Australian Government
Australian Reinsurance Pool Corporation

ARPC Annual Report

2019 – 2020

Australian Government

Australian Reinsurance Pool Corporation

24 September 2020

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 2020. 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

Mr Ian Carson AM
BEc PGDip Professional Accounting FAICD
Chair

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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

Highlights

"Our Purpose is expressed through our Vision and Mission."

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.

$13.7B
Total funding available for claims
Protecting more than 835,000 eligible insured property assets

$3.450B
Reinsurance sector funding for claims
Protecting the Government guarantee and encouraging participation by more than 70 reinsurers

$10B
Solvency guarantee
Provided by the Australian Government

$100M in fees and dividends
Payments to Government
Compensating the Government for providing the guarantee and dividends for ownership

Premium income $234.3M
Providing terrorism reinsurance cover to more than 220 insurer customers

Retained assets $521M
To sustain the terrorism insurance pool for first losses

Cash and investments $573M

23 STAFF

Operating expenses **4% p.a.**
Cost effective wiith 23 staff.
Operating expenses are 4% of gross premium revenue.

2020 Scheme structure

Funding layers

- **Up to $10B** Commonwealth guarantee
- **$3.45B** Retrocession program
- **$250M** ARPC deductible
- **$100K to $200M** Industry retention
- **Policy deductible**

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 calendar year.

Policy deductible: This is the excess or deductible in the underlying insurance policies.

Strategic projects

Geospatial modelling

Working with specialist providers to enhance ARPC's modelling capability

Cyber Terrorism Research Project

Launch ARPC's cyber terrorism research findings to government and re/insurance sector stakeholders

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

Performance summary

ARPC performed well against the targets set in the 2019-23 Corporate Plan

Measure 1 Gross written premium – **Exceeded** ✔✔

Measure 2 Scheme capacity – **Exceeded** ✔✔

Measure 3 Private sector participation – **Exceeded** ✔✔

Measure 4 Payments to Government – **Met** ✔

Measure 5 Net Assets – **Exceeded** ✔✔

Measure 6 Projects – **Met** ✔

Measure 7 Stakeholder survey – **Partially Met**

Our story

ARPC

- **2020** – ARPC holds the IFTRIP Presidency
- **2019** – ARPC designs geospatial catastrophe model with Risk Frontiers – providing 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 retrocession program on global markets for the first time
- **2008** – ARPC begins designing 3D catastrophe 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'

Contents

From the Chair

Ian Carson AM
Chair

I am pleased to present the 2019-20 Chair Report for Australian Reinsurance Pool Corporation having been reappointed by the Australian Government as Chair of ARPC for a second three-year term. Member Robin Low was also reappointed for three years, so ARPC will continue to benefit from her significant insurance accounting experience.

Michael Callaghan AM PSM has completed his term as a Member of ARPC in the period. Mike made a significant contribution to ARPC, particularly in guiding development of ARPC strategy and strategic projects and his contributions will be missed.

Maria Fernandez PSM has joined the Board as a new Member and we look forward to benefiting from her deep and distinguished public sector experience with security and intelligence agencies.

ARPC stands in solidarity with our private and public sector stakeholders, who are impacted by the COVID-19 pandemic. Many of us have been touched professionally or personally by this devastating global event. The aftershocks will be with us for some time and we will need to continue to adapt and be resilient.

For ARPC, it's been a year of consolidation with key strategic projects completed or significantly progressed despite the impact of COVID-19.

In March this year, ARPC was scheduled to launch the findings of ARPC's 12-month cyber terrorism research project, with our research partners, the Organisation for Economic Co-operation and Development (OECD) and Cambridge Centre for Risk Studies at the Judge Business School, University of Cambridge. The COVID-19 pandemic restrictions unfortunately led to the postponement of the March Seminar until later in the year.

The purpose of the research study, titled 'Insurance risk assessment of cyber terrorism in Australia' was 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. The detailed research report is available via a digital request form on our website.

Business insurance policies and the ARPC scheme currently exclude coverage for acts of computer crime (including cyber terrorism) which affect commercial and high value residential property in Australia.

> "ARPC stands in solidarity with our private and public sector stakeholders who are impacted by the COVID-19 pandemic."

ARPC anticipates that our research will contribute to informing stakeholders about the systemic risks to the economy and Australian society due to this protection gap. The research findings will be a key input into Treasury's 2021 Triennial Review of the TI Act. More detail on the research findings can be found in a separate article on page 30.

ARPC's Board performance was strong in the period and included effective stewardship of the organisation through the COVID-19 pandemic. ARPC has a dedicated and engaged Board. In 2019-20, the Board met seven times and the Audit and Compliance Committee met four times. There were valuable contributions from each Member, and I thank them for their commitment.

The ARPC Board and senior executive team attended the annual strategic planning workshop in Canberra in March 2020. The strategic planning workshop included Board engagement with key Government and insurance sector stakeholders. The Board also engaged with a wide range of stakeholders at our Sydney stakeholder event in July 2019. Additionally, Board Members attended the Insurance Council of Australia (ICA) Annual Dinner and the Australian and New Zealand Insurance Industry (ANZIIF) Awards.

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

I am delighted to report that ARPC has received a Silver Award for its second annual report entry into the Australasian Reporting Awards (ARA), where ARPC's 2018-19 Annual Report proficiently addressed the demanding ARA criteria. This improves upon the Bronze Award earned for the 2017-18 Annual Report.

ARPC is strongly positioned to achieve its vision, which is 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.

Ian Carson AM
BEc PGDip Professional Accounting FAICD
Chair

24 September 2020

From the CEO

Dr Christopher Wallace
CEO

Delivering on our purpose

ARPC has delivered solid operational and financial performance in 2019-20.

As noted by ARPC's Chair Ian Carson AM, we stand with our insurer and government stakeholders affected by the COVID-19 pandemic, an event which has dominated headlines and our professional and personal lives here in Australia since March 2020.

During this difficult time, ARPC has engaged with our insurer customers to listen to their concerns, provide information and answer questions. We have regularly engaged with Treasury and offered our insurance expertise as required.

ARPC reinsures Australia's commercial property insurers against Declared Terrorism Incidents (DTIs). In doing so, ARPC plays a vital role in the financial recovery phase for the Australian economy following a Declared Terrorism Incident (DTI)

ARPC has 227 insurer customers which insure $3.71 trillion sum insured for commercial property and business interruption policies. During 2019-20, ARPC had funding capacity for claims of $13.7 billion. This capacity was provided through a combination of $521 million ARPC net assets, $3.45 billion retrocession cover purchased from 71 global reinsurers and the $10 billion Commonwealth guarantee.

During 2019-20, ARPC has continued to see underlying commercial insurance premium rate increases in the insurance market, while global capacity available for terrorism risk reinsurance has remained stable.

Terrorism threat continues

Australia's National Terrorism Threat Level remains at Probable. The Australian Government's Terrorism Threat Advisory System defines this as 'credible intelligence, assessed by our security agencies, indicates that individuals or groups continue to possess the intent and capability to conduct a terrorist attack in Australia'.

As at 30 June 2020, according to the Department of Home Affairs, since September 2014, when the national terrorism threat level was raised:

- 110 people have been charged as a result of 51 counter terrorism related operations around Australia
- There have been seven attacks and 18 major counter-terrorism disruption operations in response to potential or imminent attack planning in Australia. Two of the disruptions were of individuals with extreme right-wing ideology

Overseas, the period was marked by continuing terrorism threats, with major terrorist attacks occurring overseas. As in the previous year, many attacks overseas were conducted by lone perpetrators using weapons such as knives, guns or vehicles.

> "ARPC has 227 insurer customers which insure $3.71 trillion sum insured for commercial property and business interruption policies."

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 highly regarded by reinsurers owing to its deep expertise in blast and plume catastrophe 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 2020 retrocession placement saw ARPC purchase an additional $135 million of capacity from the private global reinsurance market. ARPC was able to place the 2020 retrocession program at lower prices and used this saving to contribute to the extra $135 million capacity purchased, further highlighting the value the pool provides to the Australian terrorism risk insurance market.

2021 Triennial Review

ARPC is preparing for the 2021 Triennial Review of the ARPC scheme by the Treasury. As you may be aware, this periodic review of the Terrorism Insurance Act 2003 tests the need for the Act and the scheme to continue.

One gap in cover in the scheme is physical damage to property arising from computer crime (including cyber terrorism), and we plan for our research on cyber terrorism to be an input into the 2021 Triennial Review.

Value for money

The average price of ARPC terrorism reinsurance cover for insurers in 2019-20 was 4.9 per cent of premium, and 4.9 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 reinsurance 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.

Thought leadership on terrorism

In August 2019, ARPC hosted its fourth annual Terrorism Risk Insurance Seminar. Themed *The Terrorism Landscape*, more than 100 delegates from the insurance industry, government agencies and academia attended. They heard presentations on local and global terrorism threats, espionage and foreign interference, cyber terrorism, the financial loss caused by exclusion zones that follow terror attacks, and CBRN weapons. Keynote speakers represented ASIO's Counter Espionage and Foreign Interference Division; Control Risks; the Australian Government's Defence, Science and Technology Group (DSTG); Professor Greg Barton and ARPC.

Providing property owners with a risk mitigation resource

ARPC is collaborating with Standards Australia to produce the HB-188 Handbook, now titled 'Base Building Physical Security Handbook – Terrorism and Extreme Violence', due for publication in 2020-21. 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 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

ARPC supports and participates in 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). These engagements have enhanced ARPC's links with global counterparts and reinsurers.

In the period, ARPC participated in the IFTRIP conference in Brussels. This event provided the opportunity to connect with global pools and to gain insights about global threats, such as cyber terrorism and biochemical risks.

Staff support during COVID 19

ARPC engages regularly with employees to enhance connections and engagement with ARPC's vision and strategic objectives. All employees contribute toward the development and implementation of actions and activities aimed at lifting organisational performance and culture.

During COVID 19, all team members remote worked successfully and continued supporting our stakeholders through ARPC's processes and systems. We instigated our Pandemic Response Plan and Pandemic Response Team. We further engaged the ARPC team in response planning through our Pandemic Coordinating Committee comprising a cross-section of staff. ARPC's Wellness Committee has run more than 10 types of wellness activities for the ARPC team, and we have regular video meetings for all staff and for small groups. We have continued to keep our staff employed and focused on our corporate plan.

In support of the Government's direction on wage restraint across the public sector, we have exercised discretion on wage increases, with no discretionary performance bonuses paid to staff or senior executives this year, all discretionary wage increments frozen for staff, and no wage increases for senior executives. I am grateful for the support of our staff, and we will revisit wage indexation as soon as circumstances allow.

Stakeholder support during COVID 19

ARPC has contributed to the business community to support employment and economic recovery through our activities, which have included:

- Supporting our insurer customers where they are deferring premiums for their business customers.
- Continuing our projects with suppliers.
- Continuing our office lease.
- Offering ARPC staff to public sector secondments.
- Offering information and communication technology advice to another Government agency to assist their role in the community.
- Supporting Treasury projects and policy development related to insurance and reinsurance markets to assist addressing market failure.

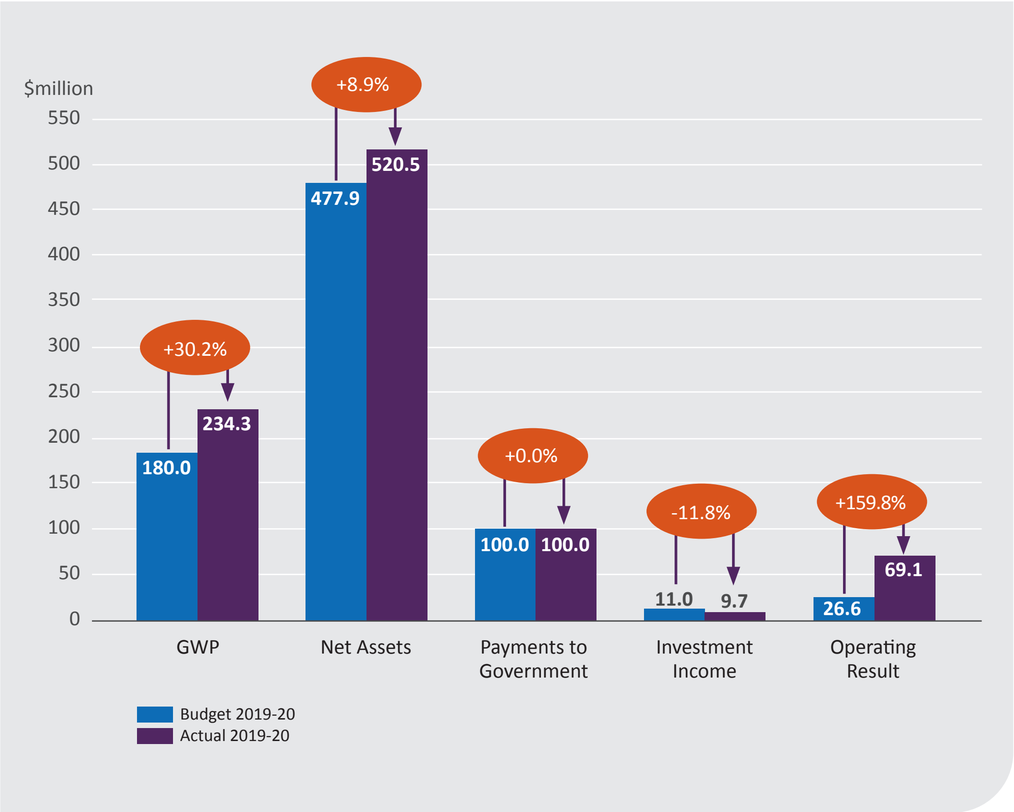
> “ARPC achieved strong performance operationally and financially during the year and continues to operate through the pandemic.”

