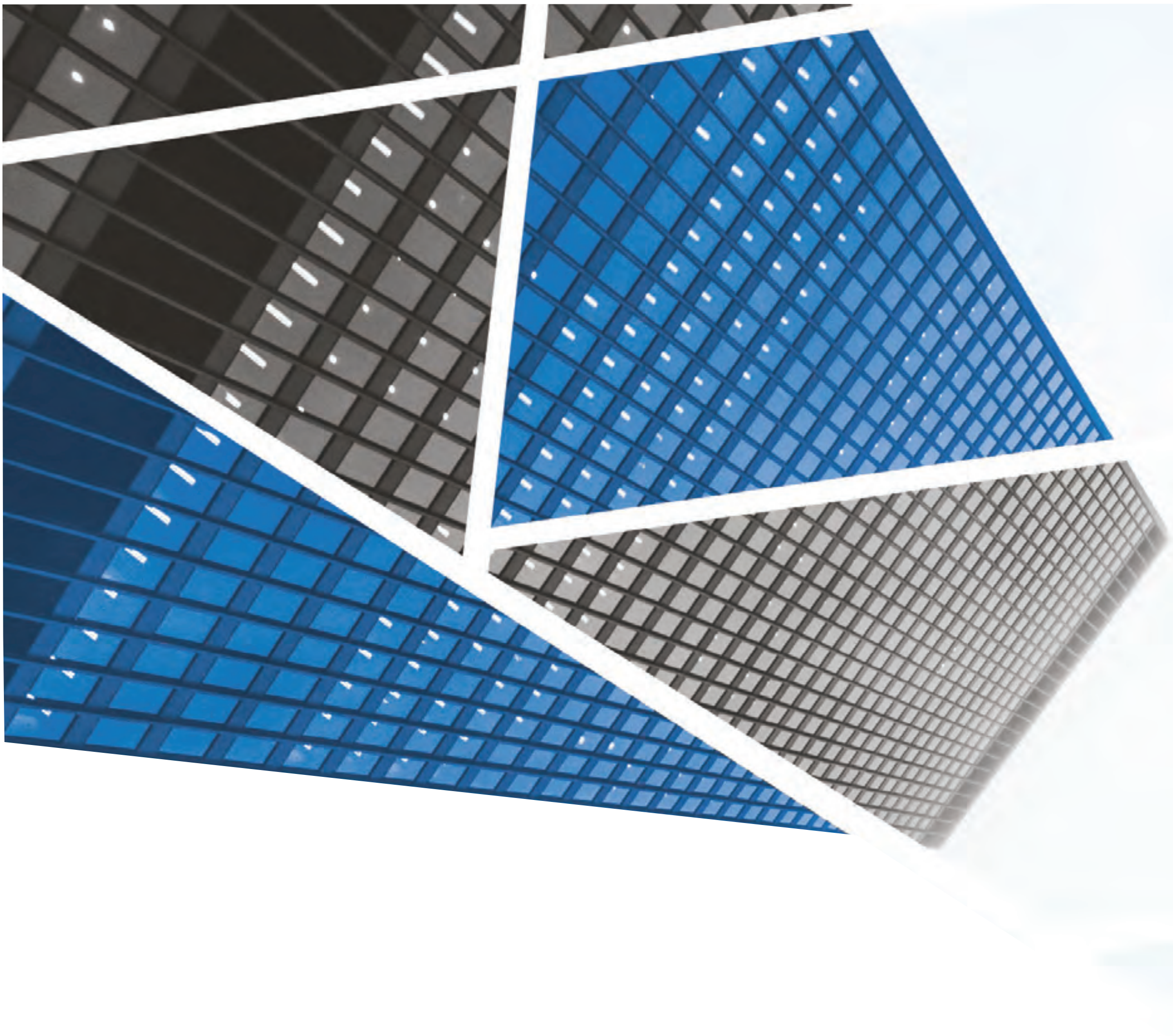


CHAIR AND CEO REPORTS

From the Chair

Ian Carson AM
Chair

I am delighted to present the 2018-19 Chair Report for Australian Reinsurance Pool Corporation.

It's been a successful year for ARPC where our performance has been recognised through reviews by the Treasury and the Australian National Audit Office (ANAO).

ARPC's Board performance was positively assessed by the ANAO in its 2019 report on ARPC as "enabling effective oversight and management of the scheme".

The ANAO Report on the Management of the Terrorism Reinsurance Scheme noted that ARPC provides effective annual reporting of its performance and has a suitable organisational structure to support the scheme's operation and appropriate arrangements for engaging and communicating with stakeholders.

This finding reflects ARPC's 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. It also reflects the commitment of ARPC to constantly strive to improve outcomes while meeting the scheme's objectives.

Following the ANAO Report, ARPC will enhance its performance measure on strategic projects and introduce a performance measure for stakeholder engagement, with both measures included in ARPC's 2019 Corporate Plan.

> "It's been a successful year for ARPC where our performance has been recognised through reviews by the Treasury and the Australian National Audit Office (ANAO)."

ARPC has a committed and engaged Board. In 2018-19, the Board met five times and the Audit and Compliance Committee met four times. There were no Board member changes during the period.

There were strong contributions from each Member and I thank them for their effort and commitment.

The ARPC Board and senior executive team attended the annual strategic planning workshop in Canberra in March 2019. At the workshop, we reviewed our internal and external environment, current and emerging risks and strategic priorities.

The Board approved management recommendations for a possible new ownership model for ARPC and will present these to the Government to inform its next triennial review of the ARPC scheme.

The strategic planning workshop in Canberra was followed by a networking event, well attended by government and insurance industry stakeholders.

This event followed a Sydney networking function in July 2018 where the Board met and interacted with a wide cross section of government and industry stakeholders. These events will be repeated in 2019 to deepen engagement between ARPC and key stakeholders.

Board Members also attended the Insurance Council of Australia (ICA) Annual Dinner and the Australian and New Zealand Insurance Industry (ANZIIF) Awards.

This year, the Board has implemented a new process to review and approve a range of policies and procedures.

We commissioned a review of our governance and compliance framework which resulted in recommendations on the frequency of board meetings, policy drafting, review cycles, market intelligence and attestation processes. Implementation of the resulting process improvements are ongoing.

As part of ARPC's commitment to effective risk management, the Board conducted its annual review and update of the Risk Appetite and Tolerance Statement and monitored performance reports against this statement provided by management at each Board meeting. The Risk Management Policy was also updated to outline 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 also continues to monitor governance trends in the public and private sectors.

I am delighted to report that ARPC received a Bronze award for its first annual report entry into the Australasian Reporting Awards (ARA), where ARPC's 2017-18 Annual Report proficiently addressed the demanding ARA criteria.

ARPC is well positioned to achieve its purpose, which is to respond efficiently and effectively to a Declared Terrorism Incident (DTI).

[Signature Supplied]

Ian Carson AM
BEc PGDip Professional Accounting FAICD
Chair

27 September 2019

From the CEO

Dr Christopher Wallace
CEO

Delivering on our purpose

ARPC has delivered excellent operational and financial performance over the year.

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 financial recovery phase following a DTI.

ARPC has 220 insurer customers which insure \$3.46 trillion sum insured for commercial property and business interruption policies. During 2018-19, ARPC had funding capacity for claims of \$13.6 billion. This capacity was provided through a combination of \$461 million ARPC net assets, \$3.315 billion retrocession cover purchased from 71 global reinsurers and the \$10 billion Commonwealth guarantee.

During 2018-19, ARPC has continued to see commercial insurance premium rate increases in the insurance market, while global capacity available for terrorism risk insurance has remained stable.

Terrorism threat continues

The period was marked by continuing terrorism threats, with major terrorist attacks occurring in the United Kingdom, France, New Zealand and the Middle East. Australia was not immune with an incident in Melbourne's Bourke Street Mall in December 2018, resulting in the death of an innocent civilian.

> "During 2018-19, ARPC has continued to see commercial insurance premium rate increases in the insurance market, while global capacity available for terrorism risk insurance has remained stable."

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

Increasing private participation

Terrorism insurance pools like ARPC exist in many 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 by reinsurers owing to its deep expertise in 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 the participation of the private insurance market. The 2019 retrocession placement saw ARPC purchase an additional \$250 million of capacity from the private global reinsurance market[1]. ARPC was able to place the 2019 retrocession program at lower prices and used this saving to contribute to the extra \$250 million capacity purchased, further highlighting the value the pool provides to the Australian terrorism risk insurance market.

The 2018 Triennial Review conducted by the Treasury noted that, as a 'centre of expertise', ARPC has helped global reinsurers make better informed decisions and encouraged them to bring commercial capacity to the Australian market through its retrocession program. 'Several reinsurers have indicated they would find it difficult to participate in the Australian terrorism insurance market without a mechanism like ARPC,' the Review report said.

[1] See 'The Scheme' for further detail on the Scheme structure

Value for money

The average price of cover for insurers in 2018-19 was 4.9 per cent of premium, and 4.8 per cent in the previous year.

The annual aggregate retentions (the deductible or excess) held by insurers range between a minimum of $100,000 and a maximum of $12.5 million, which is 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[2].

Efficiency gains from the Cloud

ARPC has continued to benefit from increased efficiencies in day-to-day operations as a result of moving IT systems to a Cloud environment. ARPC complies with the Australian Signals Directorate's essential mitigation strategies against cyber incidents, monitors key IT operational areas, and has comprehensive mobile device management systems. Moving to the Cloud has allowed greater visibility and monitoring of the IT environment and enabled ARPC to take advantage of technological advancements as they occur. During the period, ARPC was classified as a 'Digital Continuity Champion' by the National Archives of Australia, scoring 4.5 out of 5 in its 2018 Survey. This achievement was directly related to ARPC's move to a Cloud environment.

Thought leadership on terrorism

In November 2018 ARPC hosted its third annual *Terrorism Risk Insurance Seminar* at NSW Parliament House. The topics covered included: Australia's counter-terrorism environment; cyber terrorism insurance; the role of private security guard forces in Australia, and other insurance topics. Presenters included the Australian Security Intelligence Organisation (ASIO), the Australian Strategic Policy Institute (ASPI) and the Organisation for Economic Co-operation and Development (OECD), with nearly 90 delegates attending.

Providing property owners with a risk mitigation resource

ARPC is collaborating with Standards Australia to produce the HB-188 Handbook '*Physical Protective Security Treatments for Buildings*', due for publication in 2020. ARPC is the Project Proponent and Drafting Leader for this new publication which is designed as a quick reference guide, containing commentary and resources on risk mitigation for deliberate acts of physical damage. It references existing approaches from the various security, building and risk insurance industries, to guide informed decision making for commercial property owners and operators in Australia.

Strong relationships with stakeholders

ARPC regularly engages 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. In the upcoming period, ARPC will be undertaking its first formal survey of insurer customers.

Global networks

The continued support of the OECD High Level Advisory Board for the Financial Management of Large-scale Catastrophes and the International Forum for Terrorism Risk (Re)Insurance Pools (IFTRIP) has enhanced ARPC's links with global counterparts.

In the period, ARPC participated in the IFTRIP conference in Moscow and a workshop in London on biological risks organised by the Nuclear Threat Initiative (www.nti.org).

[2] See 'The Scheme' for further detail on the Scheme structure

These events provided the opportunity to connect with global pools and to gain insights about global threats, such as cyber terrorism and biochemical risks.

Renewal of the Enterprise Agreement

ARPC staff voted in favour of the 2019-22 Enterprise Agreement (EA) which was approved by the Fair Work Commission on 26 April 2019, with an effective date of 3 May 2019.

Staff Engagement

ARPC engages regularly with employees to enhance connections and engagement with ARPC's purpose and strategic objectives. All employees contribute toward the development and implementation of actions and activities aimed at lifting organisational performance and culture. The 2018-19 engagement survey, conducted using Gallup's internationally recognised Q12 survey, delivered a result at the 67th percentile, with an overall satisfaction score of 85 per cent.

2018 Triennial Review

The Treasury completed the 2018 Triennial Review in December 2018. The review recommended that the TI Act remain in force and that the scheme remain in place. The Review also considered the appropriate level of compensation that the Government should receive for Government ownership and the Commonwealth guarantee. The Review recommended an additional temporary dividend of $10 million for 2018-19, 2019-20 and 2020-21. It also found that the current scope of the scheme, the approach to declaring a terrorism incident, and the pricing of the scheme continue to be appropriate. The Treasury recommended that 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 Act at this time. ARPC is currently conducting a research project in co-operation with Cambridge University's Centre for Risk Studies and the OECD on cyber terrorism risk and insurance coverage to better inform Government and the insurance market on this emerging risk.

> "ARPC's overall financial performance for 2018-19 was better than expected, with the operating result for the year ending 30 June 2019 at $45.4 million, $28.4 million better than forecast."

Evaluating feasibility of greater private sector involvement in scheme ownership

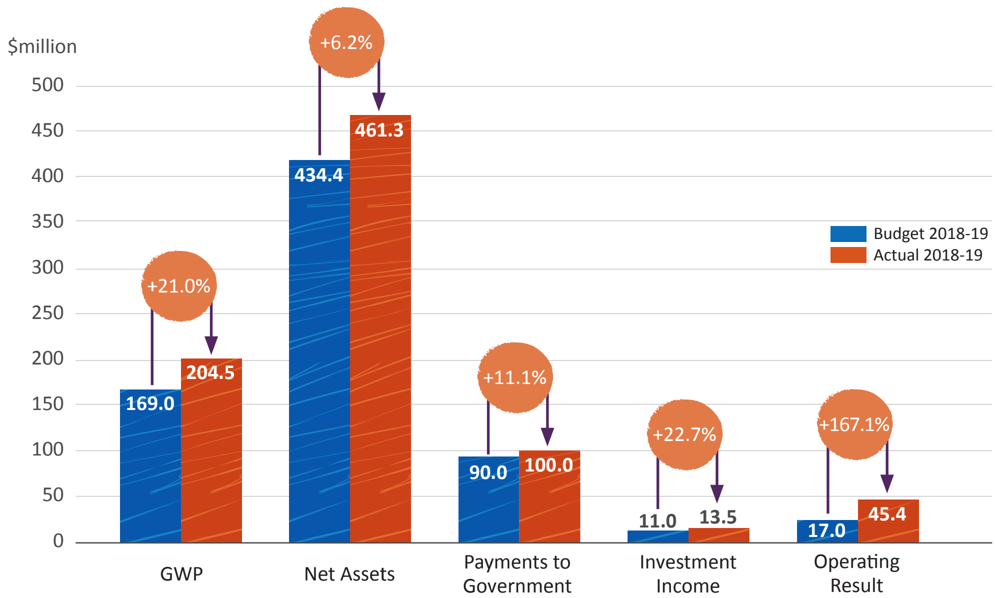
With the assistance of consulting firm Pottinger, ARPC undertook a feasibility study exploring an option on future private sector involvement in the ownership of the scheme. ARPC will present this to the Government to inform its next triennial review.

Financial performance was better than forecast for 2018-19

ARPC's overall financial performance for 2018-19 was better than expected, with the operating result for the year ending 30 June 2019 at $45.4 million, $28.4 million better than forecast.

Figure 0.1 comprises a summary of key financial metrics. Further detail is available in the **Annual Performance Statement** which begins on page 49.

Figure 0.1: Summary of key financial metrics 2018-19



Thanks to Michaela Flanagan

I would like to thank Michaela Flanagan, who was our Chief Operating Officer for the last two and a half years, for her contribution to ARPC. Michaela joined Swiss Re as Head of Branch Operations in early 2019. I wish her all the best in the next phase of her career.

In summary

ARPC achieved strong performance operationally and financially during the year. In the period, the following reviews of the scheme were completed:

- The 2018 Triennial Review concluded that the TI Act and the scheme should continue.
- The ANAO Performance Audit concluded ARPC effectively managed the Terrorism Reinsurance Scheme and its governance arrangements enable effective oversight and management of the scheme.

ARPC made solid progress on strategic projects during 2018-19, including the following:

- cyber terrorism research project;
- geospatial modelling covering all mainland locations in Australia;
- Standards Australia Handbook for the Physical Protective Security Treatments for Buildings; and
- ownership model feasibility study.

These projects will position ARPC well to deliver to customers and stakeholders and respond to a DTI[3] event if required.

Dr Christopher Wallace
BEc (Hons) PhD (Econ) AMP (INSEAD) ANZIIF (Fellow) CIP GAICD
Chief Executive

[3] 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 2019. 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]

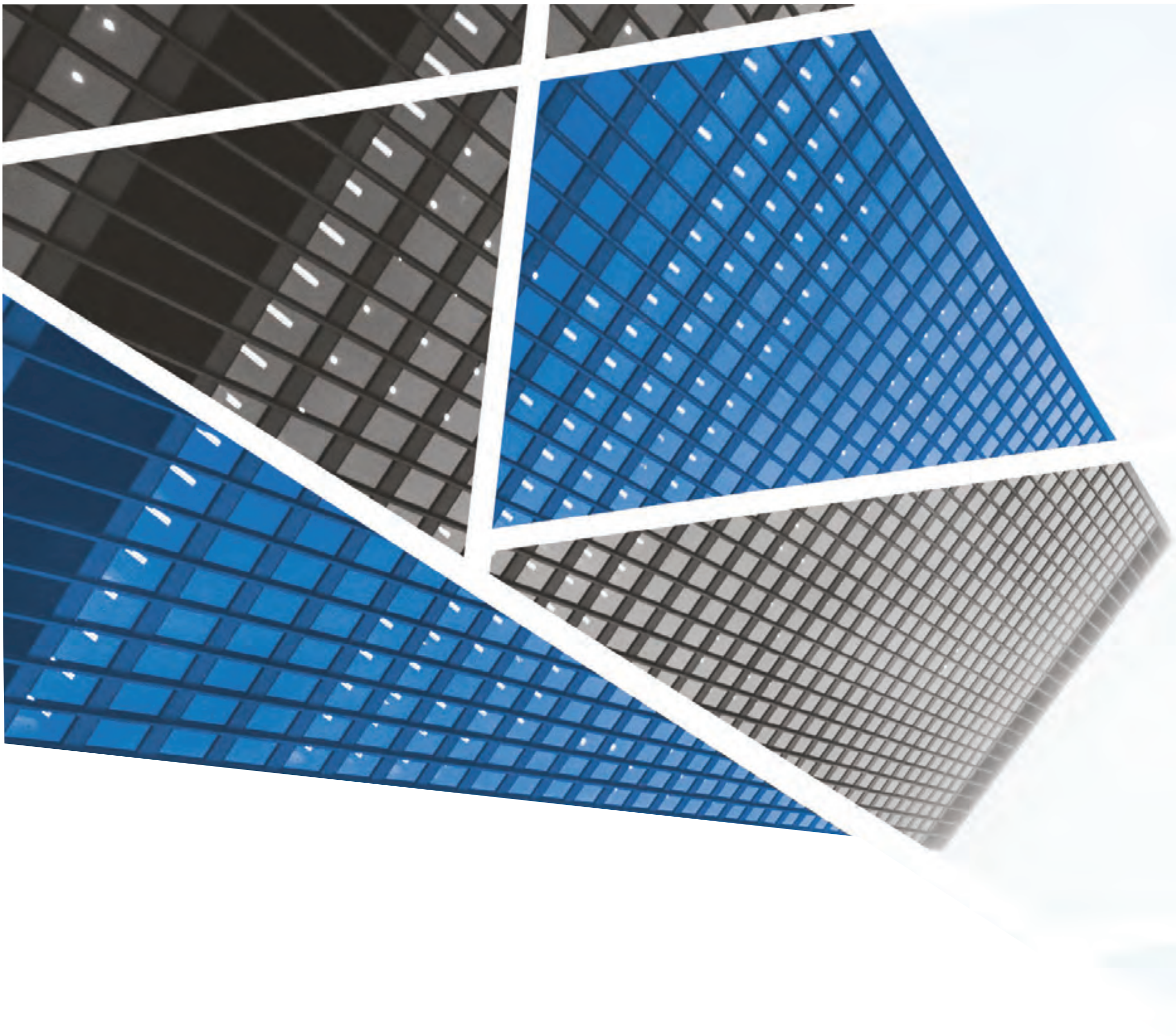
Ian Carson AM
BEc PGDip Professional Accounting FAICD
Chair

27 September 2019

[Signature Supplied]

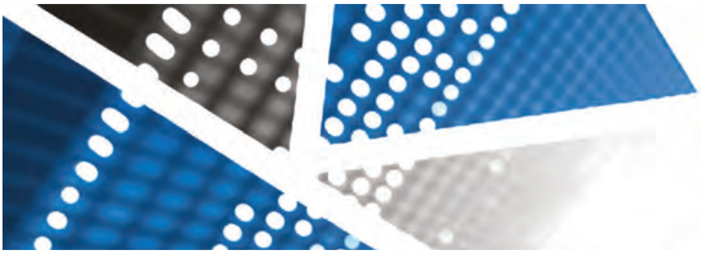
Janet Torney
BEc (Hons) FAICD FASFA
Member and Chair of the Audit and Compliance Committee

27 September 2019



01

ARPC'S STRATEGY



01 ARPC'S STRATEGY

Background

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.