Financial performance was better than forecast for 2019-20

ARPC's overall financial performance for 2019-20 was better than expected, largely owing to rate rises in underlying commercial insurance premiums, with the operating result for the year ending 30 June 2020 at $69.1 million, $42.5 million better than forecast.

Figure 1 comprises a summary of key financial metrics. Further detail is available in the Annual Performance Statement.

Figure 1: Summary of Key Financial Metrics 2019-20



In summary

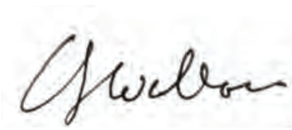
ARPC achieved strong performance operationally and financially during the year and continues to operate through the pandemic.

ARPC made solid progress on strategic projects during 2019-20, including the following:

- cyber terrorism research project
- geospatial catastrophe modelling covering all mainland locations for commercial property in Australia
- Standards Australia Handbook for the 'Base Building Physical Security Handbook – Terrorism and Extreme Violence',

  and
- ownership model feasibility study.

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



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

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 2020. 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

Ian Carson AM
BEc PGDip Professional Accounting FAICD
Chair

24 September 2020

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

24 September 2020

1 ARPC's Strategy

1

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

ARPC expresses its purpose through its vision and mission.

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 terrorist 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

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 17 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. 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 2018 Triennial Review[1] concluded that there continues to be partial market failure and recommended that the Act remain in force and that the scheme remain in place. The Review stated: "In the absence of the Act there would likely be a market failure in the terrorism insurance market with wider economic implications. The estimated global commercial market capacity available for Australian terrorism reinsurance is considered short of the level required to cover against large, but possible, terrorism incidents. Several reinsurers have indicated they would find it difficult to participate in the Australian terrorism insurance market without a mechanism like the ARPC."

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

1 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, the attempt to load a chemical bomb onto an aircraft departing Sydney, and a plot to use an improvised explosive device to disrupt an electrical substation on the New South Wales south coast.

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.

The 2019-20 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

> "Reinsurers have indicated they would find it difficult to participate in the Australian terrorism insurance market without a mechanism like the ARPC."

Figure 1.2: National Terrorism Threat Advisory System (NTTAS)

Certain	Red is the highest level and means that a terrorist action is certain.
Expected	Orange means a terrorist action is expected.
Probable	Yellow indicates that a terrorist action is probable. This is the current threat level in Australia.
Possible	Blue indicates that a terrorist action is possible.
Not expected	Green is the lowest category of threat and means a terrorist action is not expected.

Strategic priorities

ARPC's 2019-23 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 2019-23 Strategic Priorities

ARPC made progress against all five strategic priorities outlined in the 2019-23 Corporate Plan in the following five key performance areas:

One: Providing reinsurance for eligible terrorism losses

Two: Encouraging private sector participation through retrocession

Three: Compensating the Government

Four: Maintaining financial sustainability and organisational resilience, and

Five: Engaging, understanding, and collaborating with stakeholders.

Activities undertaken to progress ARPC's strategic priorities in these key performance areas are detailed in Figure 1.3.

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**	**Five**
Completed the Cyber Terrorism Research project in conjunction with the University of Cambridge's Centre for Risk Studies and the OECD. Released research findings in a Compendium which is available on our website. The formal launch event scheduled for 18 March 2020 was postponed due to COVID-19.	✔	✔			✔
The Standards Australia Handbook for 'Base Building Physical Security Handbook – Terrorism and Extreme Violence' is nearing completion. ARPC has facilitated the inclusion of additional input from national security agencies. The final handbook will be published in 2020-21.		✔			✔
Continued to identify and educate the market about potential gaps in cover. Initiated development of a research paper with the University of Queensland on insurance market gaps in relation to terrorism.	✔	✔			✔
Participated in the OECD High Level Advisory Board.		✔		✔	✔
Initiated preparations for the 2021 Triennial Review of the ARPC scheme undertaken by Treasury by preparing suggested terms of reference which have been shared with Treasury. Resources have been allocated to provide Treasury all necessary assistance.	✔				✔

* 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

Core activities and achievements	One	Two	Three	Four	Five
Engaged with stakeholders to deepen understanding and develop greater understanding and consensus on the TI Act and Regulations.	✔				✔
Delivered the 2019 Terrorism Risk Insurance Seminar with positive stakeholder feedback.	✔	✔			✔
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.	✔			✔	✔
Participated in the OECD High Level Advisory Board.		✔		✔	✔
Detailed preliminary work undertaken with consultants before launching our first stakeholder survey.	✔				✔

Key Performance Areas

* 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

Core activities and achievements	One	Two	Three	Four	Five
Conducted multiple tests of the DTI Response Procedure for continuous improvement.				✔	
Provided advice to the Government at the request of the Minister.				✔	
Continued to enhance the claims response plan.				✔	
Continued development of 3D catastrophe modelling for blasts and biochemical events throughout Australia.		✔		✔	
Development of geospatial catastrophe modelling covering all mainland locations in Australia.		✔		✔	
Purchase retrocession reinsurance to increase ARPC's total funds available for claims following a DTI, while minimising the need to call on the Commonwealth guarantee.	✔	✔		✔	

Key Performance Areas

* 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

Core activities and achievements	One	Two	Three	Four	Five
	Key Performance Areas				
Worked with government stakeholders to implement postcode changes effective 1 July 2019.	✔		✔		
Shared the Ownership Model Feasibility Study with Government.	✔			✔	
Completed the cyber terrorism research project. Research Compendium is available to stakeholders in industry and government from our website. Research has been provided to Treasury and will inform the 2021 Triennial Review.	✔			✔	✔
Continue to review and upgrade the IT environment for maximum operational effectiveness.				✔	

* 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

Core activities and achievements	One	Two	Three	Four	Five
	Key Performance Areas				
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.				✔	
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 governance and compliance redesign to maintain best practice.				✔	

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

"ARPC made progress against all five strategic priorities outlined in the 2019-23 Corporate Plan."

Working with ARPC stakeholders

ARPC is committed to timely, open communication with stakeholders and strives to understand their needs, meet their expectations, and deliver additional value. During 2019-20, 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.

Activity-based metrics

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

- insurer customers
- global reinsurers
- industry bodies
- Australian Government representatives at local, state and federal levels, and
- state insurance corporations

ARPC also engaged in other stakeholder activities including:

- events such as our annual Terrorism Risk Insurance Seminar, and our stakeholder cocktail events in Sydney and Canberra
- insurer review program
- electronic direct mail distribution of our quarterly newsletter Under the Cover
- LinkedIn posts
- Website, and
- articles in insurance industry publications

Outcomes-based metrics

During the year, ARPC has worked with ORIMA to develop its inaugural stakeholder engagement survey which will be conducted in 2020-21. This survey will establish a benchmark and is designed to answer the following big questions:

- Is ARPC delivering to its vision?
- What is stakeholder sentiment towards ARPC?
- Does ARPC provide value for money?
- Is ARPC's engagement effective?

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 2019-20, 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 catastrophe modelling outcomes.

ARPC's insurer customer (cedant) 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 any other relevant information.

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

Our website, which was updated in May 2020, is a repository for information about the scheme and how it operates, as well as for annual publications, newsletters, events, media releases and Q&As.

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 2019-20, ARPC attended industry conferences and events including (but not restricted to):

- ARPC Sydney Terrorism Risk Insurance Seminar
- ARPC market briefing (Sydney) for the 2020 retrocession program
- IFTRIP Conference in Brussels
- ANZIIF Reinsurance Discussion Group events
- NIBA Convention
- ANZIIF Annual Insurance Industry Awards, and
- Insurance Council of Australia events.

"ARPC engages with the Australian and international re/insurance industries through various forums."

ARPC ENGAGES WITH GLOBAL TERRORISM POOLS

ARPC's stakeholder engagement strategy includes developing links with peer terrorism pools in other countries to share knowledge and experience. This is achieved through membership of the International Forum of Terrorism Risk (Re)Insurance Pools (IFTRIP), an organisation of national terrorism pools.

IFTRIP was formally ratified at the ARPC-OECD Global Terrorism Risk Insurance Conference in Canberra in 2016. Subsequent annual conferences have been held in Paris (2017), Moscow (2018) and Brussels (2019). The 2020 IFTRIP Conference was scheduled to take place in the US capital of Washington DC but will now be run as a virtual event in October 2020 due to the COVID-19 pandemic.

IFTRIP 2020 is a global event for those either working in or advising on terrorism reinsurance and risk. The main Conference brings together sovereign-backed terrorism reinsurance pools, industry experts and the wider counter terrorism community.

Dr Christopher Wallace, ARPC CEO, was appointed President of IFTRIP for 2020. Chris's appointment was announced at the IFTRIP annual conference in Brussels in 2019 and he assumed his new IFTRIP role in January 2020.

"I was honoured to be appointed President of IFTRIP, an organisation which has improved cooperation and goodwill between national terrorism insurance pools at a time of rapidly evolving terrorism trends," Chris said. "During my tenure as President, I look forward to extending IFTRIP's membership outreach particularly to Asian insurance markets and highlighting the human impact of terrorism," he said.

This year's IFTRIP Conference was rescheduled from June to October due to the travel restrictions imposed as a result of the COVID-19 pandemic, and then subsequently altered to a virtual format.

It was Australia's turn to host the 2021 IFTRIP Conference but, with the 2020 event occurring in a virtual format, Washington will host the 2021 IFTRIP Conference. As is usually the case, the public conference will be preceded by a one-day closed terrorism pools (only) event.

The following institutions are members, observers or invitees of IFTRIP: Australia (ARPC); Austria (GRAWE); Belgium (TRIP); Denmark (FINANSTILSYNET); France (GAREAT, CCR); Germany (Extremus); India (GIC); Israel (ITC); Namibia (NASRIA); Netherlands (NHT); Russia (RATIP); South Africa (SASRIA); Spain (CCS); USA (TRIP); UK (Pool Re), Sri Lanka and Nepal.

2019 Conference City – Brussels

ARPC HOSTS THE TERRORISM LANDSCAPE SEMINAR

ARPC's 4th annual Terrorism Risk Insurance Seminar was held on Thursday, 29 August 2019 at NSW Parliament House, Sydney.

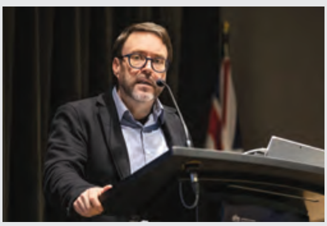
Themed *The Terrorism Landscape*, more than 100 delegates from the insurance industry, government agencies and academia heard presentations on local and global terrorism threats, espionage and foreign interference, cyber terrorism, the financial loss caused by exclusion zones that follow terror attacks, and CBRN weapons.

Keynote speakers represented ASIO's Counter Espionage and Foreign Interference Division; Control Risks; the Australian Government's Defence, Science and Technology Group (DSTG); Professor Greg Barton and ARPC.

Figure 1.4: Seminar speakers and topics

Acknowledgement of Country and Update on ARPC	Dr Christopher Wallace, ARPC CEO
An Australian Government Briefing on the terrorist threat in Australia	ASIO's Business and Government Liaison Unit
The genesis of the cyber terrorism threat and its implications	John McPherson, Head of Crisis and Cyber Practice for Asia Pacific, Control Risks
The shape of things to come, lessons from Christchurch and Sri Lanka	Professor Greg Barton, Chair in Global Islamic Politics, Deakin University
The interaction between exclusion zones and insured loss estimates	Michael Pennell, ARPC Chief Underwriting Officer
Modelling the effects of a chemical or biological attack	Alex Hill, Policy Analyst, Defence, Science and Technology Group
Final remarks and Seminar close	Elaine Collins, ARPC Member

John McPherson, Head of Crisis and Cyber Practice, Control Risks



Professor Greg Barton, Deakin University

From left: Dr Christopher Wallace, ARPC CEO and Janet Torney, ARPC Member

From left: Dr Christopher Wallace, ARPC CEO; Michael Pennell PSM, ARPC Chief Underwriting Officer and Nikhilesh Acharya, Treasury.

From left: Dallas Booth, NIBA CEO and Elaine Collins, ARPC Member

From left: Dr Christopher Wallace, ARPC CEO; Guy Thorburn, Australian Government Actuary and John Park, ARPC Chief Financial Officer

ARPC REVEALS
COST OF CYBER TERRORISM

ARPC identified cyber terrorism causing physical property damage as an emerging risk requiring further research to inform Government policy and to assist the insurance and property sectors in Australia.

So, in late 2018, ARPC commissioned a research project to examine 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, University of Cambridge (Cambridge).

The scope (below) was split between OECD and Cambridge with OECD addressing items one to three and Cambridge points four to seven.

Project scope

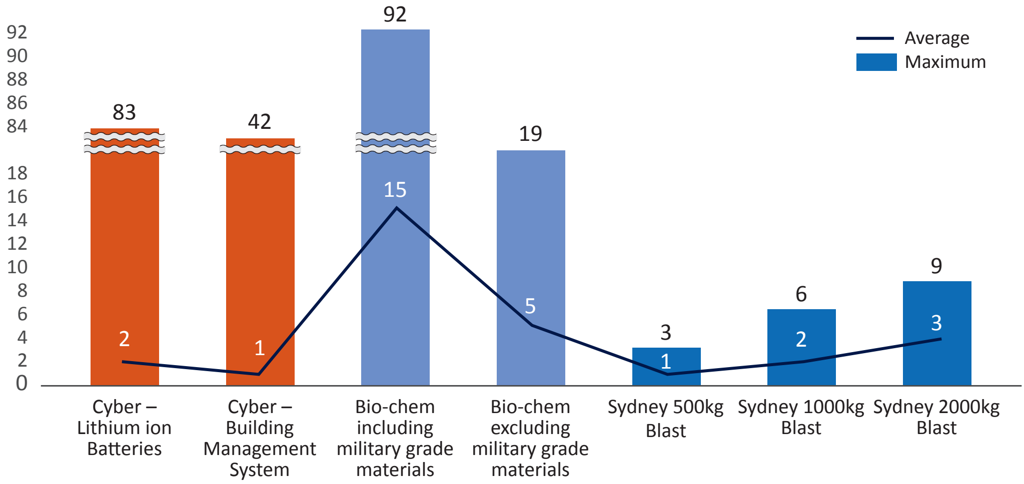
1. an evaluation of available insurance coverage in Australia for cyber attacks involving declared acts of war, criminality and/or terrorism
2. the practicalities of extending ARPC's insurance coverage to include cyber terrorism
3. evaluating relevant international experience in introducing coverage of cyber terrorism to terrorism insurance schemes
4. the direct and indirect impacts, in dollar terms, of insured and uninsured losses to commercial property and business interruption from acts of cyber terrorism
5. estimates for Australian losses and the Australian economic impact
6. realistic cyber attack scenarios in an Australian context – both current and prospective – including likelihood, direct/indirect impacts and existing insurance coverage and
7. identification of systemic or contagion risks from cyber risks to the Australian economy.

Findings

The key findings are that cyber terrorism is not covered by commercial property insurance in Australia and the terrorism reinsurance scheme administered by ARPC excludes cover for cyber terrorism.

The scenario analysis conducted by Cambridge demonstrates that the average expected losses from the two modelled scenarios – a Lithium Battery fire scenario and a Building Management System Attack – are consistent with the expected losses from a traditional blast attack in the Sydney CBD and are within the capacity of the scheme. The maximum losses from these cyber attacks are significant and exceed the capacity of the scheme. The maximum losses from the lithium-ion battery scenario is similar to the maximum loss from a sophisticated biochemical attack using weaponised grade materials as shown in Figure 1.5.

Figure 1.5: Comparison of Cambridge (in dark orange) and ARPC scheme scenarios



Availability of coverage in Australia

The OECD research found that a cyber insurance market is emerging in Australia to provide cover for first party and third-party liability claims that may arise from malicious and accidental cyber incidents, with cover for property damage extensively sub-limited. The widespread use of the ISR Mark IV wording for property insurance has resulted in broad coverage for property damage resulting from cyber attacks. However, almost universally, these policies have exclusions for war and terrorism. Thus, they exclude cover for physical damage to commercial property from cyber terrorism.

In the event of a Declared Terrorism Incident (DTI) in Australia, the terrorism exclusions in the underlying insurance policy are annulled and insurers would be required to pay claims to the extent the cover is for an eligible insured risk under the ARPC scheme.

As cyber is not an eligible peril under the ARPC scheme, the terrorism exclusion in the underlying policy would not be annulled. The result is that losses from a cyber terrorism incident causing property damage to commercial property would be largely uninsured.

Practicalities of extending ARPC's insurance coverage to include cyber terrorism

The probability of a cyber terrorism incident causing property damage is currently remote, although the potential for significant losses is possible.

Coverage for physical damage cyber terrorism is unlikely to become available without the involvement of ARPC and reinsurers involved in the study indicated that given the challenges with modelling and underwriting this risk, their preferred method of involvement was assuming part of the aggregate risk through ARPC.

If cyber was to be included in the ARPC scheme, the pricing methodology and coverage would also need to be considered. For cyber attacks, the distinction between malicious, criminal, terrorism and war is blurred and it is very difficult to attribute with certainty the origin of an attack.

International experience

The OECD research found that Germany, Spain and South Africa provide direct insurance coverage without cyber exclusions.

For the reinsurance or co-insurance schemes in Austria, Belgium, France, Netherlands, UK and the USA, cover for cyber terrorism is included to the extent it is covered in the underlying policy.

In the reinsurance schemes in France and the UK, cyber terrorism cover is explicitly included.

In India and Russia, cyber terrorism is explicitly excluded, as is the case in Australia.

Launch event rescheduled

The final research reports comprising an ARPC Management Summary and the OECD and Cambridge reports have been published in a Compendium format titled ***Insurance risk assessment of cyber terrorism in Australia***.

The launch event will take place as a Webinar on Thursday, 3 September 2020. In the interim period, the compendium is available for viewing by digital request form at arpc.gov.au/

ARPC EXPANDS MODELLING WITH GEOSPATIAL CATASTROPHE MODEL

ARPC has enhanced its two-dimensional geospatial catastrophe model to expand the region it can analyse and improve the way that insurance losses are calculated in the event of a terrorism incident.

ARPC is working with Risk Frontiers, a modelling firm that specialises in the assessment and management of disaster risk across Australia and the Asia Pacific, and has achieved the following enhancements:

- 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 shielding effects of neighbouring buildings on containing blast effects

The expansion of the model to capture all suburban and regional areas is vital in understanding the financial impacts of a terrorism incident that may occur beyond the CBD locations. In the event of an incident occurring, ARPC can run the model immediately to quickly estimate insured losses to infrastructure, assets and business interruption anywhere in Australia, including suburban shopping centres, mixed-use assets, industrial centres, sporting facilities and major infrastructure such as power stations and gas plants.

The geospatial catastrophe model also allows ARPC to model various scenarios prior to an incident occurring, to investigate the impact of exclusion zones on surrounding businesses. These insights have proved valuable to police in informing their own procedures.

Outputs 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 went live at year end.

ARPC SUPPORTS
STANDARDS AUSTRALIA RISK MITIGATION HANDBOOK

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 and contributed to the drafting of the Handbook.

The working title of the Handbook has recently been updated from *Physical Protective Security Treatment for Buildings Handbook*. Now called *Base-building Physical Security Handbook – Terrorism and Extreme Violence,* it will provide guidance to owners and operators of commercial buildings on identifying and assessing relevant sources of building risk associated with terrorism and other deliberate acts of extreme violence (such as civil commotion), and implementing suitable controls to mitigate such risk.

The draft Handbook was opened for Public Comment in April/May. This allowed various stakeholders, including industry professionals and consultants, organisations and other government bodies to review the draft and provide their feedback.

The Drafting Committee met throughout May and June to address the feedback received during the Public Comment phase and will make further drafting changes to the Handbook. It is expected the Handbook will be published next financial year.

The Handbook aligns with ARPC's strategic objectives, particularly to "extend thought leadership and expertise" and to "engage, understand and collaborate with stakeholders." Over the next few months, ARPC will formulate a plan to officially launch the Handbook with a series of meetings and presentations to insurers and property owners, in the form of a 'roadshow'.

The roadshow and promotion of this important resource will assist in promoting ARPC as a key advisor in the field of terrorism risk mitigation and allow ARPC to strengthen relationships with key stakeholders.

Australian Government
Australian Reinsurance Pool Corporation

2 The Scheme

2

The Scheme

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 reinsurance market, by entering into a reinsurance contract and, paying terrorism reinsurance premiums, or
- 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 entering into a reinsurance contract and 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 ($250 million for the 2020 calendar year). Above this point, an additional $3.45 billion of claims are funded by the retrocession program with global reinsurers.

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 as at 30 June 2020 totalled $13.7 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 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 2020, ARPC extended the top layer of retrocession by $100 million and reduced the deductible by $35 million. This expanded the Scheme size and further protected the Commonwealth guarantee.

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 2020 stood at $13.7 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.

Property types included in the Scheme

Commercial

Construction

High value residential

Industrial

Farms with BI

Exclusions from the Scheme

Radiological

Nuclear

Cyber

Government property

Residential property

Marine

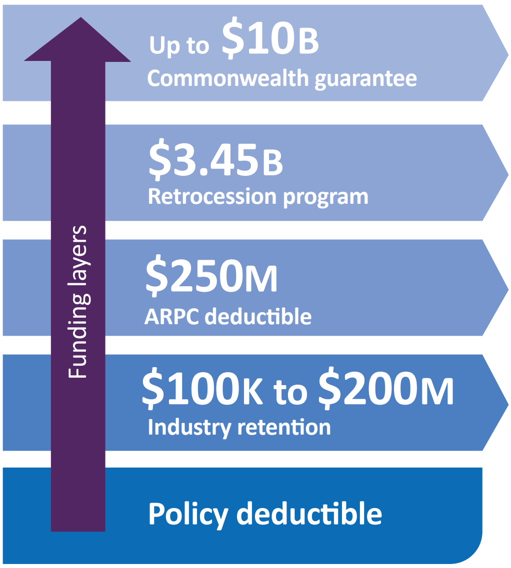
Machinery breakdown

Workers' Compensation

Scheme funding capacity

As at 30 June 2020, ARPC provided insurers with an annual claims funding capacity of $13.7 billion in reinsurance capacity, comprising funding of ARPC's retrocession deductible, the retrocession program 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 as at 30 June 2020



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 calendar year.

Policy deductible: This is the excess or deductible in the underlying insurance policies.

Terrorism claims against the scheme are funded in a layered order:

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 $250 million ARPC retrocession deductible
4. retrocession capacity of $3.45 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 (only to decrease it) which would increase claim 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.

"If an insurer is not reinsured with ARPC, that insurer is liable for the full costs of a DTI claim."

How the scheme is administered

Premiums

ARPC's premium and investment income is used to:

- fund its operations and build a reserve to meet future claims
- 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 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 insurer customers 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.

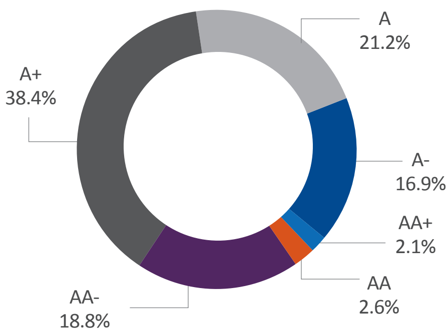
The retrocession program renews on 1 January each year. The 2020 placement of $3.45 billion includes $2.69 billion of capacity written on a multi-year agreement to reduce pricing volatility for ARPC and its retrocessionaires. The multi-year agreement allows adjustment if ARPC's portfolio changes by more than 10 per cent year-on-year or cancellation if ARPC's audited forecast premium income reduces by 10 per cent or more.

Figure 2.4: Retrocession program detail

$13.7bn – $3.7bn	Commonwealth Guarantee $10bn			
$3.7bn – $3.35bn	**$350m xs $3.35bn** Annual Placement (100%)			
$3.35bn – $1.5bn	$1.85bn xs $1.5bn 3rd year of 18/19/20 Tranche (34.00%)	$1.85bn xs $1.5bn 2nd year of 19/20/21 Tranche (22.660%)	$1.85bn xs $1.5bn 1st year of 20/21/22 Tranche (30.0%)	$1.85bn xs $1.5bn Annual placement (13.340%)
$1.5bn – $500m	$1bn xs $500m 3rd year of 18/19/20 Tranche (35.00%)	$1bn xs $500m 2nd year of 19/20/21 Tranche (21.666%)	$1bn xs $500m 1st year of 20/21/22 Tranche (30.0%)	$1bn xs $500m Annual placement (13.334%)
$500m – $250m	$250m xs $250m 3rd year of 18/19/20 Tranche (35.00%)	$250m xs $250m 2nd year of 19/20/21 Tranche (21.661%)	$250m xs $250m 1st year of 20/21/22 Tranche (30.0%)	$250m xs $250m Annual placement (13.339%)
$250m – 0	ARPC Retrocession Retention $250m			

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 and/or AM Best credit rating.

Figure 2.5: Retrocession program counterparty credit rating CY 2020



The 2020 $3.45 billion (2019: $3.315 billion) retrocession program was placed in four layers in excess of $250 million (2019: $285 million). Losses which exceed the retrocession program are covered by the Commonwealth guarantee.

Retrocession is placed on a calendar year basis from 1 January. The net retrocession premium expense incurred for the 12 months to 30 June 2020 totalled $62.8 million gross (compared with $59.7 million in 2018-19).

ARPC modelling capabilities

ARPC commissioned and specified the development of world class geospatial catastrophe modelling through its collaboration with both Geoscience Australia (GA), Australia's public-sector geoscience organisation and Risk Frontiers.

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 geospatial 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, Perth and Hobart with multi-location analysis conducted in those cities to review expected losses from different sized explosive 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 2019-20, ARPC has been working with Risk Frontiers on a two-dimensional (2D) blast model that incorporates some three-dimensional attributes that covers all mainland locations in Australia. This geospatial catastrophe model is based on the original 2D blast model developed by Risk Frontiers in 2007 and has been commissioned as at 30 June 2020.