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.

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

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.

Vision, Mission and Values

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 claim, we will pay claims and deliver on our promise
- **Support recovery** following a terrorism incident
- **Provide links** between government, national security, and the private insurance market to enhance understanding of the risk
- Address a **market failur**e and provide cover for terrorism where the private market is unable to
- Lead **international collaboration** on terrorism risk insurance

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

To deliver on the Vision and Mission, ARPC strives for a collaborative and high-achieving culture underpinned by integrity, personal leadership and 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 1.1: ARPC Values

Delivering for our stakeholders

We take time to understand our different stakeholders and their needs which creates customer focused relationships that deliver every time.

Collaboration

We share knowledge, are authentic and approachable. We are open to new ideas, seek to understand and work as a team to achieve our shared goals.

Personal leadership

I strive to be the best I can be and be accountable for all I do. I have the courage to ask for help, look for opportunities to innovate and share my experience to improve myself and the team.

Integrity

We are open and honest and communicate with positive intent allowing us to connect, embrace our differences and deliver.

Strategic context

Addressing market failure

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

After 16 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, such that partial market failure still exists[4]. The global reinsurance market has insufficient capacity to offer uniform terrorism risk insurance coverage to the Australian market at affordable prices, a situation unlikely to change in the near term.

The 2015 Triennial Review[5] 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 partial market failure. This was reconfirmed in December 2018, in the 2018 Triennial Review.

The 2018 Triennial Review report estimates that terrorism risk reinsurance cover, available at reasonable prices, to Australian insurers, totals around $4 billion, well below the $13.6 billion of reinsurance cover provided by the Scheme.

4 As stated in the 2018 Triennial Review.

5 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.

International threat environment

The international threat environment for terrorist events has changed dramatically in recent years. Terrorist attacks in London, Manchester, Paris, Sri Lanka, and Melbourne 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 1.2.

Figure 1.2: National Terrorism Threat Advisory System (NTTAS)

Red is the highest level and means that a terrorist action is certain.

Orange means a terrorist action is expected.

Yellow indicates that a terrorist action is probable. This is the current threat level in Australia.

Blue indicates that a terrorist action is possible.

Green is the lowest category of threat and means a terrorist action is not expected.

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 2018-22 Corporate Plan set out five strategic priorities based on business objectives.

- 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.

Progress against the 2018-22 Strategic Priorities

ARPC made progress against all five strategic priorities reflected by four key performance areas. These align with ARPC's objectives under the TI Act as per the Explanatory Memorandum:

One: Providing reinsurance for eligible terrorism losses

Two: Encouraging private sector participation through retrocession

Three: Compensating the Government, and

Four: Maintaining financial sustainability and organisational resilience.

Figure 1.3: Activities undertaken to progress ARPC's strategic priorities

Strategic Priority 1. Extend thought leadership and expertise	Key Performance Areas			
Core activities and achievements	**One**	**Two**	**Three**	**Four**
Progressed Cyber Terrorism Research project in conjunction with Cambridge University Centre for Risk Studies and the OECD.	✔	✔		
Progressed *Standards Australia Handbook for Physical Protective Security Treatments for Buildings*. This is on track with the completion of the first draft and an expectation the final handbook will be published in 2020.		✔		✔
Continued to identify and educate the market about potential gaps in cover.	✔	✔		
Participated in the OECD High level Advisory Board.		✔		

* Core activities and achievements have been allocated to the Key Performance Areas that they predominantly address

Strategic Priority 2. Engage, understand and collaborate with stakeholders	Key Performance Areas			
Core activities and achievements	**One**	**Two**	**Three**	**Four**
Engaged with stakeholders to deepen understanding and develop greater understanding and consensus on the TI Act and Regulations.	✔			✔
Delivered the 2018 *Terrorism Risk Insurance Seminar* with positive stakeholder feedback.	✔	✔		
Met with 25 key stakeholders as part of the Ownership Model Feasibility Study to discuss the proposal, obtain their views and include their input in the study.				✔
Delivered informative and relevant presentations at industry events, including conferences.	✔	✔		✔
Met with government representatives, insurers and commercial property owners to inform them about scheme coverage.	✔			✔

* Core activities and achievements have been allocated to the Key Performance Areas that they predominantly address

Strategic Priority 3. Provide a world class response to terrorism incidents	Key Performance Areas			
Core activities and achievements	**One**	**Two**	**Three**	**Four**
Conducted multiple tests of the DTI Response Procedure for continuous improvement.				✔
Provided advice to government at the request of the Minister.				✔
Reviewed and enhanced the claims response plan with a view to continuous improvement.				✔
Continued development of 3D loss estimate modelling for blasts and biochemical events throughout Australia.		✔		✔
Development of geospatial loss modelling covering all mainland locations in Australia nearing completion.		✔		✔

* Core activities and achievements have been allocated to the Key Performance Areas that they predominantly address

Strategic Priority 4. Embrace and evolve to a changing market environment	Key Performance Areas			
Core activities and achievements	**One**	**Two**	**Three**	**Four**
Worked with government stakeholders to implement postcode changes effective 1 July 2019.	✔			
Completed the Ownership Model Feasibility Study.	✔			✔

* Core activities and achievements have been allocated to the Key Performance Areas that they predominantly address

Strategic Priority 5. Enhance and strengthen the resilience and preparedness of our people and organisation	Key Performance Areas			
Core activities and achievements	**One**	**Two**	**Three**	**Four**
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.	✔	✔		✔
Judiciously managed net assets so ARPC maximises its financial performance.	✔			✔
Implemented a holistic Capital Management Policy to support ARPC's financial sustainability.				✔
Produced monthly reporting based on balanced scorecard key performance indicators.	✔			✔
Made payments to government as per the current Ministerial Direction.			✔	
Updated IT strategy identifying future roadmap for IT.				✔
Increased the cyber security and operational efficiencies from moving to a Cloud IT environment. Achieved 'Digital Continuity Champion' status from the National Archives of Australia.				✔
2018 Triennial Review completed in December 2018.	✔	✔	✔	✔
Identified technological tools to increase staff efficiency and effectiveness and their ability to interact with key stakeholders.				✔
Delivered staff training to develop, connect and empower ARPC's people towards execution of meaningful work.				✔
Engaged all staff in mid-year and year-end performance conversations and appraisals.				✔
Completed the ANAO Performance Audit with a favourable outcome.				✔

* Core activities and achievements have been allocated to the Key Performance Areas that they predominantly address

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 2018-19, 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[6]
- industry bodies
- Australian Government representatives at local, state and federal levels, and
- state insurance corporations.

As part of the Ownership Model Feasibility Study, ARPC met with 25 major stakeholders to understand their views of the scheme and to get their input on alternative ownership models, with increased insurance industry involvement.

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 2018-19, 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.

ARPC's cedant (insurer customer) review program is an integral part of ARPC's stakeholder engagement efforts. The program takes a collaborative approach, educating insurer customers about the requirements and function of the scheme to generate increased compliance. The program also provides an opportunity to share insights into the contemporary terrorism landscape and provide information on the strategic projects ARPC is undertaking.

Communications and publications

ARPC publishes a quarterly digital 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 other relevant information.

ARPC has a company LinkedIn page to share announcements, event coverage and other news with our stakeholders.

Our website, which was relaunched two years ago, is a repository for information about the scheme and how it operates, as well as annual publications, newsletters, events, media releases and Q&As.

6 *A reinsurer that accepts retrocession business*

Industry involvement

ARPC engages with the Australian and international re/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 2018-19, ARPC attended industry conferences and events including (but not restricted to):

- ARPC Sydney *Terrorism Risk Insurance Seminar;*
- ARPC market briefing (Sydney) for the 2019 retrocession program;
- Nuclear Threat Initiative workshop on biological risk in London;
- IFTRIP Conference in Moscow;
- Reinsurance Discussion Group events;
- NIBA Convention;
- ANZIIF Annual Insurance Industry Awards; and
- Insurance Council of Australia events.

Counting the cost of cyber terrorism

In late 2018, ARPC commissioned a research project on the nature and cost of physical damage to commercial property (including business interruption) caused by acts of cyber terrorism. The researchers selected to undertake the project were the Organisation for Economic Co-operation and Development (OECD) and Cambridge Centre for Risk Studies at the Judge Business School, Cambridge University (CCRS). The research, *Insurance risk assessment of cyber terrorism in Australia* is due to be published in early 2020. It is designed to identify and explore current and prospective threats, plausible scenarios, as well as the practicalities of extending insurance coverage to include cyber terrorism in Australia.

Business insurance policies and the ARPC scheme exclude coverage for acts of cyber terrorism which affect commercial and high value residential property in Australia. ARPC expects the cyber research study findings to inform development of government policy in this important area, including the three-year review of the terrorism insurance scheme by the Treasury.

The research will also make a significant contribution to the data set and knowledge of cyber terrorism risk in Australia.

CCRS has a solid reputation and deep experience in cyber terrorism research and recently completed an assessment of the current state and future shape of the cyber terrorist threat to the UK mainland and economy titled *Cyber Terrorism: Assessment of the Threat to the Insurance Industry*. The OECD has extensive knowledge of terrorism pools, like ARPC and its global peers, including their insurance coverage of current and emerging terrorism issues.

Dr Christopher Wallace, ARPC CEO, addresses the March 2019 Cyber scenarios workshop hosted by Cambridge Centre for Risk Studies

Status update

CCRS and the OECD are working with ARPC and the Australian insurance industry to collect data for, and gather feedback on, cyber terrorism scenarios and to develop a clear picture of cyber-related insurance coverage in property and stand-alone cyber policies. In the past year, both researchers have visited Australia to run workshops for these purposes. The resulting analysis will form the final draft reports, provided to ARPC for review during August and September 2019.

Industry consultation

In March 2019, CCRS visited Sydney and co-hosted a specialty cyber scenarios workshop with representatives from the IT, security and risk industries to discuss various scenarios for the research.

In May 2019, the OECD hosted a Sydney workshop to identify and discuss the implications of gaps in cyber coverage across property and cyber policies. The event was attended by senior representatives of major insurers.

Next steps

In late 2019, ARPC will review the researchers' final draft reports in accordance with the project scope and objectives. ARPC will then produce a report which will be shared with the Government and industry stakeholders and launched to the wider market.

ARPC's Risk Mitigation Handbook proposal approved by Standards Australia

ARPC is the Project Proponent and Drafting Leader of Standards Australia's HB-188 Handbook *Physical Protective Security Treatments for Buildings* due for publication in late 2019 or early 2020.

The Handbook is designed as a quick reference guide, containing commentary and resources on risk mitigation for deliberate acts of physical damage. It references existing approaches from the various security, building and risk/insurance industries, and importantly provides a platform for businesses to develop frameworks and strategies of their own.

A proactive approach to risk management

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

Australian industry stakeholders and representative bodies across insurance, commercial property, facilities management, events management, local government, fire services and national security supported the proposal. They also volunteered their expertise and participation in the project.

In addition to supporting owners and operators of commercial buildings, the Handbook will benefit a wide range of audiences who want to elevate their current risk mitigation practices.

Link with ARPC strategy

The Handbook aligns with ARPC's strategic objectives, particularly to "extend

thought leadership and expertise" and to "engage, understand and collaborate with stakeholders."

The Handbook is also designed to encourage higher quality risk management in the insurance market.

Final stages ahead of review

Standards Australia's editing team is reviewing the final draft of the Handbook and will soon open it for a six-week peer review period. Comment will be sought from subject matter experts across government and industry.

Methodology

In a pilot program for Standards Australia, called the 'incubator' initiative, the Handbook project used an online collaboration tool to fast-track the drafting of content. It is the first Handbook to be published for this topic.

Next steps

Following the peer review period, ARPC and Standards Australia will review the draft Handbook following comments received. Standards Australia editors will then review the document before its release in late 2019 or early 2020.

Handbook publication will be in varying formats, from several distribution partners, announced closer to the release date.

Engaging with stakeholders at the annual seminar

As a key part of its strategic priority to engage, understand and collaborate with stakeholders, ARPC hosts an annual seminar. The third *ARPC Terrorism Risk Insurance Seminar* was held in November 2018 at NSW State Parliament.

Approximately 90 people from the re/insurance industries, government sector and academia attended the event, which was chaired by Dr Christopher Wallace, ARPC Chief Executive.

The Seminar program covered current and emerging trends in terrorism and included:

- an Australian Government briefing on the terrorist threat in Australia;
- the cyber terrorism threat, including insights on the cyber insurance market; and
- Australia's private security guard force and counter terrorism.

Seminar speakers comprised:

- ASIO's Business and Government Liaison Unit;
- Leigh Wolfrom, Policy Analyst, OECD; and
- Dr Anthony Bergin, Senior Analyst, Australian Strategic Policy Institute, and Senior Research Fellow, Australian National University.

Session moderators included: Elaine Collins, ARPC Board Member; Michael Pennell, ARPC Chief Underwriting Officer; and Lisa Hiscock, Senior Underwriter, Crisis Management, AXA XL.

ARPC will host its fourth *Terrorism Risk Insurance Seminar* in August 2019.

Dr Anthony Bergin, Senior Analyst, Australian Strategic Policy Institute addressing the 2018 Seminar

Expanding geospatial capability

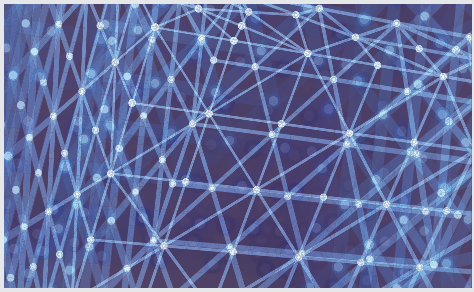
ARPC is developing a geospatial model to improve the way that insurance losses are calculated. This will assist ARPC following a terrorism incident, as well as to better understand the potential losses prior to an incident. The geospatial modelling will also be available to other law enforcement and security agencies to assist their operations.

Risk Frontiers, a modelling firm that specialises in the assessment and management of disaster risk across Australia and the Asia Pacific, was contracted to build a geospatial model expanding ARPC's capability to estimate insured losses in all locations across Australia. This model includes all suburban and regional areas which are unavailable through ARPC's current loss models.

Enhancing the 2D model

Risk Frontiers has been enhancing ARPC's existing two-dimensional blast model by:

- expanding coverage beyond current Tier A locations to include Tier B and C locations;
- incorporating an "exclusion zone" effect to capture business interruption costs caused by business not being able to operate owing to access restrictions following a terrorism event;
- employing up-to-date imagery to faithfully represent the current situation on the ground; and
- incorporating the effects of neighbouring buildings on containing or magnifying blast effects.



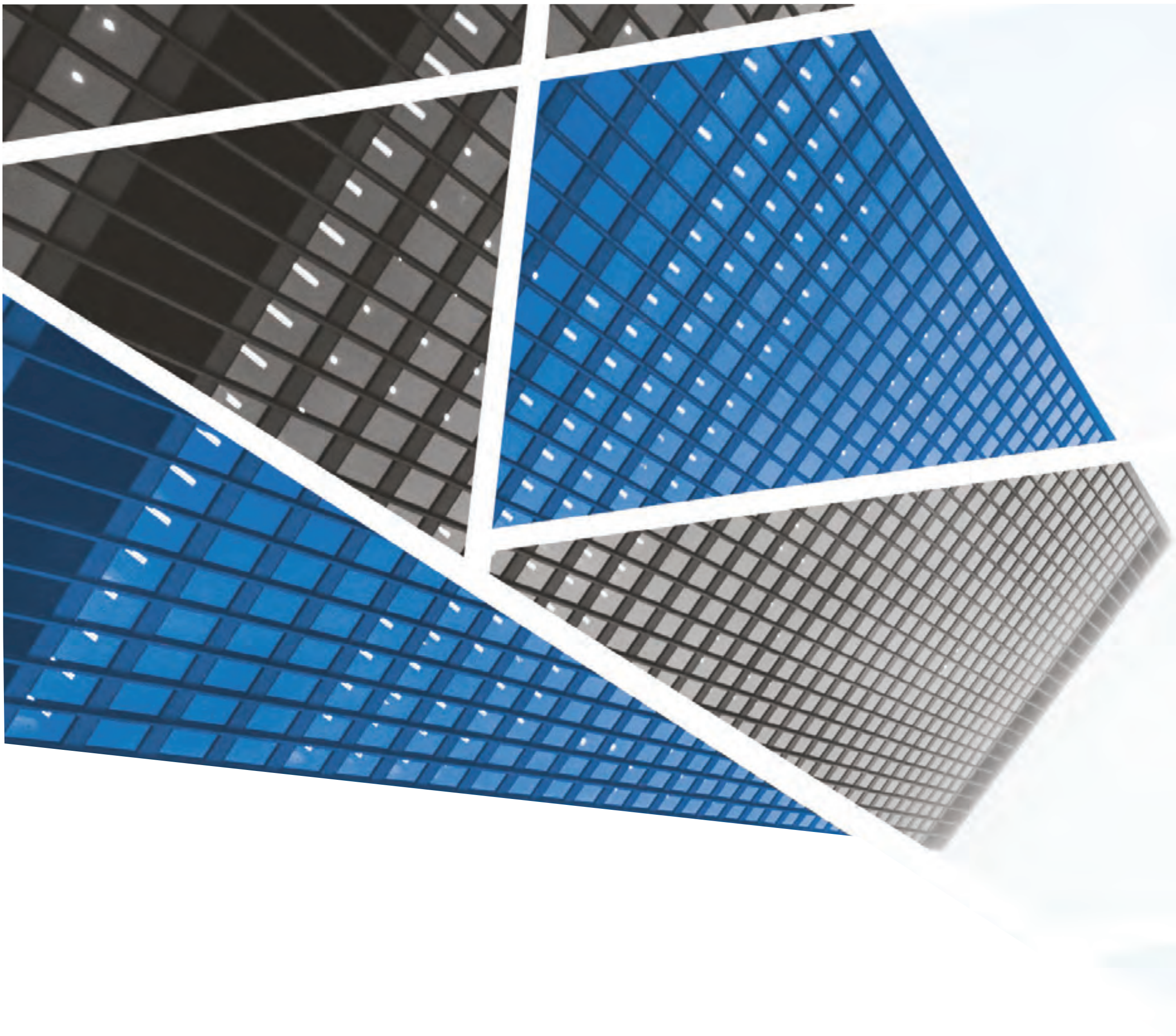
The geospatial model will use information from aerial photographs, postcode aggregate exposure information and damage curves for various building types.

Speedy insured loss estimates

The geospatial model will enable ARPC to quickly estimate insured losses anywhere in Australia, particularly for suburban shopping centres, mixed-use assets, industrial centres, sporting facilities and major infrastructure such as power stations and gas plants, which have been previously unavailable.