Exposure risk management

A key Australian Government expectation is that ARPC will be able to advise the 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 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 insurance 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 2020 (TRIPRA)

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

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	2016-17	2017-18	2018-19	2019-20
Full review	27**	35*	28**	40*
Follow up review	9	16	1	2
Total	**36**	**51**	**29**	**42**

* Includes reviews on Singapore-based captive insurers
** Includes reviews on Lloyd's syndicates

Insurer customer review trends

Most insurer customers were found to have high levels of compliance but there were some errors. ARPC has observed and addressed the following types of errors 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

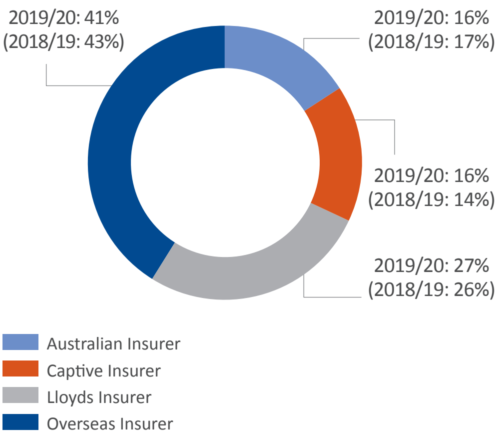
Active insurer customer reinsurance agreements

ARPC's active reinsurance agreements (or treaties) with insurer customers increased to 227 in 2019-20, compared to 220 in 2018/19.

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

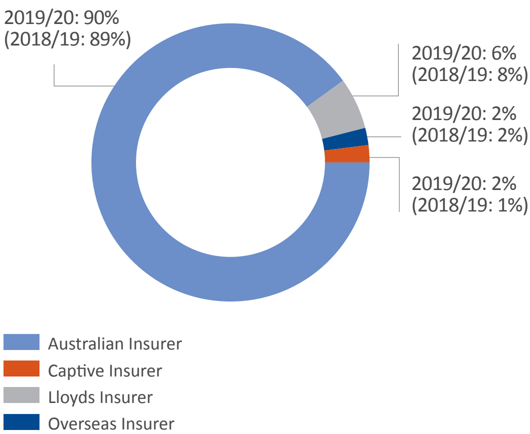
The Gross Written Premium (GWP) trend reported by insurer customers is measured by insurer customer type, premium by tier, premium by state and premium by business class. Figure 2.9 illustrates the GWP by insurer customer type.

Figure 2.8: Active client reinsurance agreements*



*as at 30 June 2020

Figure 2.9: ARPC gross written premium by insurer



The following tables show that GWP by tier, state and business class (between 2016 and 2020) has remained stable, with most exposure observed in Tier B, followed by Tier C.

Figure 2.10: ARPC gross written premium by tier

	Actual				
	2019-20 %	2018-19 %	2017-18 %	2016-17 %	2015-16 %
Tier A	21%	20%	21%	19%	19%
Tier B	59%	59%	56%	57%	56%
Tier C	20%	21%	23%	24%	25%
Total GWP $'000	233,063*	201,879	181,766	159,945	130,490

* Note that the premium revenue for the 2019-20 underwriting year of $233 million is the amount reported as at 8 August 2020

Figure 2.11: ARPC gross written premium by state

	Actual				
	2019-20 %	2018-19 %	2017-18 %	2016-17 %	2015-16 %
NSW	32%	32%	32%	31%	32%
VIC	25%	25%	25%	25%	24%
QLD	21%	21%	21%	20%	21%
WA	12%	12%	12%	14%	13%
SA	7%	7%	7%	7%	7%
TAS	1%	1%	1%	1%	1%
NT	1%	1%	1%	1%	1%
ACT	1%	1%	1%	1%	1%
Total GWP $'000	233,063*	201,879	181,766	159,945	130,490
Cumulative total $'000	2,199,661	1,966,598	1,764,719	1,582,953	1,423,008

* Note that the premium revenue for the 2019-20 underwriting year of $233 million is the amount reported as at 8 August 2020

Figure 2.12: ARPC gross written premium by business class

	Actual				
	2019-20 %	2018-19 %	2017-18 %	2016-17 %	2015-16 %
Fire/ISR/BI	87%	86%	85%	85%	84%
Contract Works	6%	7%	8%	6%	7%
Burglary	2%	3%	3%	4%	4%
Miscellaneous Accident	0%	1%	1%	2%	2%
Mobile Plant	4%	2%	2%	2%	2%
Glass	1%	1%	1%	1%	1%
Farm	0%	0%	0%	0%	0%
Total GWP $'000	233,063*	201,879	181,766	159,945	130,490
Cumulative total $'000	2,199,661	1,966,598	1,764,719	1,582,953	1,423,008

* Note that the premium revenue for the 2019-20 underwriting year of $233 million is the amount reported as at 8 August 2020

Insurance premium report

Figure 2.13 shows that the annual change in ARPC premium revenue is directly related to changes in insurer customer premium rates, aggregate sum insured and ARPC premium rates. 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 ARPC rate change implemented by Ministerial Direction in early 2016.

Figure 2.13: Insurance risk report by underwriting year* (as at 8 August 2020)

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	202.2	3,711,900	4,142.4	4.9%
2019-20	233.1*	**	4,718.1	4.9%

* The premium revenue for the 2019-20 underwriting year of $233 million is the amount to 30 June 2019 as at 8 August 2020
** The 2019-20 risk reports are submitted into RISe from July 2020 until September 2020. Therefore this information is not available as at 30 June 2020

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, followed by Tier C. This is consistent with ARPC's portfolio being mainly 'business package' risks located in suburban areas followed by ISR policies covering major infrastructure in rural areas.

Figure 2.14: Insurance risk report for the 2018-2019 by tier (as at 30 June 2019)

Tier	ARPC premium revenue ($ million)	Insurer customer sum insured ($ million)	Insurer customer GWP ($ million)	ARPC premium as % of GWP
A	40.5	456,435	253.2	16.0%
B	119.1	2,006,269	2,248.2	5.3%
C	42.6	1,249,196	1,641.0	2.6%
Aggregated	**202.2**	**3,711,900**	**4,142.4**	**4.9%**

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 the 2018-2019 by state (as at 30 June 2019)

State	ARPC premium revenue ($ million)	Insurer customer sum insured ($ million)	Insurer customer GWP ($ million)	ARPC premium as % of GWP
NSW	63.6	1,229,247	1,232.4	5.2%
VIC	49.8	784,913	918.1	5.4%
QLD	42.1	806,702	940.4	4.5%
WA	24.5	502,638	563.9	4.3%
SA	14.2	212,107	272.4	5.2%
NT	2.9	52,089	87.0	3.3%
TAS	2.8	67,454	80.9	3.5%
ACT	2.3	56,750	47.3	4.9%
Aggregated	**202.2**	**3,711,900**	**4,142.4**	**4.9%**

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 2019.

Figure 2.16: Aggregate sum insured amounts by tier

Tier	2018-19 $ trillion	2017-18 $ trillion	2016-17 $ trillion	2015-16 $ trillion	2014-15 $ trillion
A	0.5	0.4	0.4	0.4	0.4
B	2.0	1.9	2.0	1.9	1.8
C	1.2	1.2	1.3	1.3	1.2
Total aggregate sum insured $ trillion	**3.7**	**3.5**	**3.7**	**3.6**	**3.4**

Figure 2.17: Percentage of aggregate sum insured held by tier 2019-2020

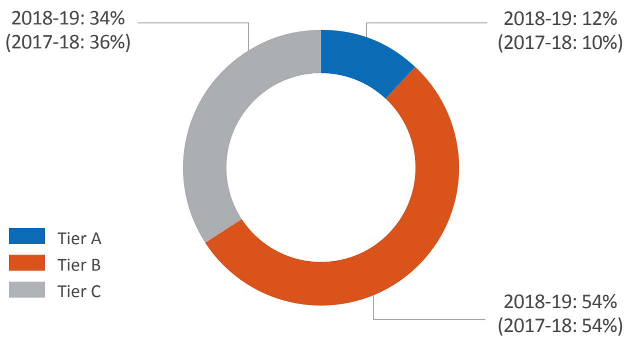
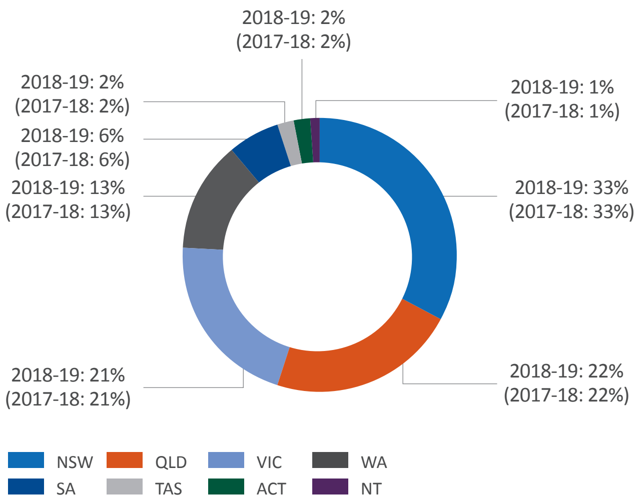


Figure 2.18: Aggregate sum insured by tier 2018-2019

2018-19	Tier A	Tier B	Tier C
Spread:	12%	54%	34%
	$456 billion	$2,006 billion	$1,249 billion

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.

Figure 2.19: Percentage of aggregate sum insured held by state 2018-2019



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.

The 2021 Review of Act will be conducted by Treasury during 2020/21 and is due to be presented to the Minister by 31 December 2021.

Australian Government
Australian Reinsurance Pool Corporation

3 Annual performance statement

3

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 2019-20 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.

Entity purpose

ARPC remains true to the Scheme's original policy objectives and is focused on creating value for stakeholders. ARPC expresses its purpose through its vision and mission.

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

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 2019-23 Corporate Plan over the reporting year is measured against five key performance areas:

One: Providing reinsurance for eligible terrorism losses

Two: Encouraging private sector participation through retrocession

Three: Compensating the Government

Four: Maintaining financial sustainability, and

Five: Engaging, understanding, and collaborating with stakeholders.

Performance statement summary

ARPC met or exceeded all performance criteria for the 2019-20 reporting period except for developing and launching a baseline stakeholder survey which was only partially met. A summary of achievements against the 2019-23 Corporate Plan can be seen in Figure 3.2.

Financial snapshot

Figure 3.1: ARPC by numbers as at 30 June 2020

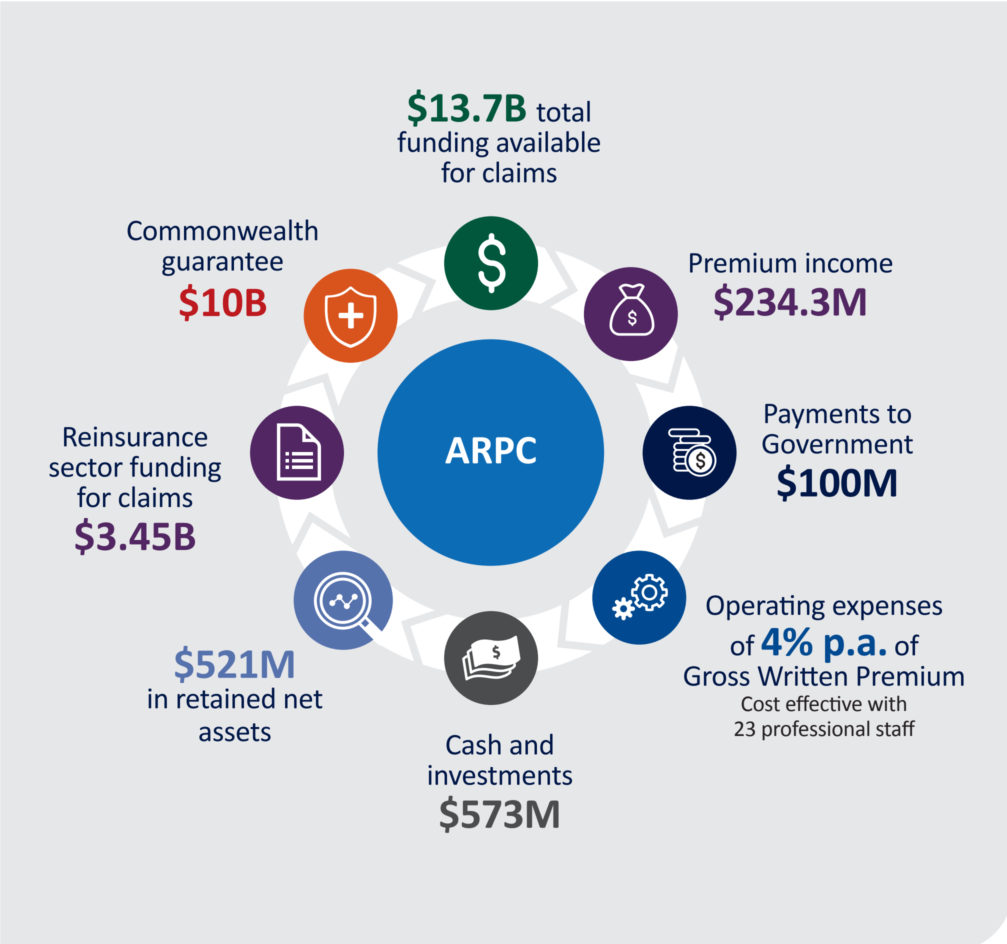


Figure 3.2: Achievements against 2019-23 Corporate Plan objectives

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.[2]	Exceeded GWP $234.3 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.[3]	Exceeded Retrocession capacity of $3.45 billion versus 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.[4]	Exceeded 71 reinsurers participated on the 2020 program vs a target of 15. 59.7% of participants are APRA regulated against a target of 50%.
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 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.[5]	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.[6]	Exceeded Net assets at June 2020 – $520.5 million vs a minimum of $310 million and a target of $370-$450 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.[7]	Met Each major project has been delivered on time and within budget or is on track to be completed on time and within budget.
5 Engage, understand and collaborate with stakeholders	ARPC committed to developing a stakeholder survey to measure stakeholder engagement outcomes and to establish a benchmark for future surveys.	Measure 7 – Develop and launch baseline stakeholder survey and use results to improve stakeholder outcomes.[8]	Partially met Stakeholder survey designed in consultation with ORIMA and will be launched during 2020/21.