Output from the model will include vulnerability curves, charts showing exposure and loss relative to sums insured and total loss by distance, as well as a list of the affected land parcels and associated sums insured and estimated losses.

The project is currently in its final stages and is being tested for completeness and accuracy. It is expected the model will in use by ARPC during the first half of 2019-20.



02

THE SCHEME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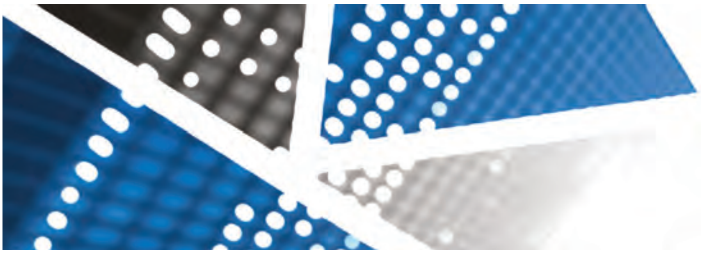


02

THE SCHEME

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

How ARPC's terrorism insurance scheme operates

The Scheme was established on 1 July 2003 to provide eligible insurance contracts with terrorism cover for any Declared Terrorist Incident (DTI). Eligible insurance contracts are defined in the Terrorism Insurance Act 2003 (TI Act) and further refined through regulation.

The Minister, in consultation with the Attorney-General, determines whether a terrorist incident has occurred 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 the Minister is satisfied that a terrorist act has occurred, the Minister must announce a DTI under section 6 of the 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 ARPC terrorism insurance coverage (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;
- reinsure the risk 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. In most major economies, similar arrangements exist, with some government involvement 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. Scheme coverage also excludes residential property not identified as eligible property. Farms can obtain cover if they hold insurance against business interruption.

Insurer and industry retentions (deductibles or excesses) apply before claiming against the Scheme. Claims against the Scheme will be met once an individual insurer's retention 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 2019 calendar year). Above this point, an additional $3.315 billion of claims are funded by the retrocession program.

Once retrocession is exhausted, claims are paid by the Commonwealth guarantee. These claims may have a reduction percentage applied if claims in this layer exceed the $10 billion limit of the Commonwealth guarantee as legislated in the TI Act. If insurance companies 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 with no reduction percentage applied.

The Scheme funding capacity is the total value of the Scheme, which at 30 June 2019 totalled $13.6 billion. The Scheme's benefits include efficient pooling of risk for terrorism catastrophe, particularly when capacity is limited and prices are high (which occurred following the terrorist attacks in the United States of America on 11 September 2001). Since then, ARPC has begun the gradual transfer of risk back to the global private reinsurance market in line with incremental increases in global terrorism insurance capacity, thus reducing reliance on the Commonwealth guarantee in the event of a DTI.

In 2019, ARPC purchased an additional $250 million layer of retrocession at the top of the program from the global reinsurance market. This expanded the Scheme size and further protected the Commonwealth guarantee.

> "The Scheme funding capacity is the total value of the Scheme, which at 30 June 2019 totalled $13.6 billion."

Background to The Scheme

Significant commercial and financial issues resulted from insurance and reinsurance companies' withdrawal of coverage for terrorism risk following the events of 11 September 2001. With a large pool of assets uninsured for terrorism risk, financiers and investors faced uncertainty, which 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 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 2019 stood at $13.6 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 located in, or on, such property; and
- property prescribed by regulation.

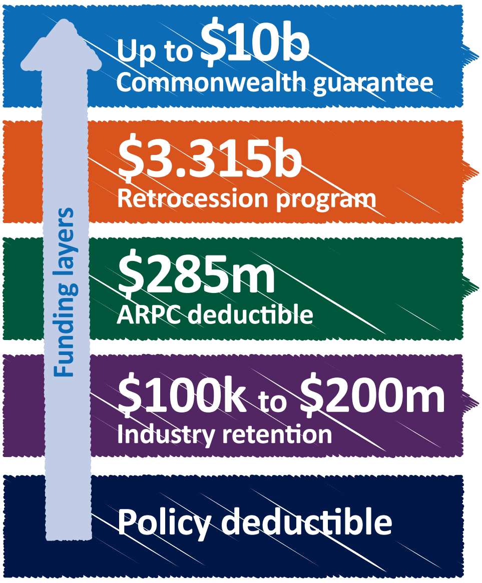
Among the Scheme's exclusions are:

- loss or liability arising from the hazardous properties of nuclear fuel, material or waste;
- residential property or the contents of residential property where the building has a sum insured 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 2019, ARPC provided insurers with an annual claims funding capacity of $13.6 billion in reinsurance capacity, comprising ARPC's net assets, retrocession and the Commonwealth guarantee. Since 2009, ARPC has placed an annual retrocession program, purchasing more than $3 billion capacity through more than 70 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



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 deals.

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 2019

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 $3.315 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 governments of other countries have responded to this market failure.

In December 2018, the Treasury published the 2018 Triennial Review. The review made the following recommendations and findings:

- That the Act remains 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 the appropriate level of payments when this dividend ceases.
- The current structure of pricing for the range of risks currently covered by the 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 Act at this time.
- Coverage is broad for domestic terrorism causing death or serious injury to Australians. There is an array of government schemes under which they could claim some form of compensation or funding, depending on their circumstances. There are also widely available insurance products that do not contain exclusions for terrorism incidents.

How the scheme is administered

Premiums

ARPC's premium and investment income is used to:

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

The premium charged by ARPC for reinsurance is determined by Ministerial Direction. The tier rates charged by ARPC and applied to insurer customer (cedant) gross base premium 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 processed by the insurer 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.

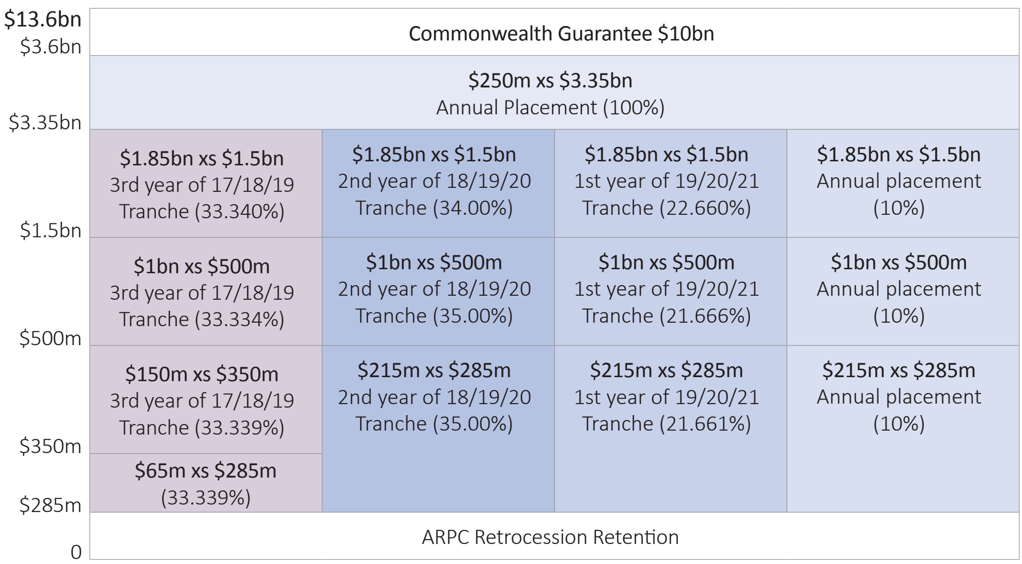
Retrocession placement

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

- increases overall scheme capacity;
- positions the Commonwealth 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.

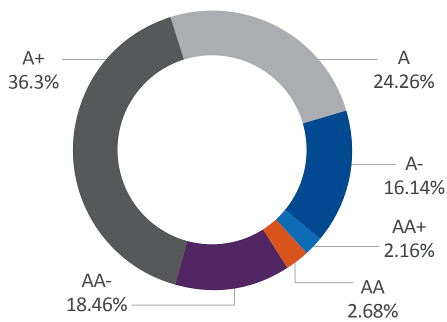
The retrocession program renews on 1 January each year. The 2019 placement includes approximately $3 billion of capacity written on a multi-year agreement, up from $2 billion written on a multi-year agreement in 2018, to reduce pricing volatility for ARPC and its retrocessionaires. The multi-year agreement allows adjustment if ARPC's portfolio changes by more than 10 per cent year-on-year or cancellation if ARPC's audited forecast premium income[8] reduces by 10 per cent or more.

Figure 2.4: Retrocession program detail



There are currently 71 participants in the retrocession program drawn from the Australian market and from the 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 2019



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

The 2019 $3.315 billion (2018: $3.065 billion) retrocession program was placed in four layers in excess of $285 million (2018: $285 million). Losses in excess of the retrocession program are covered by the Commonwealth guarantee.

Retrocession cover is placed on a calendar year basis from 1 January. The retrocession premium expense incurred for the 12 months to 30 June 2019 totalled $64.8 million gross (compared with $62.4 million in 2017-18). The total retrocession commission income recognised by ARPC for 2018-19 was $5.1 million (2017-18: $6 million).

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 and building sum insured surveys 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 including 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 has entered a three-year maintenance and development program for 2018-21 to keep both models current and fulfil ARPC's needs.

Geospatial model

During 2018-19, ARPC has also been working with Risk Frontiers on a two-dimensional (2D) blast model that will cover all mainland locations in Australia. This geospatial model is based on the original 2D blast model developed by Risk Frontiers in 2007 and is due for completion in late 2019.

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 9/11, 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. There are 23 pools around the world offering similar arrangements. *Figure 2.6* lists the international terrorism reinsurance pools in place today.

Figure 2.6: Terrorism reinsurance pools

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)

Source: International Forum of Terrorism Risk Reinsurance Pools (IFTRIP)
*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	2015-16	2016-17	2017-18	2018-19
Full review	42*	27**	35*	28**
Follow up review	14	9	16	1
Total	**56**	**36**	**51**	**29**

* Includes reviews on Singapore-based captive insurers
** 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;
- not recognising pollution and contamination exclusions as terrorism exclusion clauses for the purposes of 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;
- staff turnover within the insurer customer, leading to a lack of understanding of ARPC processes.

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

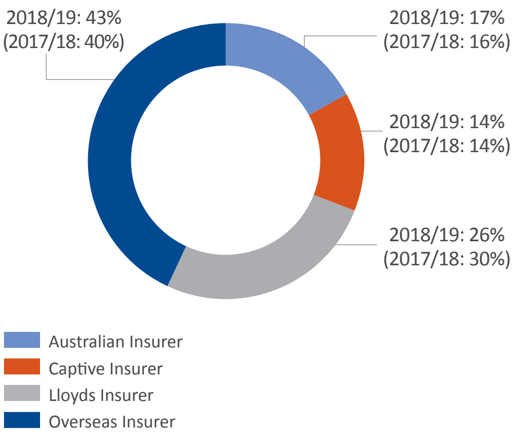
Statistics

Active insurer customers' reinsurance agreements

ARPC's active reinsurance agreements (or treaties) with insurer customers decreased to 220 in 2018-19, compared to 235 in 2017-18.

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

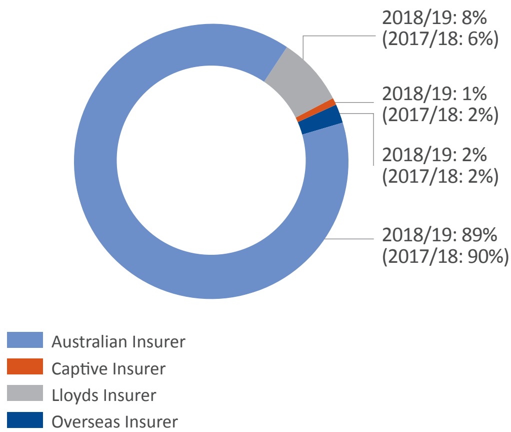
Figure 2.8: Active client reinsurance agreements*



*as at 30 June 2019

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 2.9: ARPC gross written premium by insurer customer type



Figures 2.10, 2.11 and 2.12 show that GWP by tier, state and business class (between 2014 and 2019) has remained stable, with most exposure observed in Tier B, followed by Tier C.

Figure 2.10: ARPC gross written premium by tier

	Actual				
	2018-19 %	2017-18 %	2016-17 %	2015-16 %	2014-15 %
Tier A	20%	21%	19%	19%	18%
Tier B	59%	56%	57%	56%	56%
Tier C	21%	23%	24%	25%	26%
Total GWP $'000	**201,879***	**181,766**	**159,945**	**130,490**	**128,513**

* The premium revenue for the 2018-19 underwriting year of $202 million is the amount as at 8 August2019

Figure 2.11: ARPC gross written premium by state

	Actual				
	2018-19 %	2017-18 %	2016-17 %	2015-16 %	2014-15 %
NSW	32%	32%	31%	32%	32%
VIC	25%	25%	24%	23%	23%
QLD	21%	21%	21%	21%	20%
WA	12%	12%	13%	13%	14%
SA	7%	7%	7%	7%	7%
TAS	1%	1%	2%	2%	1%
NT	1%	1%	1%	1%	2%
ACT	1%	1%	1%	1%	1%
Total GWP $'000	201,879*	181,766	159,945	130,490	128,513
Cumulative total $'000	1,966,597	1,764,718	1,582,953	1,423,008	1,292,517

* The premium revenue for the 2018-19 underwriting year of $220 million is the amount as at 8 August 2019

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

	Actual				
	2018-19 %	2017-18 %	2016-17 %	2015-16 %	2014-15 %
Fire/ISR/BI	86%	85%	85%	84%	83%
Contract Works	7%	8%	6%	7%	8%
Burglary	3%	3%	4%	4%	4%
Miscellaneous Accident	1%	1%	2%	2%	2%
Mobile Plant	2%	2%	2%	2%	2%
Glass	1%	1%	1%	1%	1%
Farm	0%	0%	0%	0%	0%
Total GWP $'000	201,879*	181,766	159,945	130,490	128,513
Cumulative total $'000	1,966,597	1,764,718	1,582,953	1,423,008	1,292,517

* The premium revenue for the 2018-19 underwriting year of $220 million is the amount as at 8 August 2019

Insurance premium report

Figure 2.13 shows that the annual change in ARPC premium revenue is directly related to the change in insurer customer GWP and is linked to the aggregate sum insured. The overall growth is indicative of the market change in premiums for commercial risks over time, while the increase in premium as a percentage of insurer customer GWP shows the impact of the rate change implemented by Ministerial Direction in early 2016.

Figure 2.13: Insurance risk report, as at 8 August 2019 by underwriting year

Underwriting year	ARPC premium revenue ($ million)	Insurer customer sum insured ($ million)	Insurer customer GWP ($ million)	ARPC premium as % of GWP
2011-12	124.7	3,080,062	3,516.6	3.5%
2012-13	129.8	3,009,662	3,710.1	3.5%
2013-14	126.6	3,114,901	3,608.6	3.5%
2014-15	128.5	3,425,056	3,660.4	3.5%
2015-16	130.5	3,593,017	3,500.6	3.7%
2016-17	159.9	3,681,649	3,419.3	4.7%
2017-18	181.8	3,464,734	3,764.4	4.8%
2018-19	201.9*	**	4,133.6	4.9%

* The premium revenue for the 2018-19 underwriting year of $202 million is the amount to 30 June 2019 as at 8 August 2019
** The 2018-19 risk reports are submitted into RISe from July 2019 to September 2019. Therefore, this information is not available as at 30 June 2019.

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 2017–2018 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	38.0	373,491	237.5	16.0%
B	102.4	1,854,340	1,933.2	5.3%
C	41.4	1,236,903	1,593.7	2.6%
Aggregated	181.8	3,464,734	3,764.4	4.8%

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, owing to the higher volume of risks located in Tier B.

Figure 2.15: Insurance risk report for 2017-18 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	58.0	1,132,639	1,112.7	5.2%
VIC	45.0	726,593	833.3	5.4%
QLD	37.1	745,110	862.0	4.3%
WA	22.1	467,586	530.0	4.2%
SA	12.7	216,029	242.2	5.2%
NT	2.4	47,805	70.3	3.4%
TAS	2.4	68,935	71.0	3.4%
ACT	2.1	60,037	42.9	5.0%
Aggregated	181.8	3,464,734	3,764.4	4.8%

Aggregate sum insured reports

ARPC's reinsurance agreement requires each insurer customer to provide an annual aggregate sum insured report by 31 August 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

	2017-18 $ trillion	2016-17 $ trillion	2015-16 $ trillion	2014-15 $ trillion
Tier A	0.4	0.4	0.4	0.4
Tier B	1.9	2.0	1.9	1.8
Tier C	1.2	1.3	1.3	1.2
Total aggregate sum insured $ trillion	3.5	3.7	3.6	3.4

Figure 2.17: Percentage of aggregate sum insured held by tier 2017-2018

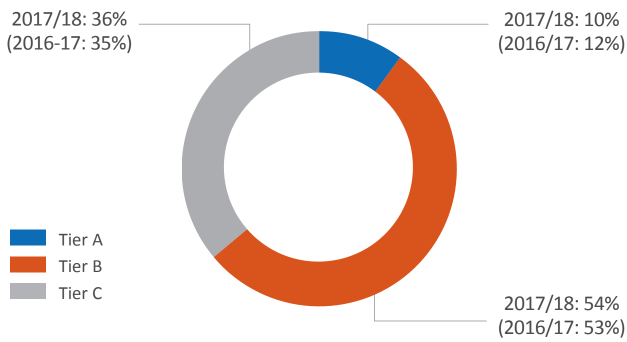
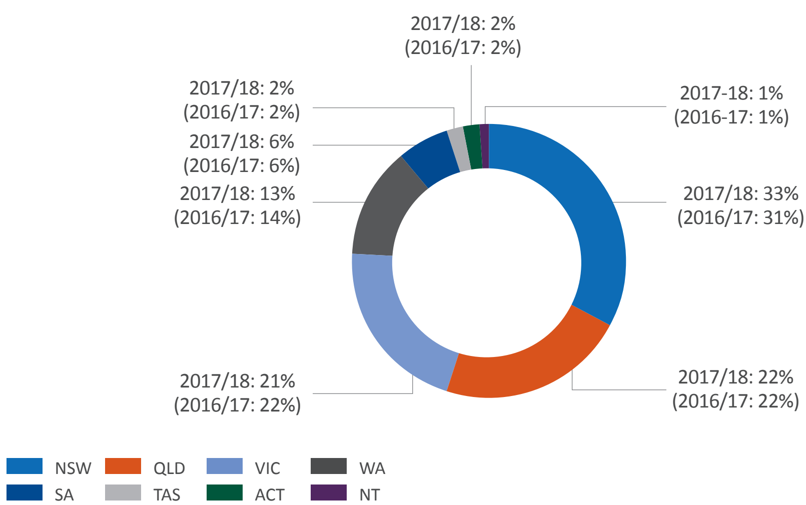