2 ARPC Corporate Plan 2019-23, page 20
3 ARPC Corporate Plan 2019-23, page 21
4 ARPC Corporate Plan 2019-23, page 21-22
5 ARPC Corporate Plan 2019-23, page 24
6 ARPC Corporate Plan 2019-23, page 25
7 ARPC Corporate Plan 2019-23, page 27-28
8 ARPC Corporate Plan 2019-23, page 28

Performance statement detail

1 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

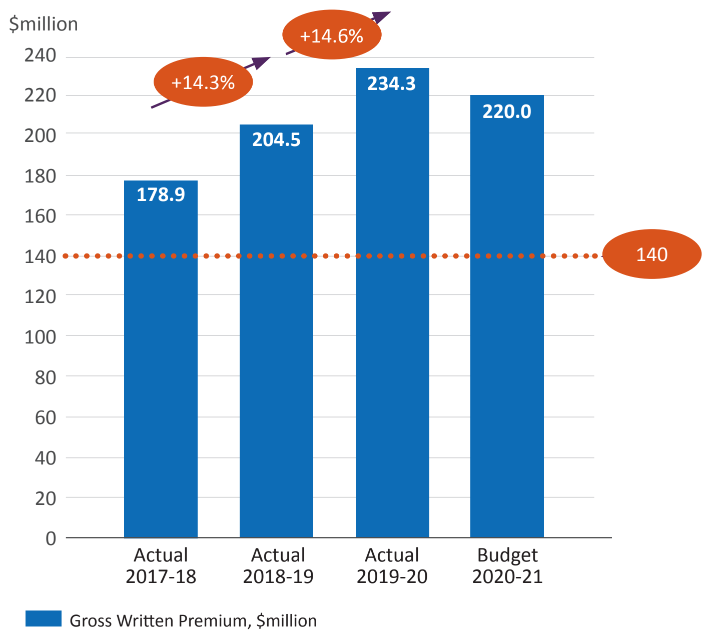
To improve financial sustainability and achieve higher than target premium in each plan period.

Source

Measure 1, Gross Written Premium, ARPC Corporate Plan 2019-23, page 20.

Result – Exceeded ✔✔

Figure 3.3: Gross written premium



ARPC's objective for Measure 1 for 2019-20 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 2019-20 was $234.3 million which was $94.3 million better than its Corporate Plan target, and $54.3 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 underlying commercial property insurance premium rates.

During the first half of 2019/20, commercial property premium rates rose strongly, resulting in premium income increasing by more than 19 per cent, compared to the previous corresponding period. During the second half of 2019/20, ARPC continued to see increasing premium rates but these were somewhat offset by lower volumes due to COVID-19.

Measure 2

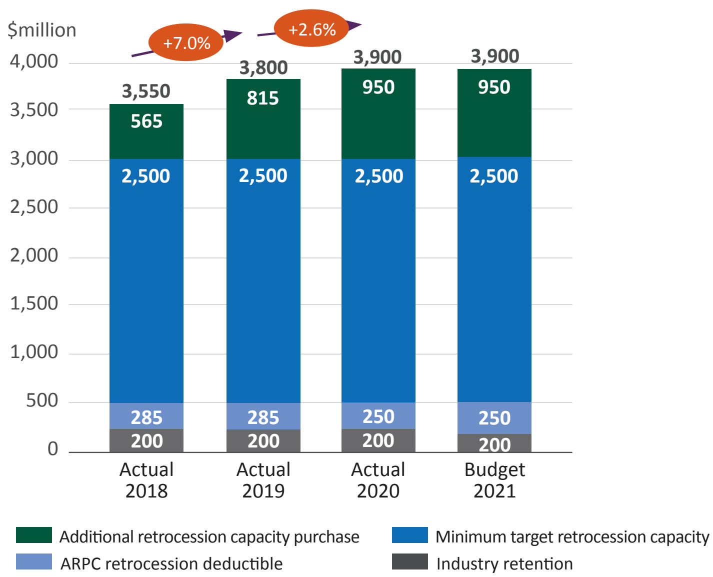
To protect the government from losses through the purchase of greater than $2.5 billion in retrocession in each program period.

Source

Measure 2, Scheme capacity, before the Commonwealth guarantee, per calendar year, ARPC Corporate Plan, 2019-23, page 21-22.

Result – Exceeded ✔✔

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 $3,450 million ($3.45 billion) (2019: $3.315 billion) retrocession program for the 2020 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 2020 calendar year was $3.450 billion which was $950 million higher than (better than) its corporate plan target and within ARPC's Board approved financial budget.

2 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 $13.7 billion total funding available for losses arising from a DTI through ARPC's retention, the retrocession market and the Commonwealth guarantee.

Measure 3

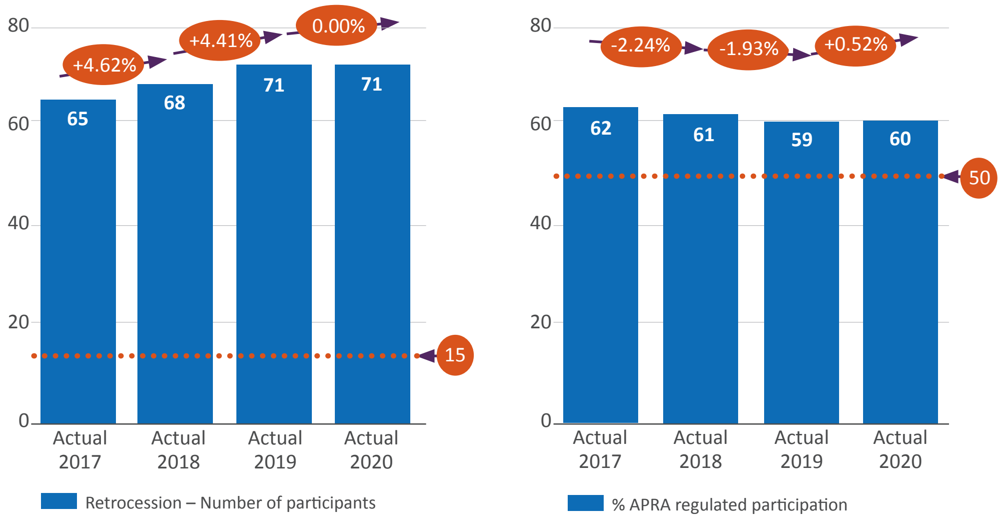
The objective is to maximise private sector participation in the retrocession program.

Source

Measure 3, Private reinsurance sector participation, ARPC Corporate Plan 2019-23, page 23.

Result – Exceeded ✔✔

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 2020 period ARPC had 71 participants in the program against a target of 15 and 59.7 per cent of participants were APRA-regulated reinsurers against a target of 50 per cent.

3 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

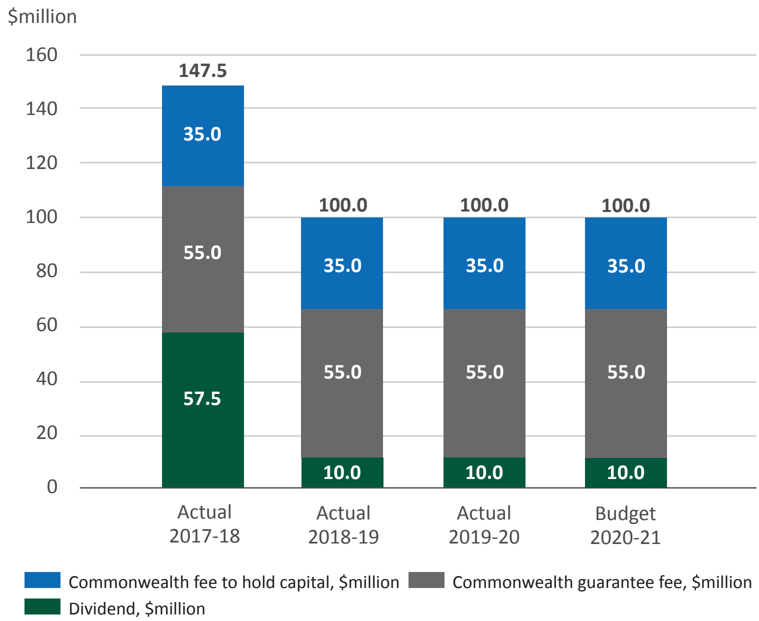
To meet ARPC's obligations, the target is to deliver the Government payments in each plan period.

Source

Measure 4, Payments to Government, ARPC Corporate Plan, 2019-23, page 24.

Result – Met ✔

Figure 3.6: ARPC delivered payments to Government totalling $100.0 Million in 2019-20



4 Maintain financial sustainability and organisational resilience

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

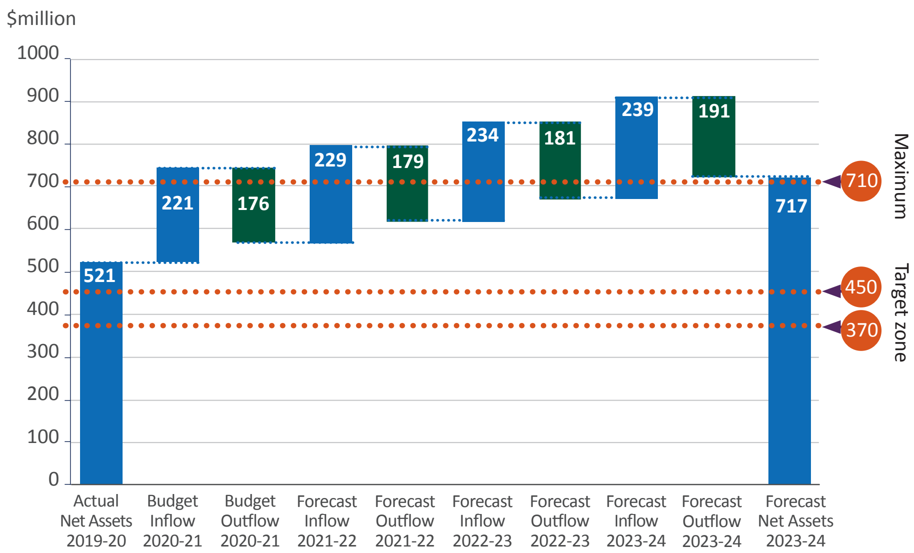
Net Assets against ARPC target and minimum capital.

Source

Measure 5, Net Assets against ARPC target and minimum capital, ARPC Corporate Plan, 2019-23, pages 25-26.

Result – Exceeded ✔✔

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 2020, ARPC's net assets were $521 million, which was higher than target capital and slightly above the target zone.

ARPC's Capital Management Policy levels include:

- Minimum Capital is recommended by the Board to be above $310 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 $370 million and $450 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 $710 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 above the target range and to steadily increase towards maximum capital over the plan period. This is based on the assumption that premium income is not significantly impacted by COVID-19 and any resulting economic recession.

"ARPC's net assets were $521 million, which was higher than target capital and slightly above the target zone."

Measure 6

Complete and/or progress major projects according to plan.

Source

Measure 6, Complete and/or progress major projects according to plan, ARPC Corporate Plan, 2019-23, pages 27-28.

Result – Met ✔

Figure 3.8: Strategic project delivery

Project	Commentary
Geospatial catastrophe modelling	ARPC worked with Risk Frontiers to build a geospatial catastrophe model to cover the entire mainland of Australia. This model was commissioned on 30 June 2020 after extensive testing and refinement.
Cyber terrorism research project	In late 2018, ARPC commenced a research study on the threat of cyber terrorism in Australia, including the nature and cost of physical damage to commercial property which may be caused by cyber terrorism. ARPC commissioned OECD and Cambridge University's Centre for Risk Studies to undertake the work in consultation with the Australian insurance and reinsurance industry. Experts were also consulted across property, building management, engineering, construction, IT and law enforcement. The research included coverage available in the global and local insurance market. The research was published as a compendium in March 2020 and a seminar launch scheduled for the same month with more than 160 registered attendees. Unfortunately, the seminar was postponed due to the COVID-19 pandemic. Instead ARPC scheduled a webinar for 3 September 2020 featuring speakers from OECD and Cambridge, and facilitated by Professor Paula Jarzabkowski, re/insurance expert from the University of Queensland, to formally launch the research. Registrations for the webinar and recordings were more than 200 participants. The research has been provided to Treasury and will be an input into the 2021 Triennial Review.
Ownership model feasibility study	This ARPC-initiated project was completed during the year. The feasibility study included a comprehensive report prepared by consultants Pottinger, and a summary management report. The study will assist future reviews of the scheme.
Risk mitigation project through Standards Australia	In 2018, ARPC submitted a proposal to peak standards development body, Standards Australia, for the development of a handbook to support businesses protect assets against malicious attacks including terrorism. The draft Handbook was opened for Public Comment for a period of six weeks spanning April and May 2020, which allowed stakeholders to review the draft and provide feedback. Standards Australia is considering the recommendations and revisions, which will likely extend the review period into late 2020. The working title of the Handbook has since been updated from Physical Protective Security Treatment for Buildings Handbook to Base-Building Physical Security Handbook – Terrorism and Extreme Violence.