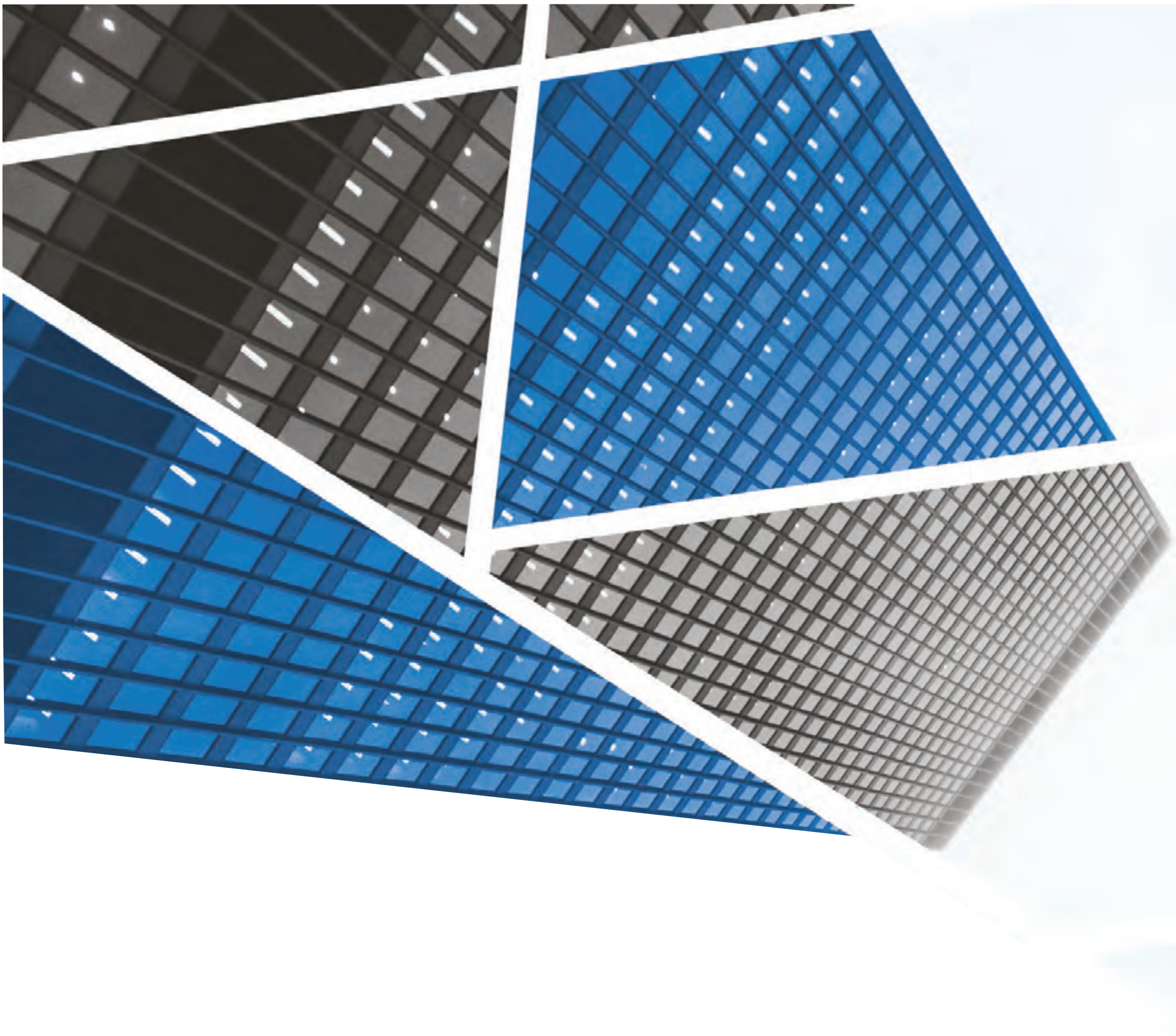
Figure 2.18: Aggregate sum insured by tiers 2017-2018

2017-18	Tier A	Tier B	Tier C
Spread:	10%	54%	36%
	$373 billion	$1,854 billion	$1,237 billion

Figure 2.19: Percentage of aggregate sum insured by state 2017-2018



The exposure report by state allows ARPC to identify the correlation between state exposures and collected premiums and the relative size of assets in each state.



03

ANNUAL PERFORMANCE STATEMENT

03

ANNUAL PERFORMANCE STATEMENT

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 2018-19 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.

Vision

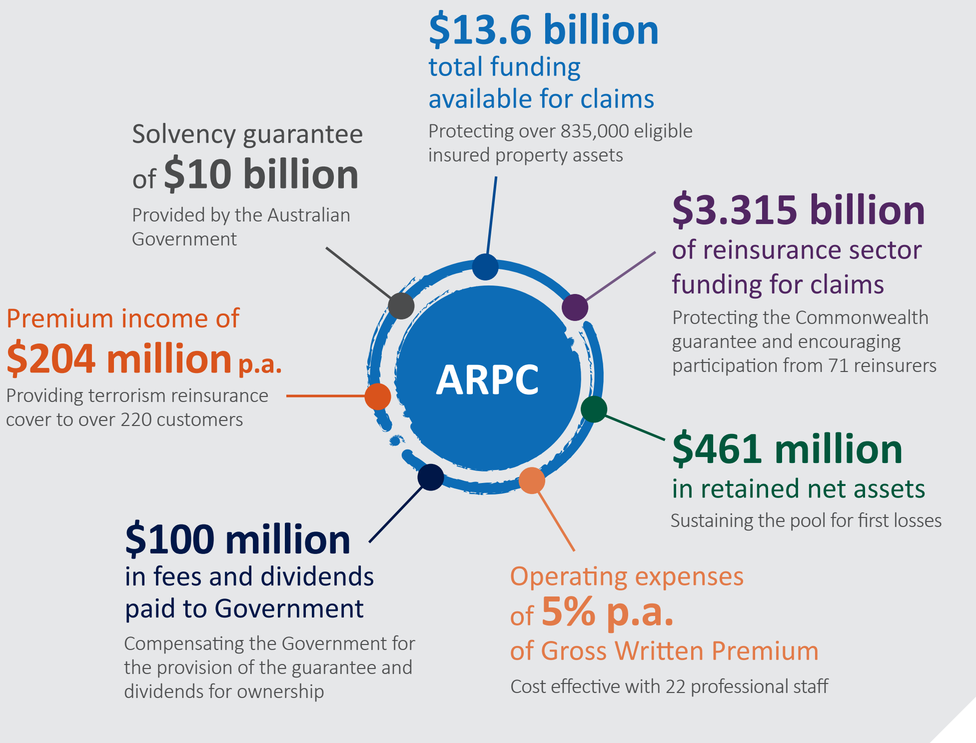
To be an effective provider of terrorism risk insurance that facilitates private participation, supports national resilience and reduces losses arising from catastrophic events caused by terrorism.

Mission

- **Provide confidence** to the market, knowing that in the event of a claim, we will pay claims and deliver on our promise
- **Support recovery** following a terrorism incident
- **Provide links** between government, national security, and the private insurance market to enhance understanding of the risk
- Address a **market failure** and provide cover for terrorism where the private market is unable to.
- Lead **international collaboration** on terrorism risk insurance.

Financial snapshot

Figure 3.1 ARPC by numbers as at 30 June 2019



Results

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

Performance criteria

ARPC's performance against the 2018-22 Corporate Plan over the reporting year is measured against four key performance areas:

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

Performance statement summary

ARPC met or exceeded all performance criteria for the 2018-19 reporting period. A summary of achievements against the Corporate Plan 2018-22 can be seen in *Figure 3.2*.

Figure 3.2: Achievements against 2018-22 Corporate Plan objectives

Key Performance Area	Description: Over the period covered by this corporate plan, success for this activity will be measured by:	Measure and source	Result against performance criterion
1 Providing reinsurance for eligible terrorism losses	ARPC's total premium income (as per ARPC's functional obligation as prescribed by section 10 of the TI Act).	Measure 1 – Gross Written Premium income.[9]	Exceeded GWP $204.5 million vs target of $140 million.
	ARPC's scheme capacity and total funding available; and Level of insurance market involvement.	Measure 2 – Scheme capacity, before the Commonwealth guarantee, per calendar year.[10]	Exceeded Retrocession capacity $3.315 billion vs target of $2.5 billion.
2 Encouraging private sector participation through retrocession	The number and quality of retrocessionaires on ARPC's retrocession program to encourage private sector participation.	Measure 3 – Private sector participation.[11]	Exceeded 71 reinsurers participated on the 2019 program vs target of 15, and 59.4% of participants are APRA regulated against a target of 50.0%.
3 Compensating the Government	ARPC is to pay the Australian Government a fee for use of the Commonwealth guarantee. A capital holding fee is also to be paid to recognise the capital ARPC is holding to fund future claim payments. An additional temporary dividend of $10 million will be paid for three years – 2018-19, 2019-20 and 2020-21. This additional dividend was a recommendation of the 2018 Triennial Review in December 2018.	Measure 4 – Payments to Government.[12]	Met $100.0 million payment by the due date comprising a $10.0 million dividend, a $55.0 million guarantee fee and a $35.0 million capital holding fee.
4 Maintaining financial sustainability and organisational resilience	ARPC must maintain sufficient net assets to support targets within ARPC's Capital Management Policy.	Measure 5 – Net Assets against ARPC target and minimum capital.[13]	Exceeded Net assets at June 2019 – $461.3 million vs a minimum of $345 million and a target of $400-$490 million.
	ARPC aims to build capability and knowledge to fulfil its strategic priorities.	Measure 6 – Complete and/or progress major projects according to plan to advance ARPC's strategic priorities.[14]	Met Each major project has been delivered on time and within budget or is on track to be completed on time and within budget.

[9] ARPC Corporate Plan 2018-22, page 29
[10] ARPC Corporate Plan 2018-22, page 30
[11] ARPC Corporate Plan 2018-22, page 32
[12] ARPC Corporate Plan 2018-22, page 33
[13] ARPC Corporate Plan 2018-22, page 34
[14] ARPC Corporate Plan 2018-22, page 35

PERFORMANCE STATEMENT DETAIL

1

ONE Providing reinsurance for eligible terrorism losses

Description

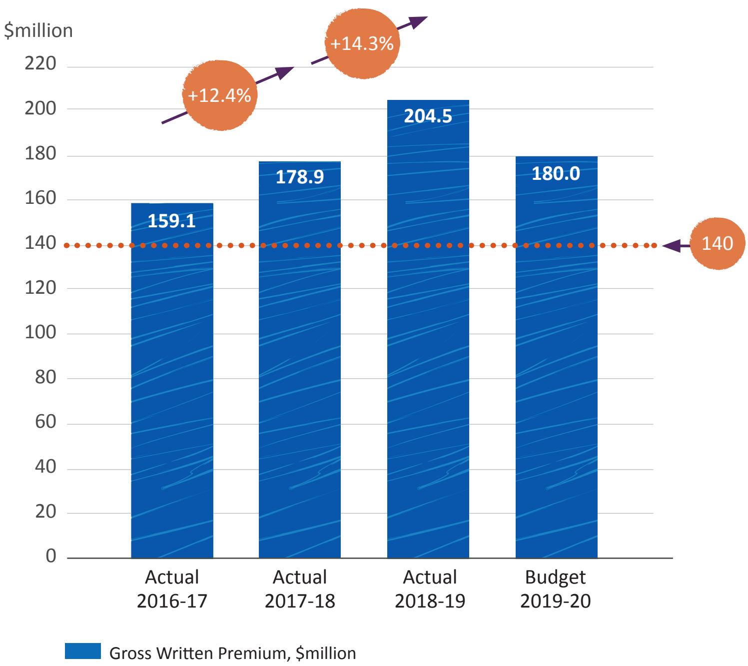
This is ARPC's functional obligation as prescribed by section 10 of the TI Act. Over the period covered by the Corporate Plan, success for this activity is measured by ARPC's total premium income. The target premium income for the forecast period was $140.0 million per annum.

Measure 1
To improve financial sustainability and achieve higher than target premium in each plan period.

Source
Measure 1, Gross Written Premium, ARPC Corporate Plan 2018-22, page 29.

Result

Figure 3.3: Gross Written Premium



ARPC's objective for Measure 1 for 2018-19 was to achieve actual premium income greater than the Corporate Plan target of $140.0 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 2018-19 was $204.5 million which was $64.5 million better than its Corporate Plan target, and $35.5 million higher than (better than) its financial budget.

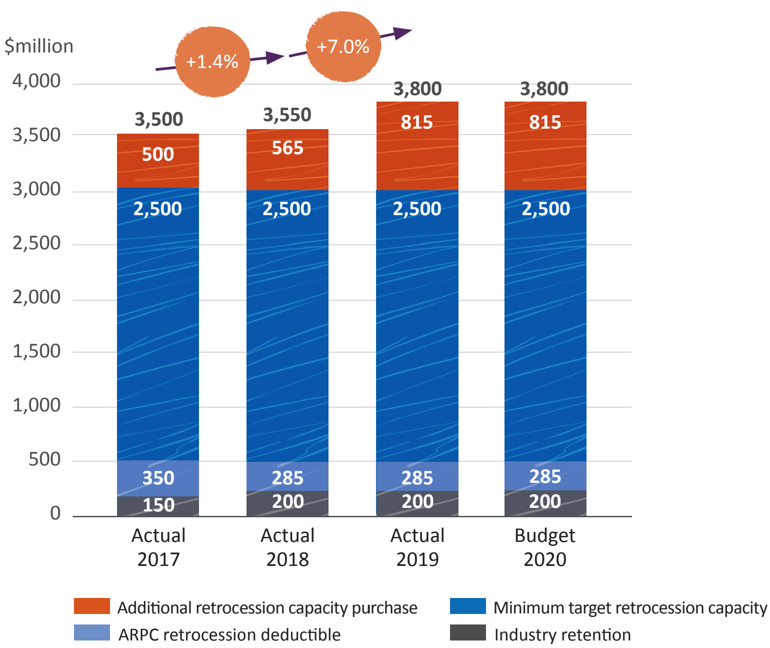
ARPC's gross written premium income is based on market prices for eligible commercial property insurance premiums after applying the applicable tier rate. The primary driver for the result being higher than the previous year was increasing commercial property insurance premiums.

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, 2018-22, page 30-31.

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 $3,315 million ($3.315 billion) retrocession program for the 2019 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 2019 calendar year was $3.315 billion which was $815 million higher than (better than) its corporate plan target and within ARPC's Board approved financial budget.

2 TWO Encouraging private sector participation through retrocession

Description

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

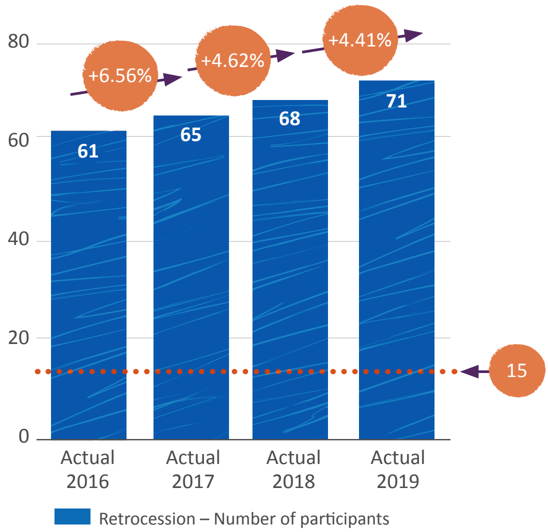
The 2006 Triennial Review recommended that once the pool reached $300 million, ARPC should consider the purchase of retrocession and as such, ARPC purchased reinsurance from the private reinsurance market. ARPC currently has $13.6 billion total funding available for losses arising from a DTI through ARPC's retention, the retrocession market and the Australian Government guarantee.

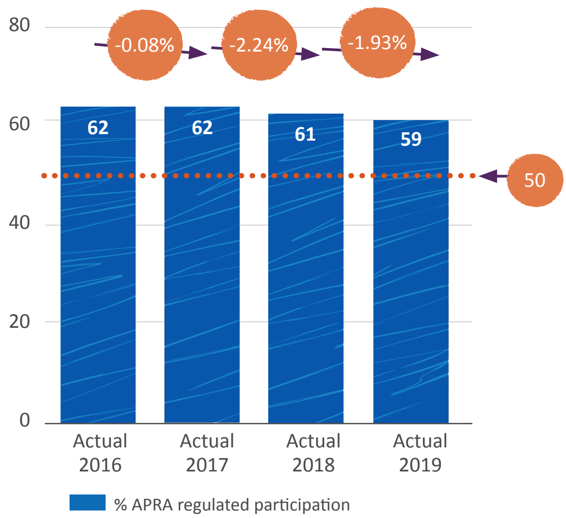
Measure 3
The objective is to maximise private sector participation in the retrocession program.

Source
Measure 3, Private reinsurance sector participation, ARPC Corporate Plan 2018-22, page 32.

Result

Figure 3.5:* 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 are ARPA regulated or APRA recognised or 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 2019 period ARPC had 71 participants in the program against a target of 15 and 59.4 per cent of participants were APRA-regulated reinsurers against a target of 50 per cent.

> "ARPC met or exceeded all performance criteria for the 2018-19 reporting period."

3

THREE Compensating the Government

Description

ARPC pays the Australian Government a fee for the use of the Commonwealth guarantee. In addition, a capital holding fee is paid to recognise the capital ARPC is holding to fund future claim payments. The 2018 Triennial Review recommended an additional temporary dividend of $10.0 million for three years.

Measure 4

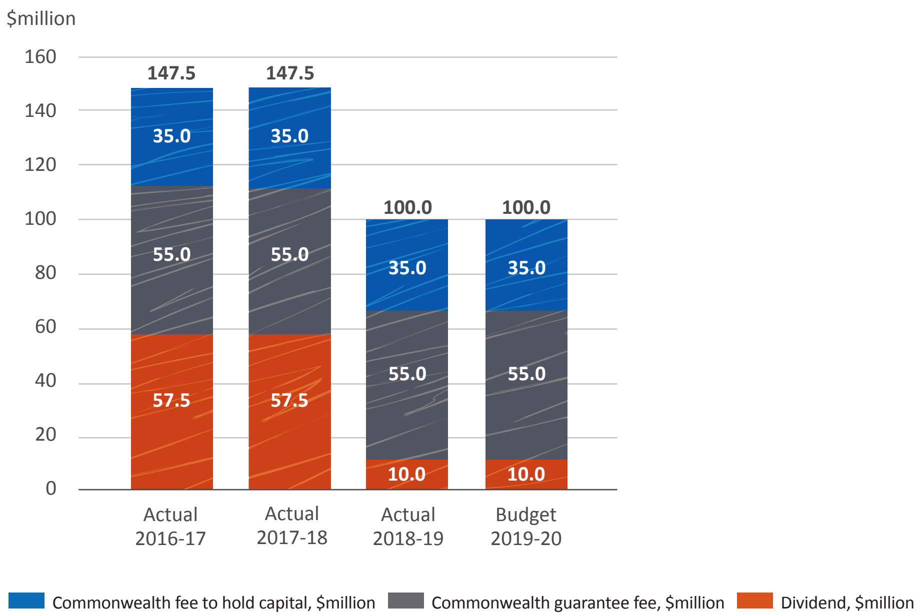
To meet ARPC's obligations, the target is to deliver the Government payments in each plan period.

Source

Measure 4, Payments to Government, ARPC Corporate Plan, 2018-22, page 33.

Result

Figure 3.6: ARPC delivered payments to Government totalling $100.0 million in 2018-19



4 FOUR Maintain financial sustainability

Description

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.

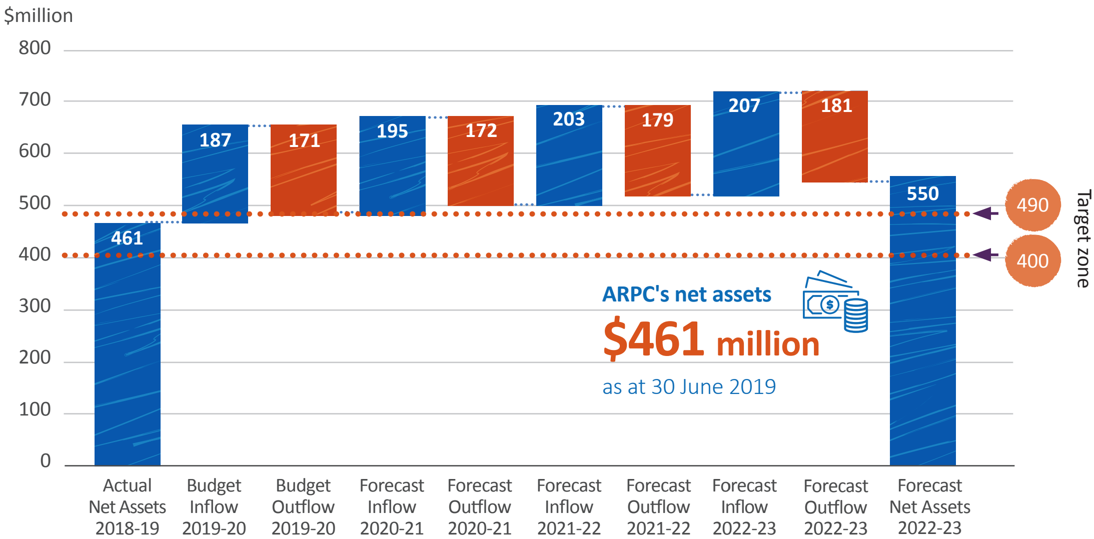
To assess financial sustainability, ARPC measures net assets, which is the final balance after all the above factors.