> “ ARPC had its best year ever for delivering major strategic projects. ”

5 Engage, understand and collaborate with stakeholders

Measure 7

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

Source

Measure 7, Develop and launch baseline stakeholder survey and use to improve stakeholder outcomes, ARPC Corporate Plan, 2019-23, page 28.

Result – Partially Met

An external consultant, ORIMA, has been appointed by ARPC to develop and implement a stakeholder engagement survey of our insurer customers. The survey research strategy and question design has been completed and the survey will be undertaken during FY2020-21. The results from the first survey will form a baseline measure to assess and report on the effectiveness of stakeholder engagement efforts.

The stakeholder survey is designed to provide a benchmark in relation to how ARPC is perceived in the areas of:

- Delivering to our vision
- Stakeholder sentiment towards ARPC
- Providing value for money
- Effectiveness of stakeholder engagement

Influences on future performance

ARPC's two sources of income are reinsurance premiums from insurer customers 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 has seen increased underlying commercial property premium rates flow through to increased premium revenue. ARPC expects to see premium income flatten or slightly decrease owing to the impact of the pandemic during 2020/21.

Investment assets

At 30 June 2020, ARPC held $571.5 million in term deposits and $1.8 million in cash (2019: $504.1 million and $1.1 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).

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 2019-20. All investments are held in ARPC's name.

ARPC recognises the need to fund the retrocession retention of $250 million within 90 days based on actuarial analysis conducted. ARPC manages the investment maturity profile to meet this liquidity requirement.

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

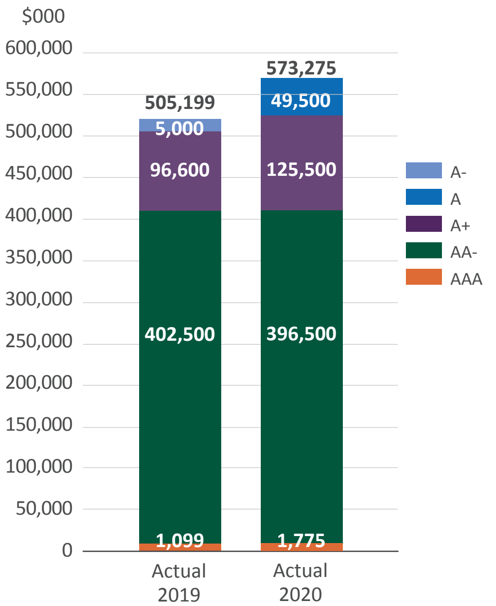
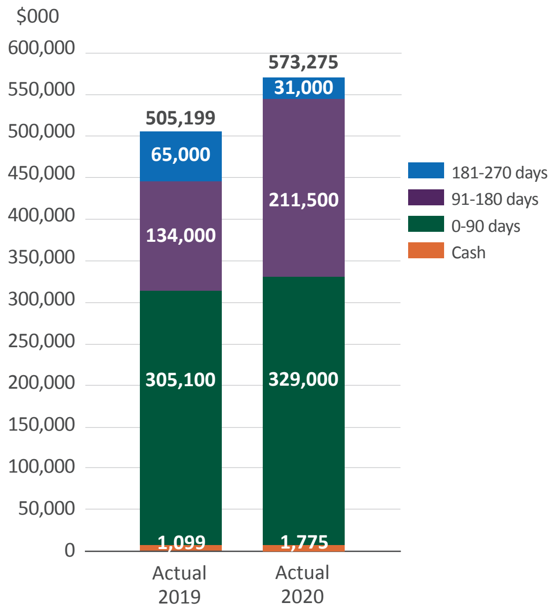


Figure 3.10: Investments by maturity as at 30 June each year



Investment income

Investment income fell to $9.7 million (2019: $13.5 million) owing to lower interest rates in 2019-20. 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 2019-20, 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, except for launching the inaugural stakeholder engagement survey, which will occur in 2020/21. During the period, the following factors impacted ARPC's performance. These are displayed in Figure 3.11.

Figure 3.11: Key factors influencing ARPC's performance

Influencing factor	Detail	ARPC level of influence	Impact (positive/negative)
Property insurance market	The current year has seen underlying commercial property insurance premiums continue to 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	There were increases in capacity and a slight decrease in price for retrocession. ARPC has managed its purchase of retrocession by using decreased pricing to incrementally increase capacity. In 2020, ARPC purchased an additional layer of $100 million of retrocession in excess of $3.6 billion and decreased the retention by $35 million to $250 million, bringing total retrocession capacity purchased to $3.450 billion.	Limited	Minor (positive)
Government compensation	Payments to Government in 2019-20 of $100.0 million.	Limited	Moderate (negative)

Australian Government

Australian Reinsurance Pool Corporation

4 Governance

4

Governance

Governance framework

ARPC's governance framework is based on the Terrorism Insurance Act 2003 (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 between four and six other members (referred to as the Board). Board members are appointed on a part-time basis by the Minister. During the reporting period, the Minister was the Hon. Michael Sukkar MP from 29 May 2019.

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 to 4 October 2019 and subsequently three members until 9 June 2020 when the Board re-appointed Robin Low to the Committee.

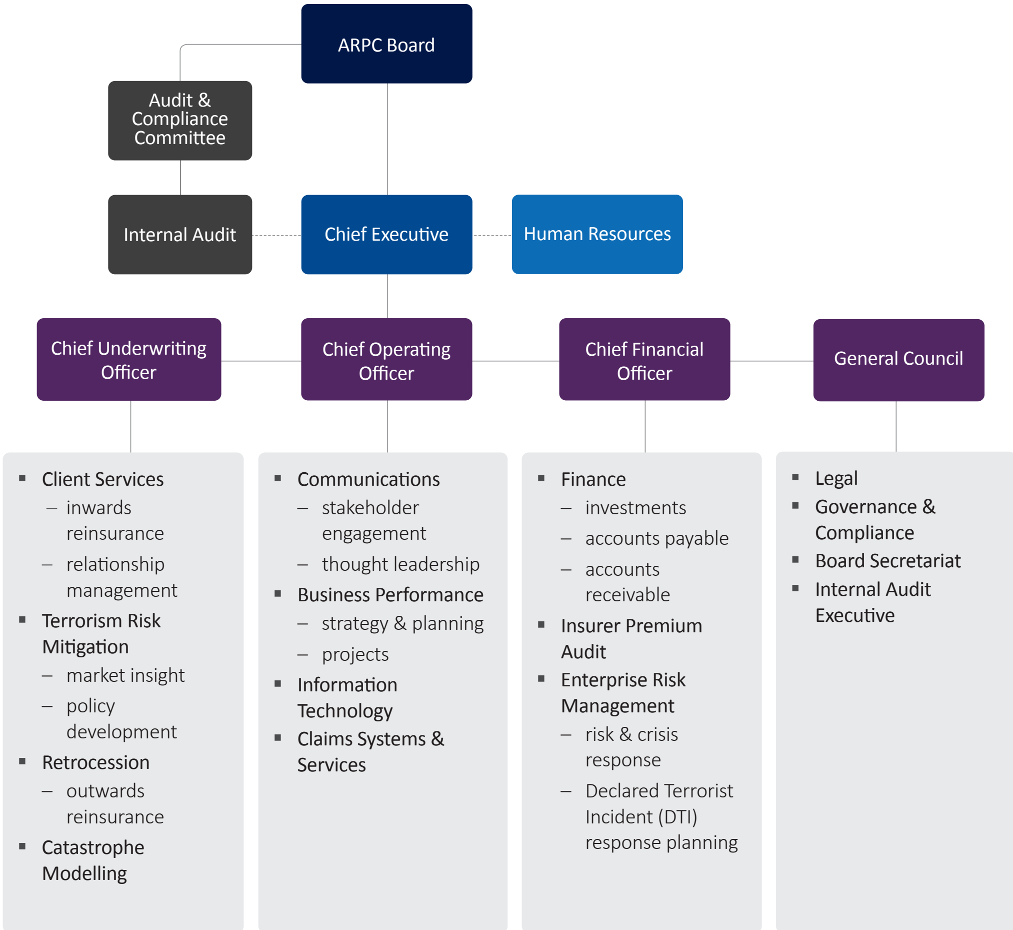
Under the PGPA Act (section 22), the Finance Minister may make an order (a Government Policy Order) specifying that a policy of the Australian Government is to apply in relation to one or more corporate Commonwealth entities. During the reporting period, there were no General Policy Orders (GPOs) applicable to ARPC.

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

> “ARPC's governance framework is based on the TI Act and ARPC's status as a corporate Commonwealth entity.”

The chart below 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 (https://arpc.gov.au/wp-content/blogs.dir/3/files/2020/07/ARPC-Board-Charter.pdf), the Audit and Compliance Committee Charter (https://arpc.gov.au/wp-content/blogs.dir/3/files/2020/07/ARPC-Audit_Compliance-Committee-Charter.pdf) 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

During 2019-20, the Board comprised a Chair and between four and six other (non-executive) members.

The term of appointment of two Board members expired on 4 October 2019. On 23 April 2020, two (non-executive) members were appointed by the Minister.

The names and details of ARPC Board members who held office during 2019-20 are outlined below.

Board members

Ian Carson AM
Chair

BEc PGDip Professional Accounting FAICD
Terms: 1 July 2017 – 30 June 2020
1 July 2020 – 30 June 2023

Ian Carson was reappointed Chair of the Board on 23 April 2020.

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

Ian is co-founder of SecondBite, a for-purpose organisation which rescues nutritious food that would otherwise go to landfill. Ian 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'.

Janet Torney
Member

BEc (Hons) FAICD FASFA
Terms: 1 July 2015 – 30 June 2018
1 July 2018 – 30 June 2021

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, Chair of Perpetual Super 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.

Board members (continued)

Elaine Collins
Member

BSc (Hons) MEc FIAA FAICD
Terms: 1 July 2015 – 30 June 2018
1 July 2018 – 30 June 2021

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

She is a non-executive director and actuary, with a career spanning 25 years in the insurance industry in Australia, New Zealand, Hong Kong and Singapore. She served in senior roles with KPMG and as a Partner of Deloitte, carrying out Appointed Actuary roles for more than ten years, with key expertise in strategic risk management, policy formulation and capital efficiency.

Elaine has non-executive Director roles with general insurer Zurich Insurance Australia Ltd (and Chair of its Risk, Compliance and Audit Committee), lenders' mortgage insurer ANZLMI (and a member of its Audit and Risk Committees) and, from 1 July 2020, health insurer rt health.

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.

John Peberdy
Member

ANZIIF (Snr Assoc) CIP GAICD
Terms: 1 July 2015 – 30 June 2018
1 July 2015 – 30 June 2021

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.

Michael Callaghan
AM PSM Member

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

Mr Michael Callaghan was appointed a Member of the Board on 5 October 2016 and completed his term on 4 October 2019.

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.

Robin Low
Member

BCom FCA GAICD
Terms: 5 October 2016 – 4 October 2019
23 April 2020 – 22 April 2023

Ms Robin Low was reappointed a Member of the Board on 23 April 2020 and is a member of the Audit and Compliance Committee.

Robin is a non-executive director. She is on the boards of four ASX listed companies: Appen Limited, AUB Group Limited, IPH Limited and Marley Spoon. She is also on the boards of three not for profit companies: Guide Dogs NSW/ACT, Primary Ethics and Public Education Foundation. She is a past deputy chairman of the Auditing and Assurance Standards Board.

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.

Board members (continued)

Ms Karen Payne
Member

BCom MCom LLB CA CTA GAICD
Term: 5 October 2017 – 4 October 2020

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.

She is a solicitor admitted in NSW and the High Court of Australia, chartered accountant and chartered tax adviser. Karen is a member of the Australian Institute of Company Directors, the Tax Institute and Chartered Accountants in Australia and New Zealand.

Ms Maria Fernandez PSM
Member

GAICD
Term: 23 April 2020 – 22 April 2023

Maria Fernandez has a distinguished career in the public sector. From 2015 to 2019, she was Deputy Secretary, Intelligence and Capability with the Department of Home Affairs. Before that, Maria was Director (CEO) of the Australian Geospatial Intelligence Organisation. Maria's experience also includes the cyber threat environment through an earlier role as Deputy Director Intelligence at the Australian Signals Directorate, and Maria was the first female head of an Australian intelligence agency.

Maria was awarded a Public Service Medal for outstanding public service in advancing Australia's interests. Maria is a Graduate of the Australian Institute of Company Directors and is a graduate of the Harvard Business School Advanced Management Program.

Board meetings

The Board convened seven meetings during the 2019-20 financial year, comprising five meetings for general business, one strategic planning workshop and one meeting on ARPC's response to the COVID-19 pandemic. The table below 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 2019-20

Name	Number of meetings entitled to attend	Number of meetings attended
Mr Ian Carson	7	7
Ms Janet Torney	7	6
Ms Elaine Collins	7	7
Mr John Peberdy	7	6
Mr Mike Callaghan	2	2
Ms Robin Low	3	3
Ms Karen Payne	7	7
Ms Maria Fernandez	1	1

Board remuneration

Remuneration for Board members in 2019-20, including travel and meeting allowances, was determined by the Remuneration Tribunal (Remuneration and Allowances for Holders of Part-time Public Office) Determination 2019 and the Remuneration Tribunal (Official Travel) Determination 2019. 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	$27,740	$1,166	$13,870	$1,050

Audit and compliance committee

Established in accordance with the PGPA Act (section 45), the Audit and Compliance Committee (Committee) supports the Board overseeing 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 until 4 October 2019 and three members from 5 October 2019 to 9 June 2020 when Robin Low was re-appointed to the Committee.

The functions of the Committee are set out in its Charter and include reviewing the appropriateness of ARPC'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 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 2019-20, four Committee meetings were held. The Committee members attended the number of meetings outlined in Figure 4.4 below.

Figure 4.4: Meetings attended by each member of the Audit and Compliance Committee in 2019-20

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

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 current and emerging risks on ARPC's role and its Risk Appetite and Tolerance Statement (RATS).

ARPC uses a risk matrix to estimate the likelihood and severity of incidents. These risks are reviewed by management before Board meetings and updated 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 2019-20, 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 2019-20 was $46,684 ($38,893 in 2018-19).
4. Upon commencement, all ARPC staff and Board members are required to sign a confidentiality agreement which outlines their obligations relating to confidential information.

Risk culture

ARPC has policies, procedures and activities to support a healthy risk culture which include:

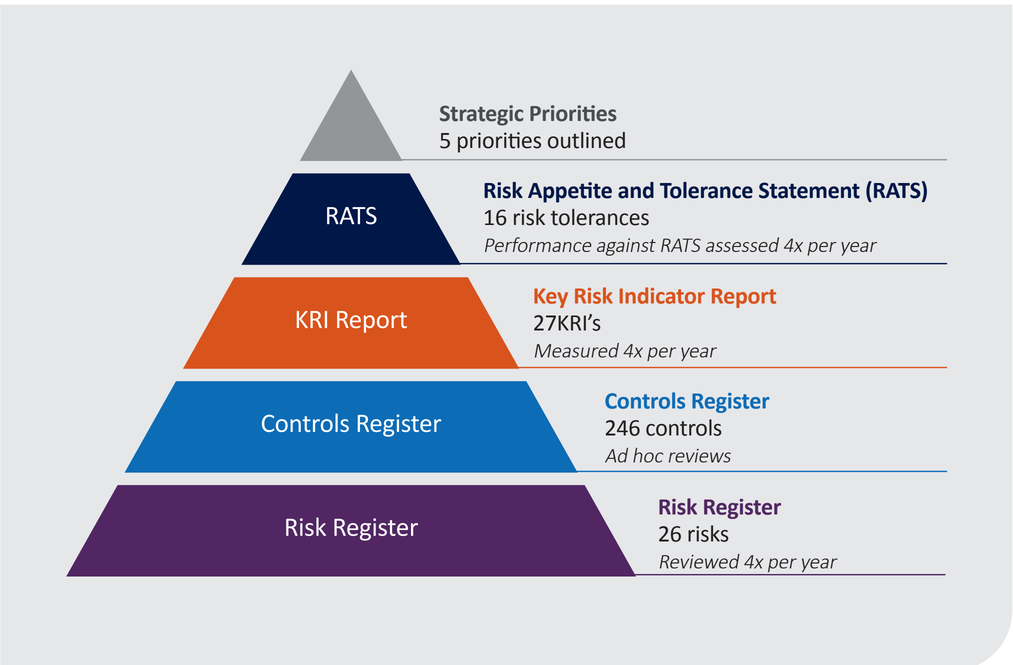
Provide the right motivation:	Communicate the right message:
• ARPC purpose and role • Employee induction • Clear accountabilities in position descriptions • Employee objectives, recognition and reward (remuneration and annual review)	• Safetrac compliance training for all employees • KnowBe4 IT security training for all employees • Training by external providers, WiserLife and Bendelta • Employee workshops • Board and Audit & Compliance Committee reporting and action items • Strategic Internal Audit Program • Biannual fraud risk assessment • Employee training including training exercises for DTI scenarios • Employee engagement surveys and action plans • Employee pulse surveys
Take the right risks:	**Establish the right environment:**
• Risk Appetite and Tolerance Statement • Risk register and controls • Key risk indicators and reporting	• ARPC values • Code of conduct • Policies and procedures • Manager attestation processes

Our risk management framework

The Board has oversight of ARPC's corporate governance arrangements and is responsible for monitoring ARPC's Risk Management function under the PGPA Act. The Board is responsible for setting ARPC's risk appetite and reviews the RATS annually. Administration of the risk framework, including review of risks and controls, preparation of the Board report, and identification of emerging risks lies with management, specifically the Enterprise Risk and Crisis Response team. Oversight of the Risk Management function is provided by management to the Board, through the Risk Report and any changes to the risk register, which are formally presented four times a year for noting.

ARPC's five strategic priorities provide the basis for the risk framework below, with each risk tolerance statement in the RATS relating to a strategic priority. Underlying the framework are the risk and control registers, which outline financial, strategic and operational risks facing ARPC, as well as the controls and procedures in place to mitigate these risks. The Key Risk Indicator (KRI) Report is used to measure ARPC's risk exposure and outlines 27 risk indicators mapped to risks in the risk register. In addition, the risk management framework is supported by regular risk review meetings held with senior management, as well as compliance testing performed over key processes at ARPC, designed to address gaps in the strategic internal audit plan.

Figure 4.5: Overview of ARPC's Risk framework



Managing risk and uncertainties

Section 4 of the Financial Statements on pages 128-134 describes the major risks faced by ARPC and explains how these risks are managed.

In summary, ARPC's risks comprise:

- Insurance risk
  - Underwriting risk
  - Claims risk
- Operational risk
- Capital risk
- Market risk
  - Interest rate risk
  - Price risk
- Credit risk
  - Investment counterparty risk
  - Receivables counterparty risk
  - Retrocession counterparty risk
- Liquidity risk

Internal audit

ARPC's internal audit function is outsourced to PwC and overseen by the Audit and Compliance Committee. During 2019-20, 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 the Board and included in the 2019-20 Internal Audit work plan.

PwC works closely with the Committee, CEO and senior management to identify and analyse business risks. The Committee regularly meets with PwC, its internal auditor, and 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.

2019-20 Internal audit program

The Internal Audit Workplan for 2019-20 was successfully completed, with all management actions or improvement opportunities 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 2019-20:

- Cedant Review Process
- Risk Management
- Claims Processing, and
- Governance and Compliance Framework Redesign – post implementation review

A review of payroll processes was requested by management and commenced in the reporting period.

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 PGPA Rule, which provides the minimum standard for the management of risk and incidents of fraud by accountable authorities (the Board). ARPC staff were provided with training 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 best practice corporate governance standards that are fit-for-purpose for ARPC's operations.

In 2019-20, ARPC completed the implementation of process improvements recommended in a review conducted by PwC in the previous reporting period. These included changes to the frequency of board meetings, policy drafting and review cycles, implementing systems for collecting and disseminating market intelligence and improvements to internal attestation processes. The implementation of the review recommendations was completed in early 2020.

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

Compliance

In the reporting year, ARPC continued to review and improve 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 six-monthly 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 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 of this document.

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 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 of this document.

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: https://arpc.gov.au/ips

Judicial and administrative decisions

In 2019-20, there were no judicial decisions or decisions of administrative tribunals that could significantly affect ARPC's operations.

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 2019-20, 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 refresh and protected email migration
- research projects e.g. cyber terrorism
- retrocession advice
- independent review/advice on legal, and accounting issues
- staff development and training
- 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 (out of 6 stars).

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

Figure 4.6: Environmental footprint strategies

Theme	Sydney office
Energy efficiency	The Sydney Office has a NABERS 4.5-star energy rating. The building also implemented an elevator allocation system to increase energy efficiency. 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.

Australian Government

Australian Reinsurance Pool Corporation

5 ARPC's People

5

ARPC's People

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 23 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

"ARPC's people make it what it is, enabling ARPC to deliver to its insurer customers."

Chris Wallace is an insurance executive with experience in general insurance, workers compensation, health insurance, medical indemnity and reinsurance. He has worked extensively in insurance leadership roles within insurers and as a consultant to the insurance industry.

Chris has leadership experience in most aspects of the insurance sector including small specialised insurers and large insurers.

Chris is also a non-executive director and Chair 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.

ARPC is a member of the International Forum for Terrorism Risk (Re) Insurance Pools, where Chris is also President of IFTRIP for 2020.

Chris has a Doctor of Philosophy in Economics, specialising in general insurance pricing and strategy. He is a fellow of the Australian and New Zealand Institute of Insurance and Finance, a Certified Insurance Professional, and a Graduate of the Australian Institute of Company Directors.

Senior executive team (continued)

Janice Nand
General Counsel

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

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 the General Counsel and Board Secretary and is also responsible for the governance and compliance function.

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 Graduate of the Australian Institute of Company Directors.

John Park
Chief Financial Officer

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

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 and insurance audit 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

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 catastrophe 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.

Helen Williams
Chief Operating Officer

BA (Hons)

Helen Williams commenced her role with ARPC in October 2019. She has extensive multidisciplinary experience in strategy, technology operations and defence.

Helen joined ARPC from strategy consulting firm Strategy& (part of the PwC network), where she worked as a strategy consultant from 2014. Prior to her work at Strategy&, Helen had over 12 years technology operations leadership experience with Lucent Technologies, Alcatel and Nokia Siemens Networks. Helen's career also includes service with the Australian Army as a Commissioned Officer.

Helen brings deep experience in leadership, technology operations and stakeholder engagement to ARPC.

Helen holds a Bachelor of Arts (Honours) from the University of Adelaide.

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

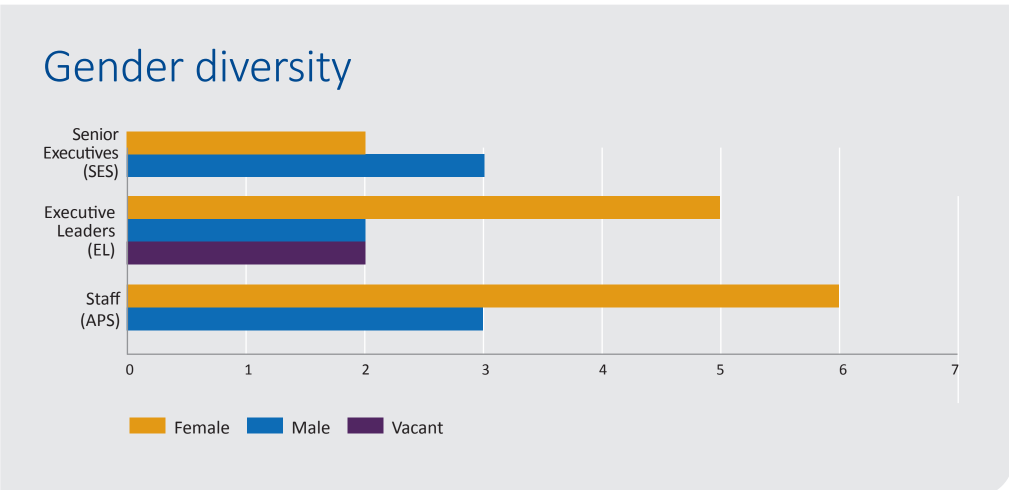
ARPC is comprised of 23 employees who contribute toward the achievement of strategic objectives through a blend of general professional and specialised skills and experience. The 23 employees are all based in Sydney and comprise 21 full-time roles, one part-time role and a part-time intern. As at 30 June 2020, there were two vacant positions.

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 2020, 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 figure displays the workforce composition by organisational level (classification), gender, cultural background and tenure as at 30 June 2020.

Figure 5.1: Number of permanent employees by organisational level (classification) and gender (as at 30 June 2020)



Included in the above figures is an indigenous-identified internship position.

Figure 5.2: Length of service as at 30 June 2020

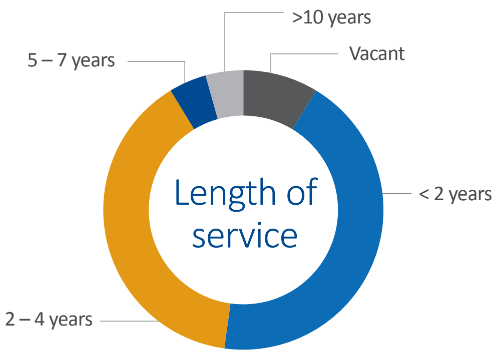


Figure 5.3: Age Diversity as at 30 June 2020

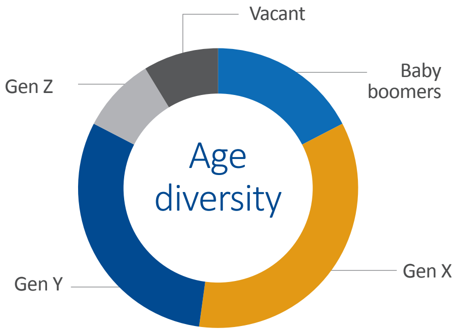
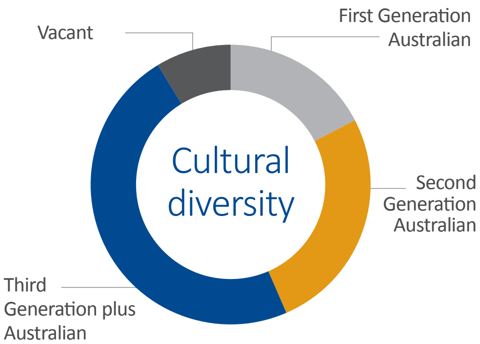


Figure 5.4: Cultural Diversity as at 30 June 2020



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 2019-20 all employees met performance expectations and the majority of employees met standard to a high degree or exceeded standard.