Measure 5
Net Assets against ARPC target and minimum capital.

Source
Measure 5, Net Assets against ARPC target and minimum capital, ARPC Corporate Plan, 2018-22, page 34.

Result

Figure 3:7 Projected Net Assets



Projections assume the following:

- no increase in prices from current rates
- Inflows represent premium income, investment income, retro commission income
- Outflows represent payments to the Commonwealth, retrocession premiums, operating expenses.

As at 30 June 2019, ARPC's net assets were $461 million, which was slightly higher than target capital and within the target zone.

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

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

ARPC expects 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.

Investment assets

At 30 June 2019, ARPC held $504.1 million in term deposits and $1.1 million in cash (2018: $464.7 million and $1.6 million respectively).

ARPC has determined the following investment 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 five per cent (no more than once within a 20-year period).

"As at 30 June 2019, ARPC's net assets were $461 million, which was slightly higher than target capital and within the target zone."

ARPC's investment strategy can be summarised as follows:

- Investments should be highly liquid to meet the retrocession retention in the event of a Declared Terrorism Incident (DTI).
- The strategy is designed to meet its risk and return objectives.
- Investments will achieve diversification using all asset classes permitted by the PGPA Act.
- ARPC's investment assets are held in cash and term deposits. ARPC managed investments internally in 2018-19. All investments are held in ARPC's name.

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.

Figure 3.8: Investments by credit rating as at 30 June each year

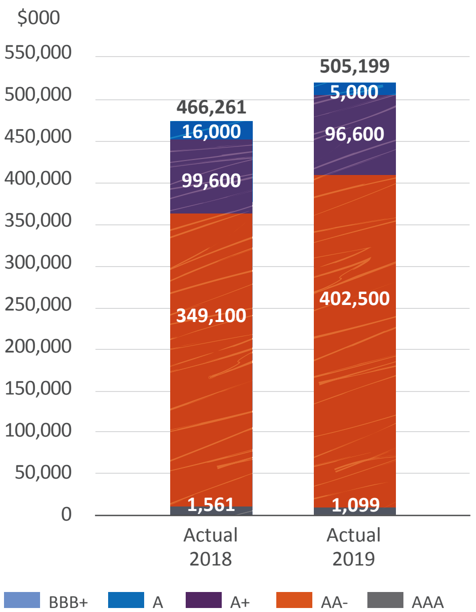
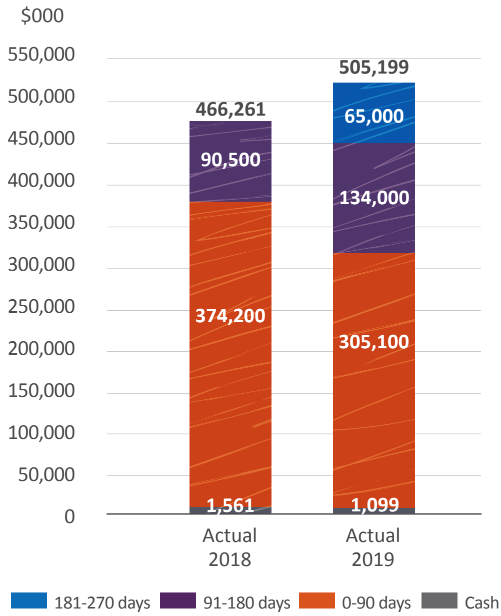


Figure 3.9: Investments by maturity as at 30 June each year



Investment income

Investment income fell to $13.5 million (2018: $13.7 million) owing to lower interest rates in 2018-19 and the decreased balance of invested assets as retrospective dividend payments were made at the end of 2017-18 financial year. This is consistent with expectations.

Interest rates in Australia are at historic lows, and ARPC expects investment income will reduce over the next year.

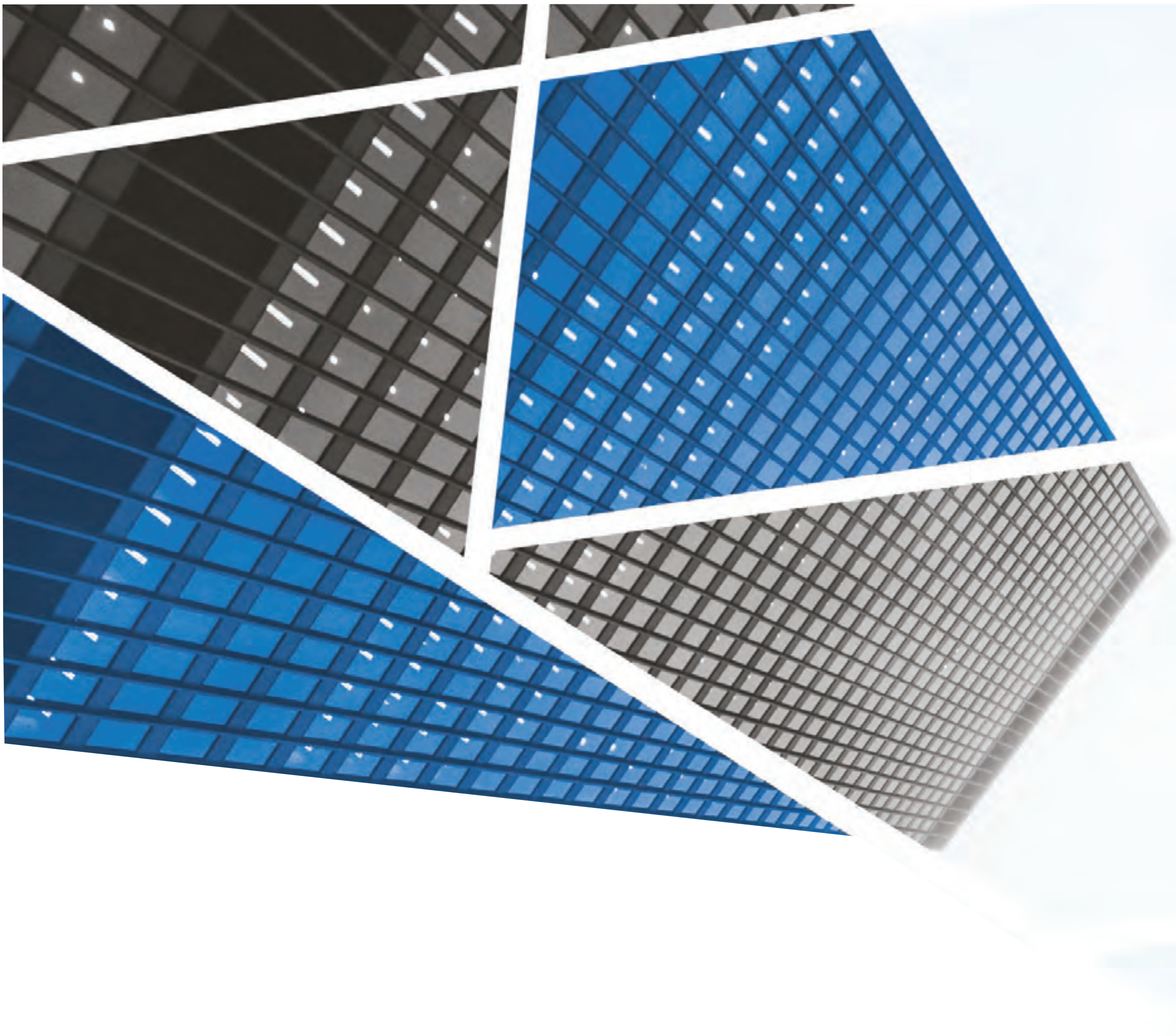
Analysis of performance against purpose

During 2018-19, 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 3.10:*

Figure 3.10: 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 after a decade of flat and falling premiums. 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)
Global reinsurance market capacity and price	Increases in capacity and slight decrease in price for retrocession. ARPC has managed its purchase of retrocession by using decreased pricing to incrementally increase capacity. In 2019, ARPC purchased an additional layer of $250 million of retrocession in excess of $3.065 billion, bringing total retrocession capacity purchased to $3.315 billion.	Limited	Minor (positive)
Government compensation	Payments to Government in 2018-19 of $100.0 million. This has reduced ARPC's net assets to a level considered low, but acceptable to the ARPC Board under its revised capital management framework. The 2018 Triennial Review Report recommended an additional temporary dividend of $10.0 million that was not included in the 2018-19 budget.	Limited	Moderate (negative)



04

GOVERNANCE

04

GOVERNANCE

Governance framework

ARPC's governance framework is based on the TI Act and ARPC's status as a corporate Commonwealth entity for the purposes of the PGPA Act and the *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule).

ARPC is established as a body corporate under the TI Act (section 12) and comprises a Chair and six other members (referred to as the Board). Board members are appointed on a part-time basis by the responsible Minister. During the reporting period, the responsible Ministers were the Hon. Kelly O'Dwyer MP (to 24 August 2018), the Hon. Stuart Robert MP (from 26 August 2018 to 26 May 2019) and subsequently the Hon. Michael Sukkar MP.

The Minister may give written directions in relation to the performance of ARPC's functions and the exercise of its powers.

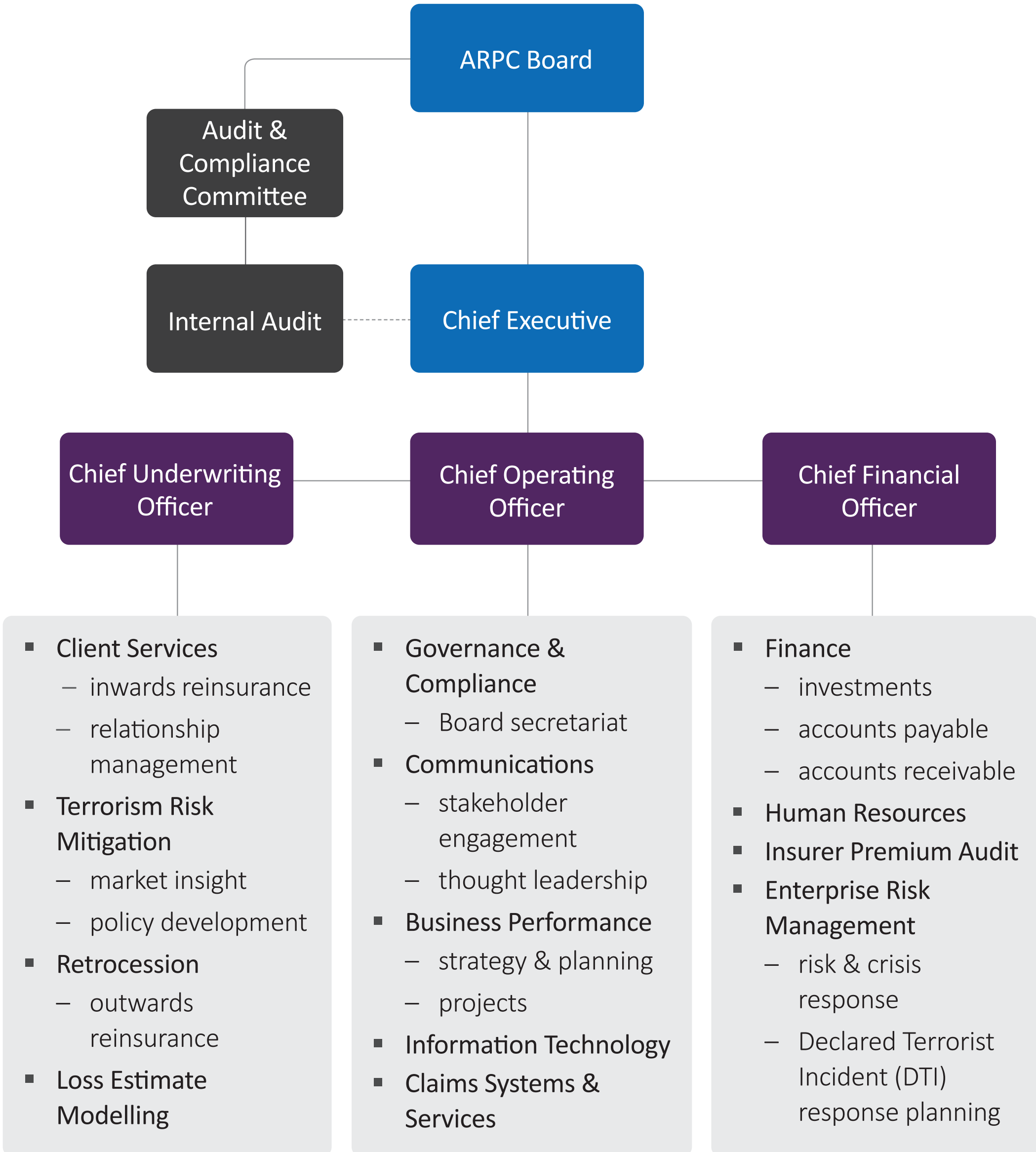
The Board is the accountable authority for the purposes of the PGPA Act. As required by the PGPA Act (section 45), ARPC has an audit committee (the Audit and Compliance Committee) which was constituted by four Board members during the reporting period.

Under the PGPA Act (section 22), 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.

Under the TI Act, the Board appoints the CEO of ARPC. The CEO manages the affairs of ARPC subject to the directions of, and in accordance with policies determined by the Board.

Figure 4.1 sets out the organisational framework of ARPC.

Figure 4.1: Organisational Chart



In addition to the statutory framework, ARPC's corporate governance framework is underpinned by the Board Charter, the Audit and Compliance Committee Charter and a suite of policies and procedures in areas such as risk management, financial management, capital management, investment, privacy, delegations, people management, fraud control, conflict of interest, public interest disclosure, security management and business continuity planning.

Board members

During 2018-19, the Board comprised a Chair and six other (non-executive) members. There were no changes to the Board membership during this reporting period. The names and details of ARPC Board members who held office during 2018-19 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.

Ian is Chairman of Markets at PwC. Previously he was Chair of PPB Advisory, a professional advisory firm, of which he was a founding partner.

He is 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 2019, SecondBite will rescue enough food to create 40 million meals. He is President of The Victorian Arts Centre Trust and Trustee of The Melbourne Cricket Ground. In 2017, Ian was awarded an Order of Australia for his work in Food Rescue and Business. In 2018, together with his wife Simone, he was appointed 'Melbournian of the Year'.

Ms Janet Torney
Member

BEc (Hons) FAICD FASFA
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 Chair of Club Plus Super. In the not-for-profit sector, Janet is Chair of Girl Guides Australia and a Director of the Australian Cricketers' Association.

Janet's career spans more than 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 FAICD
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 recently completed her term as 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 Fellow of the Australian Institute of Company Directors. She is a member of the Actuaries Institute's Professional Standards Committee and a Professor of Practice 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 strategic risk management, policy formulation and capital efficiency.

Mr John Peberdy
Member

ANZIIF (Snr Assoc) CIP GAICD
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 and Deputy Chair, Christian Super.

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 of the Treasury from 2004 until 2012. He also served as the Prime Minister's Special Envoy, International Economy. He has had 39 years' experience in the Treasury and the International Monetary Fund.

Ms Robin Low
Member

BCom FCA GAICD
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 is also on the boards of two not for profit companies: Primary Ethics and 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

BCom MCom LLB CA CTA GAICD
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 was appointed as the Inspector-General of Taxation and Taxation Ombudsman on 6 May 2019 for a term of five years. She was previously a part-time Member of the Board of Taxation and CEO of the Board of Taxation and prior to this, a partner with Minter Ellison Lawyers. Karen has more than 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.

Board meetings

The Board convened six meetings during the 2018-19 financial year, comprising five meetings for general business and one strategic planning workshop. *Figure 4.2* lists the number of meetings attended by each member during the reporting period.

Figure 4.2: Number of meetings attended by each Member of the Board in 2018-19.

Name	Number of meetings entitled to attend	Number of meetings attended
Mr Ian Carson	6	5
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	6	6

Board remuneration

Remuneration for Board members in 2018-19, including travel and meeting allowances, was determined by the Remuneration Tribunal (Remuneration and Allowances for Holders of Part-time Public Office) Determination 2018 and the Remuneration Tribunal (Official Travel) Determination 2018. There was no remuneration for performing duties on the Audit and Compliance Committee.

Figure 4.3: Board member annual fees and meeting fees

Remuneration Basis	Chair Annual Fee	Chair Meeting Fee	Member Annual Fee	Member Meeting Fee
Table 6A Annual Fee plus Meeting Fee	$27,190	$1,143	$13,600	$1,029

Audit and compliance committee

Established in accordance with the PGPA Act (section 45), the Audit and Compliance Committee (Committee) supports the administration and governance of ARPC.

Under the PGPA Rule (section 17), the Committee must consist of at least three appropriately qualified and skilled members. In the reporting period, the Committee had four members.

The functions of the Committee include reviewing the appropriateness of the Board's:

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

The Committee performs these functions in addition to monitoring ARPC's compliance with statutory obligations, overseeing the work of the internal and external auditors and overseeing ARPC's governance framework. The Committee also provides a general forum for communication between members, ARPC's senior executive team and the internal and external audItors.

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

During 2018-19, four Committee meetings were held. The Committee members attended the number of meetings outlined in *Figure 4.4.*

Figure 4.4: Meetings attended by each member of the Audit and Compliance Committee in 2018-19

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	4	4

* ANAO subcontracts the field work to KPMG.

Internal processes for managing risk

The PGPA Act (section 16) provides that the Board '*has a duty to establish and maintain systems relating to risk and control*.' The Board performed this during the reporting period by having oversight of the Risk Management Policy and reviewing risk and tolerance levels, performance reports, risk strategies and controls at every meeting. In addition, each year the Board holds a strategic workshop which includes consideration of the influence of current and emerging risks on ARPC's role.

ARPC uses a risk matrix to measure the likelihood and severity of incidents. These risks are reviewed by management prior to Board 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.

Processes implemented to manage risk include:

1. Maintaining a Business Continuity Policy and Procedure. Staff access and test an alternative site up to three times per year. The site could be used if ARPC 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.
2. Implementing a range of IT security measures.
3. Having a deed of indemnity with each Board Member. In 2018-19, 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 the PGPA Rule (section 23), 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 2018-19 was $35,358 ($35,957 in 2017-18).
4. Upon commencement, all ARPC staff and Board members are required to sign a confidentiality agreement which outlines their obligations relating to confidential information.

Internal audit

ARPC's internal audit function is outsourced to PwC and overseen by the Audit and Compliance Committee. During 2018-19, 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 2018-19 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 periodically. 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.

2018-19 Internal audit program

The Internal Audit Workplan for 2018-19 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 2018-19:

- HR management processes, including Work Health and Safety;
- cyber security;
- review of loss estimation models;
- investments; and
- DTI Test Debrief (management-initiated review).

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.

Corporate governance practices

The Board and ARPC's leadership team are committed to maintaining the best practice corporate governance standards that are fit-for-purpose for ARPC's operations.

In 2018-19, ARPC engaged PwC to undertake a review of its governance and compliance framework which resulted in recommendations for process improvements, including the frequency of board meetings, policy drafting and review cycles, market intelligence and attestation processes. The review recommendations were accepted by the Board in March 2019 and the implementation of the process improvements is ongoing.

ARPC continues to monitor governance trends in the public and private sectors.

Compliance

In the reporting year, ARPC reviewed and improved its compliance plan and program of compliance testing. Regulatory compliance was further supported by a program of mandatory training for staff on relevant legislation and policies, routine information sessions for staff on relevant topics and a process of quarterly attestations by all senior managers covering key legislation including the TI Act, PGPA, PGPA Rule, the *Privacy Act 1998* and *Public Interest Disclosure Act 2013*.

Under the TI Act (section 40), the Board may delegate all or any of its powers or functions to the CEO or any person employed under the TI Act. Delegations made by the Board are documented and reviewed at least every three years.

ARPC's annual report is prepared and provided to the responsible Minister by 15 October each year in compliance with the PGPA Act (section 46). 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 also prepares a Corporate Plan on a rolling four-year basis, in accordance with the PGPA Act (section 35) and provides it to the responsible Minister and the Minster for Finance by 31 August each year.

Under the PGPA Act (section 39), ARPC 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.

Public interest disclosure

The *Public Interest Disclosure Act 2013* (PID Act) promotes integrity and accountability in the Commonwealth public sector by encouraging the disclosure of information about suspected wrongdoing. It also protects people who make disclosures and requires agencies to investigate or take other appropriate actions.

In accordance with the PID Act, ARPC has a PID policy/procedure which is made available on the ARPC webpage. During the reporting period, ARPC received no public interest disclosures.

Information publication scheme statement

In accordance with the Freedom of Information (FOI) Act and the Information Publication 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.

Further details are available on ARPC's IPS webpage at: www.arpc.gov.au/ips

Judicial and administrative decisions

In 2018-19, there were no judicial decisions or decisions of administrative tribunals that could significantly affect ARPC's operations.

ANAO Performance Audit

A significant review of ARPC's governance and performance was undertaken in the reporting period. The ANAO Performance Audit of ARPC, which began in 2018, was tabled in Parliament in June 2019.

The audit report concluded that ARPC is effective in managing the terrorism reinsurance scheme and that ARPC's governance arrangements enable effective oversight and management of the scheme.

Consultation arrangements

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 engages consultants to provide specialist skills to assist with key projects and tasks. During 2018-19, 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. website migration;
- research projects e.g. cyber terrorism;
- 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 4-star water rating.

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

Figure 4.5: 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 4-star water rating.

ARPC welcomes Australian National Audit Office audit findings

ARPC welcomed the findings of the 2018 Performance Audit: Management of the Terrorism Reinsurance Scheme, by the Australian National Audit Office (ANAO).

The objective of the ANAO's audit was "to assess the effectiveness of the Australian Reinsurance Pool Corporation's management of the terrorism reinsurance scheme".

The ANAO is the national auditor for the Australian Government. The ANAO reports to Parliament on where improvements can be made and makes specific recommendations to assist public sector entities to improve performance.

The audit concluded that ARPC is effective in managing the terrorism reinsurance scheme and that ARPC's governance arrangements enable effective oversight and management of the scheme.

Audit criteria and scope

The ANAO's audit addressed two criteria to assess ARPC:

- Are there processes in place that support the effective management of the scheme?
- Do governance arrangements enable effective oversight and management of the scheme?

The audit scope included:

- policy approval and policy management processes, claims management processes and supporting policy and process documents;
- governance arrangements, including of the Board and supporting Committees, and risk management;
- stakeholder engagement activities; and
- monitoring and review of scheme performance, including the Treasury's assessment of economy in providing the scheme.

The audit methodology comprised:

- reviewing the processes that ARPC undertakes to administer the scheme, particularly the claims management process and its supporting systems and documentation;
- reviewing the legislation, budget papers, corporate plans, annual reports, review reports, meeting minutes and general publications;
- assessing the Board's role and the Executive team's role in overseeing the scheme;
- discussions with Treasury; and
- discussions with ARPC.

Positive outcomes for governance and process

ANAO concluded that ARPC's governance arrangements enable effective oversight and management of the scheme.

ARPC provides effective annual reporting of its performance, the Board is effective in overseeing the scheme and ARPC has a suitable organisational structure in place to support the operation of the scheme and appropriate arrangements for engaging and communicating with stakeholders.

ANAO stated that ARPC has adequate processes in place for reviewing and collecting premiums and for assessing whether the scheme's participation requirements are being met.

Recommendations

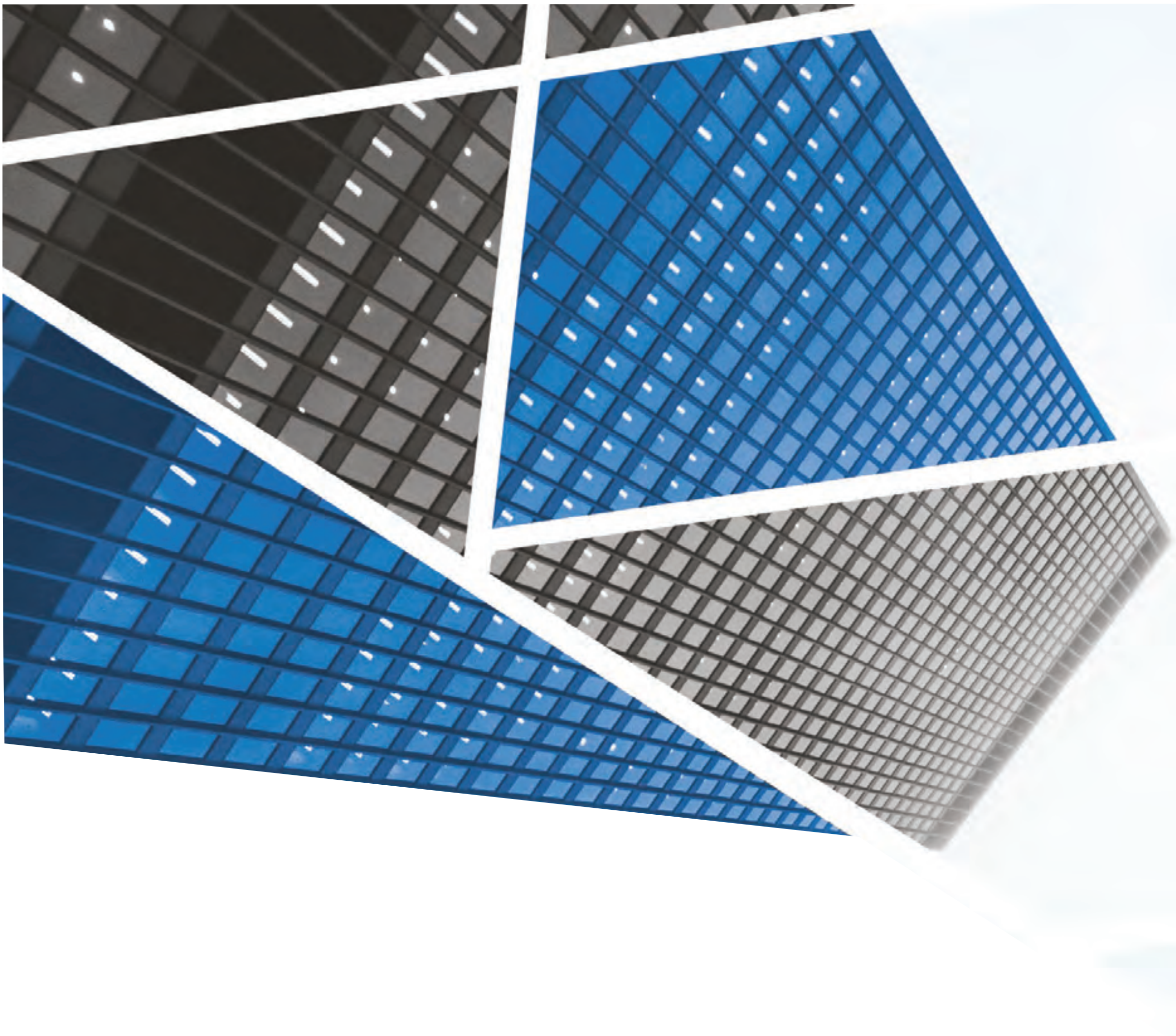
There was one official ANAO recommendation contained in the report – that the Treasury reviews options to rebuild ARPC's capital following a DTI event which resulted in significant claims on the scheme, in order to minimise the need for premium increases.

Areas of opportunity

ARPC will provide details on strategic projects which align more closely with the Department of Finance's criteria for performance information.

A new key performance indicator (KPI) will also be introduced to measure the effectiveness of stakeholder engagement.

Both changes are incorporated in the 2019-23 Corporate Plan and will be reported on in the 2019-20 Annual Report.



05

ARPC'S PEOPLE

05

ARPC'S PEOPLE

ARPC's people make it what it is, enabling ARPC to deliver to its insurer 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 22 staff and thanks them for their continuing efforts.

ARPC is a small organisation with an efficient and cost-effective organisational structure and has all the functions to fulfil its role. In its recent performance audit of ARPC, the ANAO concluded that ARPC has a suitable organisational structure in place to support the scheme's operations. ARPC staff manage core functions while specialist advice is sourced on areas such as specialist legal advice and the purchase of retrocession reinsurance.

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

Dr Christopher Wallace 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 and Certified Insurance Professional (CIP) with ANZIIF and a Graduate of the Australian Institute of Company Directors.

Janice Nand
Acting Chief Operating Officer*

BA (Hons) LLB (Hons) LLM Grad Dip Applied Corporate Governance PGCert UK & European Copyright Law FGIA FCIS MAICD

Ms Janice Nand is a lawyer with 30 years' experience, specialising in employment and administrative law. Janice joined ARPC in February 2019. Janice has extensive experience in corporate governance. Before joining ARPC, Janice's previous roles included Director – Report for the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry; Partner with HWL Ebsworth, Sparke Helmore and Moray Agnew Lawyers; and in-house counsel with Boeing. Janice spent the early years of her career in various roles in the Australian Public Service. Janice is currently overseeing the governance and compliance, communications and information technology functions.

Janice holds a Bachelor of Arts (honours), Bachelor of Laws (honours) and a Master of Laws from the Australian National University, a Postgraduate Certificate in UK & European Law of Copyright from King's College, University of London, and a Graduate Diploma in Applied Corporate Governance from the Governance Institute of Australia. Janice is admitted as a Solicitor of the Supreme Court of England and Wales, has an unrestricted practicing certificate in New South Wales, is a Fellow of the Governance Institute of Australia, Fellow of the Chartered Institute of Secretaries, and Member of the Australian Institute of Company Directors.

* Effective 7 August 2019 Janice was appointed in an ongoing capacity as General Counsel and a member of the Senior Executive Team.

John Park
Chief Financial Officer

BEc MBA (Exec) CA ANZIIF (Fellow) CIP GAICD

Mr John Park is a Chartered Accountant and has 25 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 General Re, Financial Controller for HCF, CFO for MGIC, and Financial Controller for Munich Re Australia's direct insurance business, having commenced his career as an auditor with Deloitte.

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) ANZIIF (Fellow) CIP GAICD

Mr Michael Pennell 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), is a Fellow and Certified Insurance Professional with ANZIIF, and a Graduate of the Australian Institute of Company Directors.

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.

Human resources

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

- leadership;
- remuneration and benefits;
- engagement and enablement;
- performance planning and review;
- organisational development;
- learning and development; and
- safety and wellbeing.

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

Workforce composition

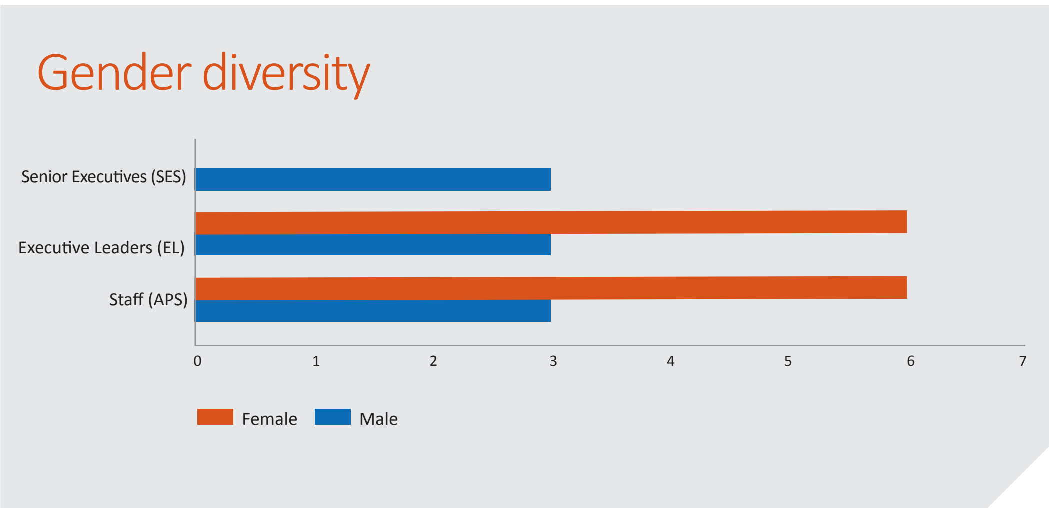
ARPC is comprised of 22 employees who contribute toward the achievement of strategic objectives through a blend of general professional and specialised skills and experience.

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 and ongoing operational activities. We also provide flexible work-life balance opportunities such as working remotely and within extended hours.

As at 30 June 2019, ARPC met the indigenous employment target of 3 per cent set by the Australian Government in response to the Forrest Review through recruitment of an indigenous intern through the Career Trackers program.

The following tables display the workforce composition by organisational level (classification), gender, cultural background and tenure as at 30 June 2019.

Figure 5.1: Number of permanent on-going employees by organisational level (classification) and gender as at 30 June 2019



At 30 June 2019, ARPC had one vacant position at the Senior Executive level. Included in the above figures is an indigenous-identified internship position.

Figure 5.2: Length of service as at 30 June 2019

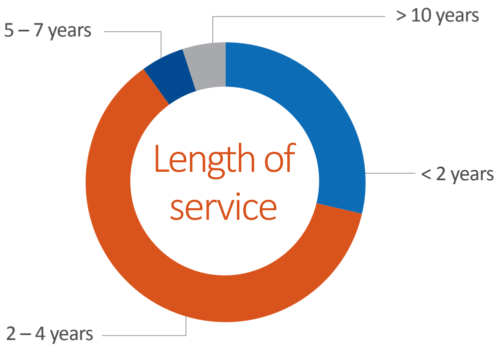


Figure 5.3: Age Diversity as at 30 June 2019

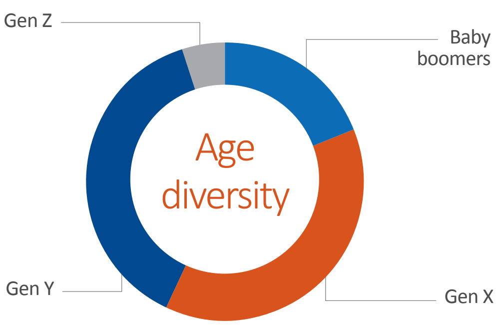
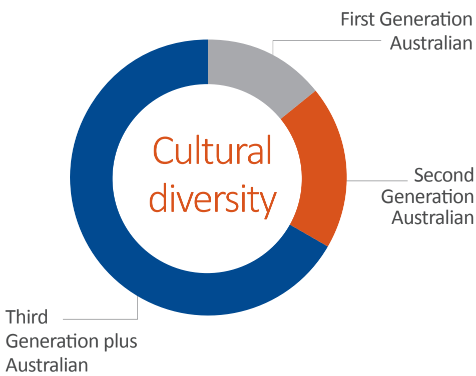


Figure 5.4: Cultural Diversity as at 30 June 2019



Strong employee performance

The performance objectives are established by all employees at the commencement of each performance year in alignment with strategic organisational objectives. Performance conversations are held frequently during the year, and formal discussions are held both mid-year and on conclusion of the performance period. The aim of the performance framework is to support an ongoing focus on performance against objectives and to provide timely and meaningful feedback regarding progress whilst also identifying opportunities for improvement, development and growth.

The framework appraises employees on an equal weighting of both outcomes and behaviours:

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

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

Performance for all employees is evaluated based on a five-point rating scale (from 1, 'not meeting standard' to 5, 'exceeds standard'). A satisfactory rating of 3 is required for salary advancement.

In 2018-19 all employees met performance expectations and the majority of employees met standard to a high degree or exceeded standard.

Employee engagement

ARPC measures employee engagement annually, and in 2018-19 achieved an overall employee engagement score of 67 percentile within Gallup's overall global database with an overall satisfaction score of 85 per cent. This was the first year of utilising the Gallup survey to measure employee engagement. Subsequent to the survey, all employees participated in action planning sessions to discuss and agree initiatives to support enhanced engagement. Employees contribute to engagement actions throughout the year on the basis that engagement is a shared responsibility.

Executive remuneration

Figure 5.5 shows remuneration information for key management personnel in respect of the year to 30 June 2019. Key personnel comprise Board members and senior executives. Senior executives (SES) receive company superannuation contributions of 9.5 per cent of base salary. Senior executives who demonstrate outstanding performance or contribution are eligible to receive a performance bonus of up to 10 per cent of fixed remuneration. Employment terms and conditions for senior executives are set out in individual contracts.

Figure 5.5: Remuneration for key management personnel ($)

Name	Position	Short Term Benefits			Long Term Benefits		Total Remuneration
		Base Salary	Bonuses	Other Allowances	Superannuation Contributions	LSL	
Ian Carson*	Chair	27,720	–	5,737	3,170	–	36,627
Janet Torney*	Member	13,870	–	4,135	1,717	–	19,722
Mike Callaghan*	Member	13,870	–	6,193	3,059	–	23,122
John Peberdy*	Member	13,870	–	6,193	1,893	–	21,956
Elaine Collins*	Member	13,870	–	5,164	1,814	–	20,848
Robin Low*	Member	13,870	–	5,164	1,814	–	20,848
Karen Payne**	Member	11,705	–	4,116	1,503	–	17,324
Christopher Wallace	CEO	391,325	27,218	–	39,529	10,419	468,491
Michael Pennell	CUO	289,931	20,000	–	29,144	8,691	347,766
John Park	CFO	264,717	46,049^	–	29,850	6,856	347,472
Michaela Flanagan***	COO	207,612	46,900^	–	20,379	(9,965)	264,926
		1,262,360	**140,167**	**36,702**	**133,872**	**16,001**	**1,589,102**

* The remuneration for the Chair and Members includes back pay for increases in Remuneration Tribunal determinations.

** Effective 6 May 2019 Ms Payne was appointed to the full-time office of Inspector General of Taxation and remuneration for the part-time office of Member of ARPC ceased.

*** Ms Flanagan was employed for the period 1 July 2018 to 12 April 2019.

^ The CFO and COO received a one-off additional bonus of 10% fixed remuneration in respect of the successful integration of the additional functional areas assigned to them through the April 2018 restructure. Under the restructure the number of senior executives was reduced by two and the CFO assumed responsibility for enterprise risk management and crisis response and the insurance audit functions and the COO assumed responsibility for governance and compliance.

Non-executive staff

The ARPC Enterprise Agreement 2019-22 (the agreement) which sets out the employment terms and conditions for non-executive staff, came into effect on 3 May 2019. In addition to base salary, non-executive staff receive company superannuation contributions at 15.4 per cent of base salary. The base salary classification framework for non-executive staff can be found on the website at www.arpc.gov.au/resources-2/ips/arpc-pay-and-grading-structure-2019-2022/. Non-executive staff who demonstrate outstanding performance or contribution are eligible to receive a performance bonus of up to 10 per cent of fixed remuneration.

Figure 5.6 shows remuneration for other highly paid non-executive staff.

Figure 5.6: Remuneration for other highly paid non-executive staff ($)

Remuneration Band	No. of Senior Executives	Short Term Benefits			Long Term Benefits		Total Remuneration
		Average Base Salary	Average Bonuses	Average Other Allowances	Average Superannuation Contributions	Average LSL	Average Total Remuneration
220,001-245,000	1	177,642	12,300	600	35,392	1,505	227,439

A learning and development organisation

ARPC is committed to providing technical and professional development for all employees to expand their capability and knowledge through a blend of on-the-job learning, exposure and experience and formal learning.

Development programs attended by staff during the year include:

- Internal ARPC policy awareness sessions;
- Introduction to Reinsurance Workshop;
- Insurance Accounting for Insurance Professionals;
- Reinsurance Study Course (Australian and New Zealand Institute of Insurance and Finance (ANZIIF);
- Leading from within (Australian Graduate School of Management – UNSW);
- Reinsurance Discussion Group Seminars and Events;
- Governance Summit (Australian Institute of Company Directors);
- The Role of the Chair (Australian Institute of Company Directors);
- IFTRIP Conference;
- Financial Services Accountants Association Conference;
- Biological Risk Workshop (Nuclear Threat Initiative);
- Executive Assistant Course (University of Newcastle);
- Compliance, culture, regulation and conduct risk for the financial services (International Business Review Conferences);
- APSC – Appearing before Parliamentary Committees;
- Cyber Security Leadership (GSLC) Certification;
- St John's first aid;
- AGD PSPF Forum;
- Gartner Security & Risk Management Summit 2018;
- Optimising your Cloud Journey;
- Rethink Security, Whole of Government Security 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 ongoing employees. Employees undertaking studies which support ARPC's core business may access study support including financial assistance and paid study days.

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

- Certificate IV in General Insurance;
- Bachelor of Mathematics (University of Technology Sydney);
- Post Graduate Certificate in Public Sector Management (Flinders University);
- AHRI Practising Certification Program (Australian Human Resources Institute);

- Bachelor of Science (University of New South Wales); and
- Post Graduate Certificate in Marketing (Charles Sturt University).

Safety and Wellbeing

Work, Health and Safety (WHS) incidents and identified hazards are provided weekly to the Senior Executive Team and regularly to the Board. No significant incidents were reported in 2018-19. ARPC appoints First Aid representatives and Emergency Wardens who are provided with formal training as required. ARPC undertakes the following activities to provide a safe physical working environment:

- Provision of a strong protective physical security environment including air locks, alarms, and access controls;
- Ergonomic assessments and training;
- Appropriate precautions for preventing slips, trips and falls;
- Inspection and tagging of electronic devices;
- Inspection and testing of fire mitigation systems and equipment;
- Hazard awareness training and promotion of a safety conscious culture; and
- Annual office inspection by employee representatives.

In addition, ARPC is committed to the wellbeing of staff through a range of initiatives including:

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. In 2018-19 employees participated in a number of activities including futsal team, basketball team, Clean Up Australia Day and Australia's Biggest Morning Tea.

Employee assistance program

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

Lifestyle payment

Non-executive staff have access to an annual payment towards positive lifestyle expenses through the Enterprise Agreement 2019-22. The lifestyle payment has 100 percent participation and is used by staff participating in a range of fitness and wellbeing activities.

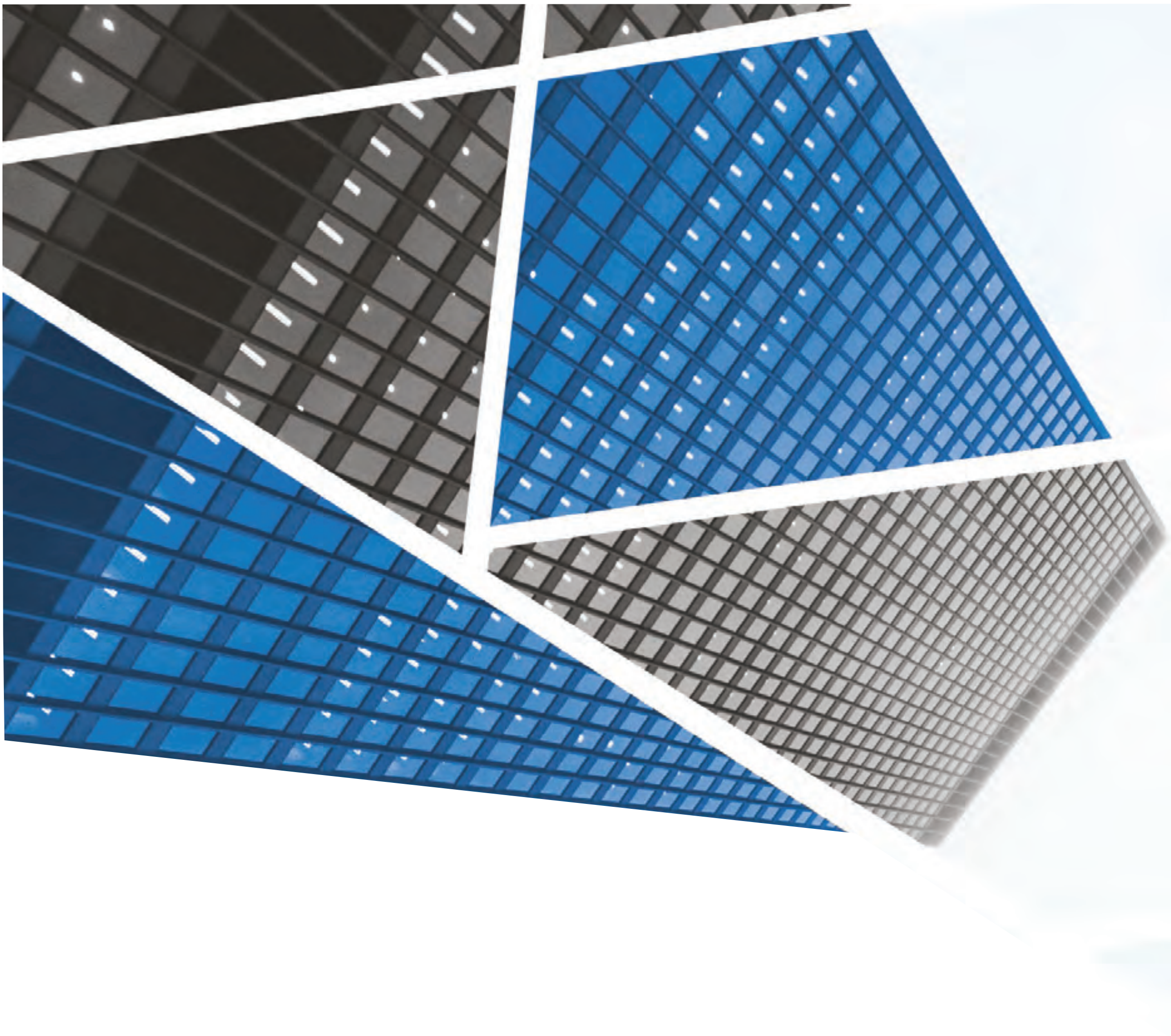
Resilience

ARPC has a strong focus on personal resilience which supports the strategic priority to "enhance and strengthen the resilience and preparedness of our people and organisation". ARPC undertakes the following activities to support employees to fulfil their personal potential and to be able to effectively perform their role in the event of a declared terrorist incident:

- Providing and promoting the Employee Assistance Program;
- Actively promoting and encouraging physical and mental health and wellbeing;
- Conducting thorough DTI scenario tests twice a year;
- Conducting all staff offsite sessions three times per year which include:
  - Team building
  - Self-actualisation
  - Enhancement of soft skills such as self-awareness, emotional intelligence and communication.

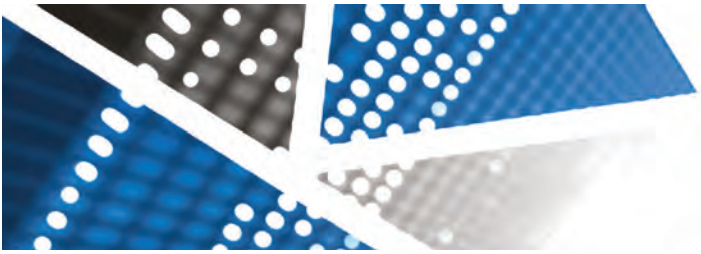
Promoting an ethical working environment

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



06

FINANCIAL STATEMENTS



06

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

To the Assistant Treasurer

Opinion

In my opinion, the financial statements of the Australian Reinsurance Pool Corporation ('the Entity') for the year ended 30 June 2019:

(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 Entity as at 30 June 2019 and its financial performance and cash flows for the year then ended.

The financial statements of the Entity, which I have audited, comprise the following statements as at 30 June 2019 and for the year then ended:

- Statement by the Accountable Authority, Chief Executive and Chief Financial Officer;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement;
- 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 Entity 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 Entity, the Board is responsible under the *Public Governance, Performance and Accountability Act 2013* (the Act) for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards – Reduced Disclosure Requirements and the rules made under the Act. The Board is also responsible for such internal control as the Board determines is necessary to enable the preparation 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 ability of the Entity 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 the Accountable Authority 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

Lorena Skipper

A/g Executive Director

Delegate of the Auditor-General

Canberra

27 September 2019

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

In our opinion, the attached financial statements for the year ended 30 June 2019 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 Ian Carson AM
Chair

27 September 2019

[Signature Supplied]

Dr Christopher Wallace
Chief Executive

27 September 2019

[Signature Supplied]

Mr John Park
Chief Financial Officer

27 September 2019

Statement of Comprehensive Income
for the period ended 30 June 2019

	Notes	2019 $'000	2018 $'000
Premium revenue	1.1A	190,833	169,625
Outwards retrocession premium expense	1.1A	(64,801)	(62,369)
Commonwealth guarantee fee	1.1A	(55,000)	(55,000)
Net premium revenue		71,032	52,256
Claims expense		–	–
Retrocession and other recoveries revenue		–	–
Net claims incurred		–	–
Retrocession commission income	1.1B	5,149	5,979
Acquisition costs	1.2G	(1,619)	(1,843)
Other operating expenses	1.2G	(7,694)	(6,873)
Underwriting result		66,868	49,519
Investment income	1.1C	13,533	13,675
Other income	1.1D	30	25
Finance charges	1.2E	(3)	(2)
Operating result before capital holding fee		80,428	63,217
Capital holding fee	1.2D	(35,000)	(35,000)
Operating result		45,428	28,217

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

Statement of Financial Position
as at 30 June 2019

	Notes	2019 $'000	2018 $'000
ASSETS			
Financial assets			
Cash and cash equivalents	2.1A	1,099	1,561
Trade and other receivables	2.1B	57,034	48,121
Investments	2.1C	504,100	464,700
Deferred insurance assets	2.1D	33,613	33,252
Total financial assets		595,846	547,634
Non-financial assets			
Leasehold improvements	2.2A	481	590
Plant and equipment	2.2A	150	181
Intangibles	2.2A	17	35
Work in progress	2.2A	181	–
Other non-financial assets	2.2B	113	35
Total non-financial assets		942	841
Total assets		596,788	548,475
LIABILITIES			
Unearned liabilities			
Unearned premium liability	2.3A	98,828	85,117
Unearned commission liability	2.3A	2,097	3,086
Total unearned liabilities		100,925	88,203
Payables			
Suppliers	2.4A	33,094	33,050
Other payables	2.4B	223	25
Total payables		33,317	33,075
Provisions			
Employee provisions	3.1A	480	403
Other provisions	2.5A	745	901
Total provisions		1,225	1,304
Total liabilities		135,467	122,582
Net assets		461,321	425,893
EQUITY			
Accumulated reserves		–	–
Asset revaluation reserve		60	60
Claims handling reserve		34,864	25,098
Reserve for claims		426,397	400,735
Total equity		461,321	425,893

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

Statement of Changes in Equity
for the period ended 30 June 2019

	Accumulated reserves		Asset revaluation reserve		Claims handling reserve		Reserve for claims		Total equity	
	2019 $'000	2018 $'000	**2019 $'000**	2018 $'000	**2019 $'000**	2018 $'000	**2019 $'000**	2018 $'000	**2019 $'000**	2018 $'000
Opening balance at 1 July	**–**	–	**60**	60	**25,098**	24,513	**400,735**	430,603	**425,893**	455,176
Income and expenses										
Net operating result	**45,428**	28,217	**–**	–	**–**	–	**–**	–	**45,428**	28,217
Total income and expenses	**45,428**	28,217	**–**	–	**–**	–	**–**	–	**45,428**	28,217
Asset revaluation reserve	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Transfers between equity components										
Transfer to reserves	**(45,428)**	(28,217)	**–**	–	**9,766**	585	**35,662**	27,632	**–**	–
Transactions with owners										
Distributions to owners	**–**	–	**–**	–	**–**	–	**(10,000)**	(57,500)	**(10,000)**	(57,500)
Closing balance at 30 June	**–**	–	**60**	60	**34,864**	25,098	**426,397**	400,735	**461,321**	425,893

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 20 January 2019, 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 $10 million as a temporary dividend (s.38(3)(b)). ARPC has made payments to the Commonwealth during 2019 totalling $100.0 million (2018: $147.5 million).

Reserves

The intention of the 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 2019

	Notes	2019 $'000	2018 $'000
OPERATING ACTIVITIES			
Cash received			
Premiums		211,917	189,847
Commission		5,655	6,578
Interest		13,280	13,766
Other cash received		30	25
Total cash received		230,882	210,216
Cash used			
Retrocession payments		67,319	64,841
Employees		3,807	4,226
Suppliers		5,154	3,456
Government		90,743	90,873
Net GST paid		14,721	13,757
Total cash used		181,744	177,153
Net cash from operating activities		49,138	33,063
INVESTING ACTIVITIES			
Cash received			
Proceeds from maturities of term deposits		1,368,200	1,582,500
Total cash received		1,368,200	1,582,500
Cash used			
Placement of term deposits		1,407,600	1,557,200
Purchase of property, plant and equipment		19	111
Purchase of externally developed software		181	–
Total cash used		1,407,800	1,557,311
Net cash (used by)/from investing activities		(39,600)	25,189
FINANCING ACTIVITIES			
Cash used			
Distributions to owners		10,000	57,500
Total cash used		10,000	57,500
Net cash used by financing activities		(10,000)	(57,500)
Net increase/(decrease) in cash held		(462)	752
Cash and cash equivalents at the beginning of the reporting period		1,561	809
Cash and cash equivalents at the end of the reporting period	2.1A	1,099	1,561

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

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OVERVIEW

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 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); 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 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 16 – Leases

AASB 16 requires the net present value of payments under most operating leases to be recognised as assets and liabilities. ARPC has $1.761 million in operating lease commitments as at 30 June 2019. ARPC will apply the new standard in the 2019-20 financial year. The transition to AASB 16 will 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 2022-23 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, 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 (2018: $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 Minister 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 2019.

1.1 Revenue

1.1A: Net premium revenue	**2019 $'000**	2018 $'000
Gross written premium	**204,544**	178,900
Movement in unearned premium reserve	**(13,711)**	(9,275)
Total premium revenue	**190,833**	169,625
Outwards retrocession premium expense	**(64,801)**	(62,369)
Commonwealth guarantee fee	**(55,000)**	(55,000)
Net premium revenue	**71,032**	52,256

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 2019 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 and having regard to the premium reported for the current year prior to the signing of the financial statements.

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 20 January 2019, 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.

1.1B: Retrocession commission income	**2019 $'000**	2018 $'000
Retrocession commission income	5,149	5,979
Total retrocession commission income	5,149	5,979

Accounting policy

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

1.1C: Investment income	**2019 $'000**	2018 $'000
Cash at bank	98	117
Term deposits	13,435	13,558
Total investment income	13,533	13,675

Accounting policy

Interest revenue is recognised using the effective interest method.

1.1D: Other income	**2019 $'000**	2018 $'000
Other revenue	30	25
Total other income	30	25

1.2 Expenses

1.2A: Employee benefits	2019 $'000	2018 $'000
Wages and salaries	3,244	3,243
Superannuation		
Defined contribution plans	456	436
Defined benefit plans	4	6
Leave and other entitlements	302	383
Separation and redundancies	–	191
Total employee benefits	4,006	4,259

Accounting policy

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

1.2B: Suppliers	2019 $'000	2018 $'000
Goods and services supplied or rendered		
Consultants	2,352	1,085
Reinsurance broker services	537	537
Assurance services	277	298
Travel	260	247
Information & communications technology	245	341
Staff development and training	179	240
Shared services	178	336
Legal fees	144	125
Other	521	602
Total goods and services supplied or rendered	4,693	3,811
Goods supplied	88	82
Services rendered	4,605	3,729
Total goods and services supplied or rendered	4,693	3,811
Other supplier expenses		
Operating lease rentals	411	415
Workers compensation insurance	25	40
Total other supplier expenses	436	455
Total supplier expenses	5,129	4,266

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 four years and five months. This operating lease is effectively non-cancellable.

	2019 $'000	2018 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within 1 year	368	350
Between 1 to 5 years	1,393	1,580
More than 5 years	–	180
Total operating lease commitments	1,761	2,110

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.

1.2C: Depreciation and amortisation	**2019 $'000**	2018 $'000
Depreciation		
Leasehold improvements	109	109
Property, plant and equipment	51	45
Total depreciation	160	154
Amortisation		
Intangibles – computer software	18	36
Total amortisation	18	36
Total depreciation and amortisation	178	190

Accounting policy

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

1.2D: Capital holding fee paid to the Commonwealth	**2019 $'000**	2018 $'000
Capital holding fee	35,000	35,000
Total capital holding fee paid to the Commonwealth	35,000	35,000

1.2E: Finance charges	**2019 $'000**	2018 $'000
Bank charges	3	2
Total finance charges	3	2

Accounting policy

All finance charges are expensed as incurred.

1.2F: Losses from asset sales	**2019 $'000**	2018 $'000
Property, plant and equipment		
Carrying value of assets disposed	–	1
Total losses from asset sales	–	1

1.2G: Reconciliation of expenses to the Statement of Comprehensive Income	**2019 $'000**	2018 $'000
Expenses by nature		
Employee benefits	4,006	4,259
Suppliers	5,129	4,266
Depreciation and amortisation	178	190
Capital holding fee paid to the Commonwealth	35,000	35,000
Finance charges	3	2
Losses from asset sales	–	1
Total expenses by nature	44,316	43,718
Expenses by function		
Acquisition costs	1,619	1,843
General and administration expenses	42,697	41,875
Total expenses by function	44,316	43,718
Reconciliation of expenses to the Statement of Comprehensive Income		
General and administration expenses	42,697	41,875
Less: Capital holding fee paid to the Commonwealth	(35,000)	(35,000)
Less: Finance costs	(3)	(2)
Other operating expenses	7,694	6,873

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

2.1A: Cash and cash equivalents	**2019 $'000**	2018 $'000
Cash at bank	**1,099**	1,561
Total cash and cash equivalents	**1,099**	1,561

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.

2.1B: Trade and other receivables	**2019 $'000**	2018 $'000
Premium receivable	**52,013**	42,438
Commission receivable	**2,080**	3,061
Interest receivable	**2,851**	2,599
Net GST receivable from the Australian Taxation Office	**90**	23
Total receivables	**57,034**	48,121

Credit terms are net 30 days (2018: 30 days). Trade debtors are non-interest bearing.

Interest receivable

Effective interest rates range from 0.65% to 2.80% (2018: 0.90% to 2.75%) 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.

2.1C: Investments	2019 $'000	2018 $'000
Fixed interest term deposits	504,100	464,700
Total investments	504,100	464,700

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 2.41% (2018: 2.61%). Interest is payable on maturity for all term deposits. Terms are between 90 and 369 days (2018: 91 and 182 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.

2.1D: Deferred insurance assets	Notes	2019 $'000	2018 $'000
(i) Deferred insurance assets			
Deferred retrocession premium	2.1D(ii)	32,850	32,487
Deferred acquisition costs	2.1D(iii)	763	765
Total deferred insurance assets		33,613	33,252
(ii) Deferred retrocession premium			
Deferred retrocession premium as at 1 July		32,487	30,412
Retrocession premium deferred		32,850	32,487
Amortisation charged to expense		(32,487)	(30,412)
Deferred retrocession premium as at 30 June		32,850	32,487
(iii) Deferred acquisition costs			
Deferred acquisition costs as at 1 July		765	965
Acquisition costs deferred		763	765
Amortisation charged to expense		(765)	(965)
Deferred acquisition costs as at 30 June		763	765

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 (2018: $0). Accordingly, there has been no write down in ARPC's deferred acquisition costs and no requirement to establish an unexpired risk liability.

2.2 Non-financial assets

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

	Leasehold improvements $'000	Plant and equipment $'000	Intangibles – computer software purchased $'000	Work in progress – software purchased $'000	Total $'000
As at 1 July 2018					
Gross book value	820	277	2,661	–	3,758
Accumulated depreciation, amortisation and impairment	(230)	(96)	(2,626)	–	(2,952)
Total as at 1 July 2018	**590**	**181**	**35**	**–**	**806**
Additions – By purchase	–	20	–	181	201
Depreciation and amortisation expense	(109)	(51)	(18)	–	(178)
Asset disposal	–	(16)	–	–	(16)
Accumulated depreciation on asset disposal	–	16	–	–	16
Total as at 30 June 2019	**481**	**150**	**17**	**181**	**829**
Total as at 30 June 2019					
Gross book value	820	281	2,661	181	3,943
Accumulated depreciation, amortisation and impairment	(339)	(131)	(2,644)	–	(3,114)
Total as at 30 June 2019	**481**	**150**	**17**	**181**	**829**

No indicators of impairment were found for property, plant and equipment and intangibles (2018: Nil). No property, plant and equipment and intangibles are expected to be sold or disposed of within the next 12 months (2018: 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:

	2019	2018
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 2019. 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 (2018: 4 years).

All software assets were assessed for indications of impairment as at 30 June 2019.

2.2B: Other non-financial assets	**2019 $'000**	2018 $'000
Prepayments	113	35
Total other non-financial assets	113	35

2.3 Unearned liabilities

2.3A: Unearned liability	Notes	2019 $'000	2018 $'000
Unearned premium liability	2.3B	98,828	85,117
Unearned commission liability	2.3C	2,097	3,086
Total unearned liability		100,925	88,203

2.3B: Unearned premium liability	2019 $'000	2018 $'000
Unearned premium liability as at 1 July	85,117	75,842
Deferral of premiums on contracts written in the period	98,828	85,117
Earning of premiums written in the previous periods	(85,117)	(75,842)
Unearned premium liability as at 30 June	98,828	85,117

2.3C: Unearned commission liability	2019 $'000	2018 $'000
Unearned commission liability as at 1 July	3,086	2,943
Deferral of commissions on contracts written in the period	2,097	3,086
Earning of commissions written in the previous periods	(3,086)	(2,943)
Unearned commission liability as at 30 June	2,097	3,086

2.4 Payables

2.4A: Supplier payables	2019 $'000	2018 $'000
Retrocession payable	32,582	32,222
Accruals	512	828
Total supplier payables	33,094	33,050

Retrocession payable

In accordance with ARPC's retrocession treaty expiring 31 December 2019, 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.

2.4B: Other payables	2019 $'000	2018 $'000
Salaries and wages	198	22
Superannuation	25	3
Total other payables	223	25

Accounting policy

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

2.5 Other provisions

2.5A: Other provisions	Lease incentive $'000	Provision for restoration $'000	Other provisions $'000	Total $'000
Carrying amount as at 1 July 2018	119	122	660	901
Additional provisions made	17	–	7	24
Amounts used	–	–	(180)	(180)
Unwinding of discount	–	–	–	–
Amounts owing at 30 June 2019	136	122	487	745

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 (2018: future premium refund payable).

The financial statements have not included an outstanding claims liability (2018: nil).

Accounting policy

Lease incentives

Lease incentive 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

3.1A: Employee Provisions	**2019 $'000**	2018 $'000
Leave	480	403
Total employee provisions	480	403

Accounting policy

Liabilities for short-term employee benefits and termination benefits expected within twelve months of the end of reporting period end 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 leave. No provision has been made for sick leave, as all sick leave is non-vesting and the average sick leave taken in future years by employees of ARPC is estimated to be less than the annual 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 *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*. 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 2019 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:

	2019 $	2018 $
Short-term employee benefits	**1,448,620**	1,912,225
Post-employment benefits	**133,871**	179,154
Other long-term employee benefits	**6,611**	166,612
Termination benefits	**–**	191,376
Total key management personnel remuneration expense	**1,589,102**	2,449,367

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.

The total number of key management personal that are included in the above table are 11 (2018: 15). The 2018 comparative includes two additional senior executive roles that were made redundant in April 2018.

3.3 Related party disclosures

Members of ARPC at 30 June 2019 were:

Mr Ian Carson AM

Ms Karen Payne

Mr John Peberdy

Ms Elaine Collins

Ms Janet Torney

Ms Robin Low

Mr Michael Callaghan AM PSM

Changes in membership during the year:

- 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.

Key management personnel employed by ARPC at 30 June 2019 were:

- Dr Christopher Wallace – Chief Executive
- Mr Michael Pennell PSM – Chief Underwriting Officer
- Ms Janice Nand – Acting 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 Mr Ian Carson AM became a partner with PricewaterhouseCoopers (PwC) effective 1 August 2018, when his previous firm PPB Advisory was acquired by PwC. ARPC purchases internal audit services from PwC on normal commercial terms. The purchase of internal audit services is overseen by the Audit & Compliance Committee of which Mr Carson is not a member. Mr Carson has not been involved in any discussions or decisions involving the contract with PwC and has excluded himself from all meetings and discussions where this matter was raised. Mr Carson does not hold a management role at PwC and is not a member of the PwC Board or Executive Committee. During the year ARPC made payments to PwC to the value of $301,170.

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:

		2019 **$**	2018 $
Related Party – Owner	**Purpose**		
The Treasury	Commonwealth guarantee fee	**55,000,000**	55,000,000
The Treasury	Capital holding fee	**35,000,000**	35,000,000
Geoscience Australia	Development of loss estimate model	**448,000**	411,800
The Treasury	Provision of corporate support services to ARPC	**188,095**	336,325
Australian Government Solicitor	Provision of legal services	**77,974**	19,287
Comcare	Workers compensation insurance premiums	**25,308**	46,229
Artbank	Hire of artwork	**2,600**	2,913
Department of Communications and the Arts	Copyright fees	**1,480**	2,711
Department of Foreign Affairs and Trade	Transfer of employee leave liability	**–**	53,556
		90,743,457	90,872,821
Related Party – Member	**Purpose**		
PricewaterhouseCoopers (PwC)	Provision of internal audit services	**301,170**	–
		301,170	–
Total Related Party Transactions		**91,044,627**	90,872,821

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 Board maintains a Risk Appetite and Tolerance Statement, and monitors performance reports against this statement provided by management at each Board meeting. The Board-approved Risk Management Policy outlines the commitment of the Board and senior management to promote a supportive risk culture, set risk objectives, provide training and resources for risk management activities, manage and report risk information, and monitor, review and continually improve. The Risk Management Policy describes the key risk types and the systems and controls to manage these.

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 Minister 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 2019 is $34.86 million (2018: $25.10 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 $426 million (2018: $400 million);
- In the event of a DTI, ARPC would be required to pay $285 million (2018: $285 million) before claiming on its retrocession program;
- ARPC has access to a $3.315 billion retrocession program in excess of the $285 million retention (2018: $3.065 billion retrocession program, in excess of $285 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 Minister 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 (2018: $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 two types of risk:

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

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	2019 $'000	2019 $'000	2019 $'000	2019 $'000	2019 $'000
Interest bearing financial assets						
Cash and cash equivalents	2.1A	1,099	–	–	–	1,099
Fixed term deposits	2.1C	–	504,100	–	–	504,100
Total		1,099	504,100	–	–	505,199
Weighted average interest rate		0.89%	2.41%	–	–	2.41%

		Floating interest rate	Fixed interest rate maturing in			Total
		1 year or less	1year 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%

The Department of Finance deemed a 20-basis point change to be reasonably possible and ARPC adopted this when reporting interest rate risk (2018: 20-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	
	2019 %	2018 %	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Interest rate movement						
Interest bearing	+0.20	+0.20	1,010	933	1,010	933
Financial assets	-0.20	-0.20	(1,010)	(933)	(1,010)	(933)

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 the policy 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.

		Credit rating					
		AAA	AA-	A+	A	Unrated	Total
	Notes	2019 $'000	2019 $'000	2019 $'000	2019 $'000	2019 $'000	2019 $'000
ARPC							
Cash and cash equivalents	2.1A	1,099	–	–	–	–	1,099
Receivables	2.1B	–	–	–	–	57,034	57,034
Fixed term deposits	2.1C	–	402,500	96,600	5,000	–	504,100
Total		1,099	402,500	96,600	5,000	57,034	562,233

		Credit rating					
		AAA	AA-	A+	A	Unrated	Total
	Notes	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

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	**2019 $'000**	2018 $'000	**2019 $'000**	2018 $'000	**2019 $'000**	2018 $'000
Financial assets							
Premium receivables	2.1B	**51,649**	42,413	**364**	25	**52,013**	42,438
Commission receivables	2.1B	**2,080**	3,061	**–**	–	**2,080**	3,061
Interest receivable	2.1B	**2,851**	2,599	**–**	–	**2,851**	2,599
Net GST receivable	2.1B	**90**	23	**–**	–	**90**	23
Total		56,670	48,096	364	25	57,034	48,121

Ageing of financial assets past due

		0 to 30 days	31 to 60 days	61 to 90 days	90+ days	Total
	Notes	**2019 $'000**	**2019 $'000**	**2019 $'000**	**2019 $'000**	**2019 $'000**
Financial assets						
Premium receivables	2.1B	347	–	2	15	364
Total		347	–	2	15	364

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

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	2019 $	2018 $
AAA	–	–
AA+	71,672	71,660
AA	88,853	86,188
AA-	612,019	414,511
A+	1,203,448	1,243,960
A	804,160	780,594
A-	534,848	468,087
ARPC Total Exposure	3,315,000	3,065,000

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 summaries the maturity profile of ARPC's financial liabilities. All liabilities are measured on an undiscounted cash flow basis given their short-term maturity.

		1 year or less		From 1-5 years		Total	
	Notes	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Financial liabilities							
Payables	2.4A	33,094	33,050	–	–	33,094	33,050
Total		33,094	33,050	–	–	33,094	33,050

4.3 Contingent assets and liabilities

Quantifiable contingencies

As at 30 June 2019 ARPC had no quantifiable contingencies (2018: Nil).

Unquantifiable contingencies

As at 30 June 2019 ARPC had no quantifiable contingencies (2018: 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

4.4A: Categories of financial instruments	**2019 $'000**	2018 $'000
Comparative financial assets under AASB 139:		
Financial assets at fair value through profit or loss		
Cash and cash equivalents		1,561
Fixed term deposits		464,700
Total financial assets at fair value through profit or loss		466,261
Loans and receivables		
Receivables (gross)		48,121
Total loans & receivables		48,121
Financial assets under AASB 9:		
Financial assets at fair value through profit or loss		
Cash and cash equivalents	1,099	
Fixed term deposits	504,100	
Total financial assets at fair value through profit or loss	505,199	
Financial assets at amortised cost		
Receivables (gross)	57,034	
Total financial assets at amortised cost	57,034	
Financial liabilities:		
Financial liabilities measured at amortised cost		
Suppliers payables	33,094	33,050
Other payables	223	25
Total financial liabilities measured at amortised cost	33,317	33,075

Classification of financial assets on the date of initial application of AASB 9.

Financial assets class	**Notes**	**AASB 139 original classification**	**AASB 9 new classification**	AASB 139 carrying amount at 1 July 2018 $'000	AASB 9 carrying amount at 1 July 2018 $'000
Cash and cash equivalents	2.1A	Fair value through Profit or Loss	Fair value through Profit or Loss	1,561	1,561
Trade receivables	2.1B	Loans and receivables	Amortised Cost	48,121	48,121
Fixed term deposits	2.1C	Fair value through Profit or Loss	Fair value through Profit or Loss	464,700	464,700
Total financial assets				514,382	514,382

Reconciliation of carrying amounts of financial assets on the date of initial application of AASB 9.

Financial assets class	AASB 139 carrying amount at 1 July 2018 $'000	Reclassification $'000	Remeasurement $'000	AASB 9 carrying amount at 1 July 2018 $'000
Financial assets at fair value through profit or loss				
Held to maturity				
Cash and cash equivalents	1,561	–	–	1,561
Fixed term deposits	464,700	–	–	464,700
Total fair value through profit or loss	466,261	–	–	466,261
Financial assets at amortised cost				
Loans and receivables				
Receivables (gross)	48,121	–	–	48,121
Total amortised cost	48,121	–	–	48,121

Accounting policy

Financial assets

With the implementation of AASB 9 Financial Instruments for the first time in 2019, ARPC classifies its financial assets in the following categories:

a) financial assets at fair value through profit or loss;

b) financial assets measured at amortised cost.

The classification depends on both ARPC's business model for managing financial assets and contractual cash flow characteristics at the time of initial recognition. Financial assets are recognised when ARPC becomes a party to the contract and, as a consequence, has a legal right to receive or a legal obligation to pay cash and derecognised when the contractual rights to the cash flows from the financial asset expire or are transferred upon trade date.

Comparatives have not been restated on initial application.

Financial Assets at Amortised Cost

Financial assets included in this category need to meet two criteria:

1. the financial asset is held in order to collect the contractual cash flows; and
2. the cash flows are solely payments of principal and interest (SPPI) on the principal outstanding amount.

Effective interest Method

Income is recognised on an effective interest rate basis for financial assets that are recognised at amortised cost.

Financial assets at Fair Value Through Profit or Loss (FVTPL)

Financial assets are classified as financial assets at fair value though profit or loss where the financial assets either doesn't meet the criteria of financial assets held at amortised cost or at financial assets at fair value through other comprehensive income (FVOCI) or may be designated.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest earned on the financial asset.

Impairment of Financial Assets

Financial assets are assessed for impairment at the end of each reporting period based on Expected Credit Losses, using the general approach which measures the loss allowance based on an amount equal to lifetime expected credit losses where risk has significantly increased, or an amount equal to 12-month expected credit losses of risk has not increased.

The simplified approach for trade, contract and lease receivables is used. This approach always measures the loss allowance as the amount equal to the lifetime expected credit losses.

A write-off constitutes a derecognition event where the write-off directly reduces the gross carrying amount of the financial asset.

Financial liabilities

Financial liabilities are classified as other financial liabilities. 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 (2018: $0).

4.4B: Net income from financial assets	**2019 $'000**	2018 $'000
Investment income	**13,533**	13,675
Net gains from financial assets	**13,533**	13,675

4.5 Fair value measurement

	Notes	Fair value measurements at the end of the reporting period	
		2019 $'000	2018 $'000
Financial assets			
Cash and cash equivalents	2.1A	**1,099**	1,561
Receivables (gross)	2.1B	**57,034**	48,121
Fixed term deposits	2.1C	**504,100**	464,700
Total financial assets		**562,233**	514,382
Financial liabilities			
Suppliers payables	2.4A	**33,094**	33,050
Other payables	2.4B	**223**	25
Total		**33,317**	33,075

Fixed term deposits are classified as Level 2 in the fair value hierarchy.

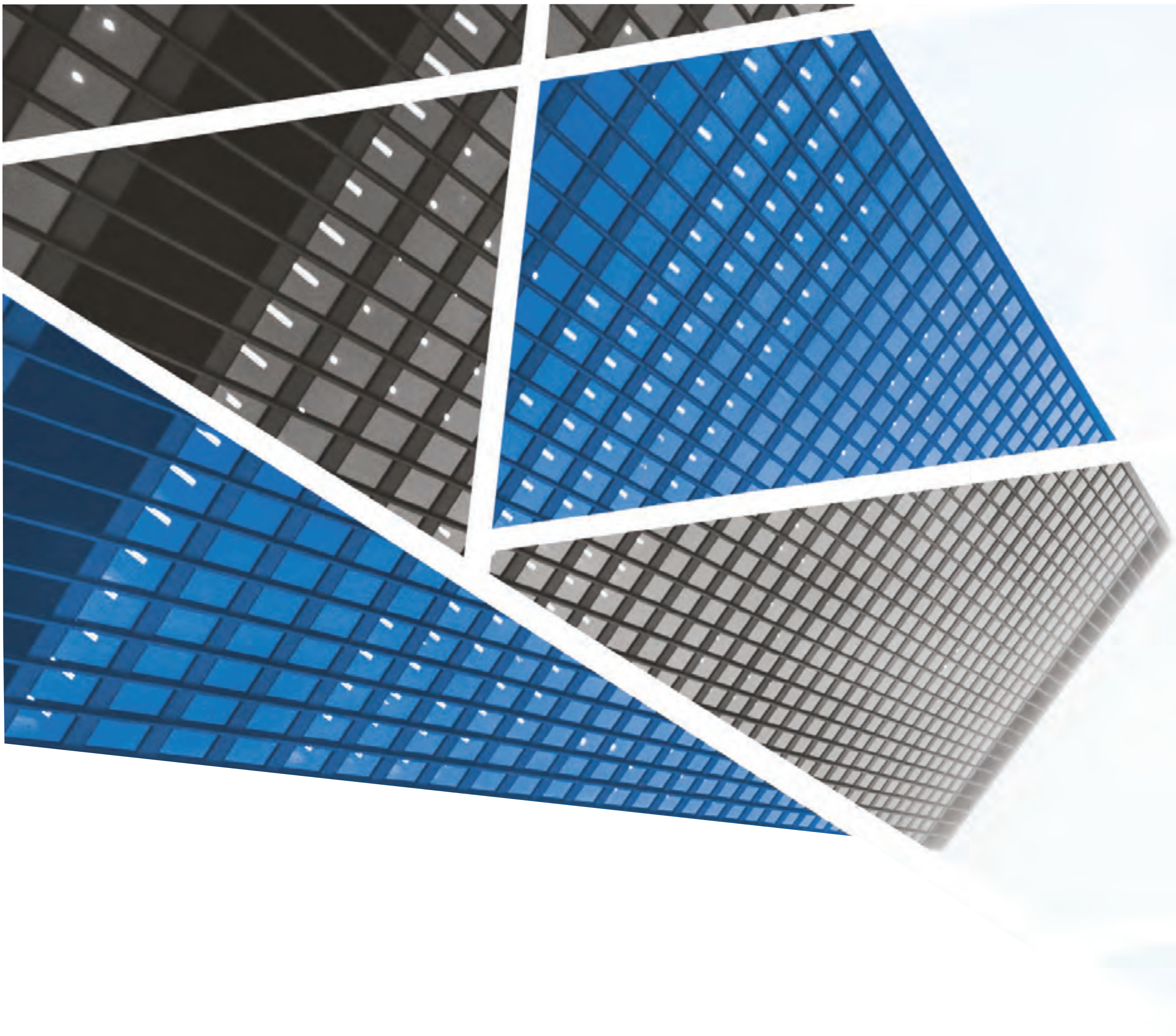
Level 1 – Fair values measured using quoted prices (unadjusted) in active markets for identical instruments.

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.

5. Other information

5.1 Aggregate assets and liabilities	2019 $'000	2018 $'000
Assets expected to be recovered in:		
No more than 12 months	595,959	547,669
More than 12 months	829	806
Total assets	596,788	548,475
Liabilities expected to be settled in:		
No more than 12 months	135,048	122,223
More than 12 months	419	359
Total liabilities	135,467	122,582



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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

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