> “In 2019-20 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 2019-20 achieved an overall employee engagement score of 60 percentile (vs 67 percentile in 2018-19) within Gallup's overall global database with an overall satisfaction score of 84 per cent (vs 85 per cent in 2018-19). This was the second year of utilising the Gallup survey to measure employee engagement.

Following 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 2020. Key management personnel comprise Board members and senior executives. Senior executives (SES) receive company superannuation contributions of 9.5 per cent of base salary. Usually, senior executives who demonstrate outstanding performance or contribution are eligible to receive a performance bonus of up to 10 per cent of fixed remuneration. ARPC has implemented wage restraint measures as a result of the COVID-19 pandemic. SES staff will receive no wage increases and bonuses will not be paid for 2019-20. 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	27,954	–	4,664	3,098	–	35,716
Janet Torney	Member	13,977	–	2,100	1,527	–	17,604
Mike Callaghan*	Member	3,734	–	2,100	898	–	6,732
John Peberdy	Member	13,977	–	4,199	1,727	–	19,903
Elaine Collins	Member	13,977	–	3,150	1,627	–	18,754
Robin Low**	Member	6,348	–	1,050	703	–	8,101
Karen Payne***	Member	–	–	–	–	–	–
Maria Fernandez****	Member	2,614	–	–	248	–	2,862
Christopher Wallace	CEO	398,676	–	–	41,376	10,984	451,036
Michael Pennell	CUO	294,192	–	–	27,999	9,008	331,199
John Park	CFO	285,280	–	–	26,181	7,240	318,701
Helen Williams*****	COO	210,061	–	–	18,719	4,566	233,346
Janice Nand	GC	239,555	–	–	22,712	6,410	268,677
		1,510,345	**–**	**17,263**	**146,815**	**38,208**	**1,712,631**

* Mr Callaghan's term ended on 4 October 2019.
** Ms Low's term ended on 4 October 2019 and she was re-appointed on 23 April 2020.
*** Effective 6 May 2019 Ms Payne was appointed to the full-time office of Inspector General of Taxation and her remuneration for the part-time office of ARPC Member ceased.
**** Ms Fernandez was appointed on 23 April 2020.
***** Helen Williams commenced employment on 20 October 2019.

Non-executive employees

The ARPC Enterprise Agreement 2019-22 (the agreement) which sets out the employment terms and conditions for non-executive employees, came into effect on 3 May 2019. In addition to base salary, non-executive employees receive company superannuation contributions at 15.4 per cent of base salary. The base salary classification framework for non-executive employees can be found on the website at www.arpc.gov.au/resources-2/ips/arpc-pay-and-grading-structure-2019-2022/.

Non-executive employees who demonstrate outstanding performance or contribution are eligible to receive a performance bonus of up to 10 per cent of fixed remuneration. ARPC has implemented wage restraint measures as a result of the COVID-19 pandemic. This means there will be no bonuses paid for 2019-20.

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
225,001-250,000	1	186,580	–	600	34,173	4,987	226,340

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 employees 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)
- Reinsurance Discussion Group Seminars and Events
- Governance Summit (Australian Institute of Company Directors)
- IFTRIP Conference
- Financial Services Accountants Association Conference
- St John's first aid
- AGD PSPF Forum
- AGS Employment Law Forum
- ANAO CFO Forum, and Audit Committee Chairs Forum
- Gartner Security & Risk Management Summit 2019
- 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), and
- Post Graduate Diploma 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. During the COVID-19 pandemic, with all employees working remotely, the Wellness Committee was very active promoting both physical and mental wellbeing. The Wellness Committee organised the following activities to keep the team engaged, connected, and healthy:

- 'Sharing is caring' posts – Microsoft Teams channel where team members post photos of what they have been doing as well as memes and items that colleagues may be interested in.
- Trivia (fortnightly)
- Daily riddles
- 'Feet unleashed' – time to go for a walk – team members then post photos on the 'Sharing is caring' channel
- Yoga and Yin Yoga – run by a staff member who is a qualified instructor
- Fun ideas for weekly small group meetings – in addition to the weekly team meeting (hosted by the CEO), the team meets in smaller groups of 7 or so later in the week. The Wellness Committee has been designing team building activities for each group
- Wellness information communications (emails/Teams messages)
- Fun challenges, such as a step challenge and a pancake challenge
- Virtual team building activities
- Recipe sharing.

"During the COVID-19 pandemic, with all employees working remotely, the Wellness Committee was very active promoting both physical and mental wellbeing."

Employee assistance program

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

Lifestyle payment

Non-executive employees 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 employees participating in a range of fitness and wellbeing activities.

Resilience

During the year, 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 comprising:
  - 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.

Remote Working

ARPC has a Remote Working Procedure and an Extended Working Hours Procedure to provide employees with flexible working arrangements. During the COVID-19 pandemic, the ARPC team has continued to work remotely, with no impact on productivity. ARPC's Microsoft Azure cloud environment and tools such as Microsoft Teams fully support the team successfully working remotely. During the year ARPC did not experience any technical issues that negatively impacted on an efficient working environment.

> "A staff-led Wellbeing Committee supported by HR coordinates a range of activities each quarter."

Australian Government

Australian Reinsurance Pool Corporation

6 Financial Statements

6 Financial Statements

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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 2020:

(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 2020 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 as at 30 June 2020 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; and
- Notes to the financial statements, comprising a summary of significant accounting policies and other explanatory information.

Basis for opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the 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 (including Independence Standards)* (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
38 Sydney Avenue FORREST ACT 2603
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

Executive Director

Delegate of the Auditor-General

Canberra

25 September 2020

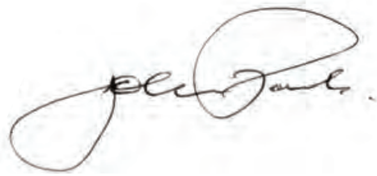
Statement by the Accountable Authority, Chief Executive and Chief Financial Officer

In our opinion, the attached financial statements for the year ended 30 June 2020 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.



Mr Ian Carson AM	**Dr Christopher Wallace**	**Mr John Park**
Chair	Chief Executive	Chief Financial Officer
24 September 2020	24 September 2020	24 September 2020

Statement of Comprehensive Income

for the period ended 30 June 2020

	Notes	2020 $'000	2019 $'000
Premium revenue	1.1A	220,876	190,833
Outwards retrocession premium expense	1.1A	(65,827)	(64,801)
Commonwealth guarantee fee	1.1A	(55,000)	(55,000)
Net premium revenue		100,049	71,032
Claims expense		–	–
Retrocession and other recoveries revenue		–	–
Net claims incurred		–	–
Retrocession commission income	1.1B	3,023	5,149
Acquisition costs	1.2G	(1,739)	(1,619)
Other operating expenses	1.2G	(6,908)	(7,694)
Underwriting result		94,425	66,868
Investment income	1.1C	9,650	13,533
Other income	1.1D	11	30
Finance charges	1.2E	(16)	(3)
Operating result before capital holding fee		104,070	80,428
Capital holding fee	1.2D	(35,000)	(35,000)
Operating result		69,070	45,428

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

Statement of Financial Position

as at 30 June 2020

	Notes	2020 $'000	2019 $'000
ASSETS			
Financial assets			
Cash and cash equivalents	2.1A	1,775	1,099
Trade and other receivables	2.1B	59,787	57,034
Investments	2.1C	571,500	504,100
Deferred insurance assets	2.1D	34,226	33,613
Total financial assets		667,288	595,846
Non-financial assets			
Leasehold improvements	2.2A	1,842	481
Plant and equipment	2.2A	113	150
Intangibles	2.2A	218	17
Work in progress	2.2A	–	181
Other non-financial assets	2.2B	64	113
Total non-financial assets		2,237	942
Total assets		669,525	596,788
LIABILITIES			
Unearned liabilities			
Unearned premium liability	2.3A	112,300	98,828
Unearned commission liability	2.3A	936	2,097
Total unearned liabilities		113,236	100,925
Payables			
Suppliers	2.4A	33,640	33,094
Other payables	2.4B	54	223
Total payables		33,694	33,317
Provisions			
Employee provisions	3.1A	570	480
Other provisions	2.5A	122	745
Total provisions		692	1,225
Interest bearing liabilities			
Leases	2.6A	1,376	–
Total interest bearing liabilities		1,376	–
Total liabilities		148,998	135,467
Net assets		520,527	461,321
EQUITY			
Accumulated reserves		–	–
Asset revaluation reserve		60	60
Claims handling reserve		37,252	34,864
Reserve for claims		483,215	426,397
Total equity		520,527	461,321

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

Statement of Changes in Equity

for the period ended 30 June 2020

	Accumulated reserves		Asset revaluation reserve		Claims handling reserve		Reserve for claims		Total equity	
	2020 $'000	2019 $'000	**2020 $'000**	2019 $'000	**2020 $'000**	2019 $'000	**2020 $'000**	2019 $'000	**2020 $'000**	2019 $'000
Opening balance at 1 July	**–**	–	**60**	60	**34,864**	25,098	**426,397**	400,735	**461,321**	425,893
Adjustment on initial application of AASB 16	**–**	–	**–**	–	**–**	–	**136**	–	**136**	–
Adjusted opening balance at 1 July	**–**	–	**60**	60	**34,864**	25,098	**426,533**	400,735	**461,457**	425,893
Income and expenses										
Net operating result	**69,070**	45,428	**–**	–	**–**	–	**–**	–	**69,070**	45,428
Total income and expenses	**69,070**	45,428	**–**	–	**–**	–	**–**	–	**69,070**	45,428
Asset revaluation reserve	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Transfers between equity components										
Transfer to reserves	**(69,070)**	(45,428)	**–**	–	**2,388**	9,766	**66,682**	35,662	**–**	–
Transactions with owners										
Distributions to owners	**–**	–	**–**	–	**–**	–	**(10,000)**	(10,000)	**(10,000)**	(10,000)
Closing balance at 30 June	**–**	–	**60**	60	**37,252**	34,864	**483,215**	426,397	**520,527**	461,321

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 4 September 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 2020 totalling $100 million (2019: $100 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 2020

	Notes	2020 $'000	2019 $'000
OPERATING ACTIVITIES			
Cash received			
Premiums		248,729	211,917
Commission		3,313	5,655
Interest		11,060	13,280
Other cash received		11	30
Total cash received		263,113	230,882
Cash used			
Retrocession payments		68,074	67,319
Employees		4,008	3,807
Suppliers		3,501	5,154
Government		90,709	90,743
Net GST paid		18,138	14,721
Interest payments on lease liabilities		13	–
Total cash used		184,443	181,744
Net cash from operating activities		78,670	49,138
INVESTING ACTIVITIES			
Cash received			
Proceeds from maturities of term deposits		1,395,600	1,368,200
Total cash received		1,395,600	1,368,200
Cash used			
Placement of term deposits		1,463,000	1,407,600
Purchase of property, plant and equipment		204	19
Purchase of externally developed software		36	181
Total cash used		1,463,240	1,407,800
Net cash used by investing activities		(67,640)	(39,600)
FINANCING ACTIVITIES			
Cash used			
Principal payments of lease liabilities		354	-
Distributions to owners		10,000	10,000
Total cash used		10,354	10,000
Net cash used by financing activities		(10,354)	(10,000)
Net increase/(decrease) in cash held		676	(462)
Cash and cash equivalents at the beginning of the reporting period		1,099	1,561
Cash and cash equivalents at the end of the reporting period	2.1A	1,775	1,099

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

Overview

Objectives of Australian Reinsurance Pool Corporation

Australian Reinsurance Pool Corporation (ARPC) is a Commonwealth corporate entity established under the Terrorism Insurance Act 2003 (TI Act). It is wholly owned by the Commonwealth of Australia (Commonwealth). ARPC's vision is 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.

ARPC provides commercial property insurers with reinsurance for commercial property and associated business interruption losses arising from a Declared Terrorism Incident (DTI). The TI Act renders terrorism exclusion clauses in eligible insurance contracts ineffective to the extent that the loss or liability is an eligible terrorism loss arising from a DTI.

The ARPC board is the accountable authority for the purposes of the Public Governance, Performance and Accountability Act 2013 (PGPA Act). 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 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.

AASB 16 Leases

AASB 16 became effective on 1 July 2019. This new standard has replaced AASB 117 Leases, Interpretation 4 Determining whether an Arrangement contains a Lease, Interpretation 115 Operating Leases – Incentives, and Interpretation 127 Evaluating the Substance of Transactions Involving the Legal form of a Lease.

AASB 16 provides for a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. AASB 16 substantially carries forward the lessor accounting in AASB 117, with the distinction between operating leases and finance leases being retained. The details of the changes in accounting policies, transitional provisions and adjustments are disclosed below and in the relevant notes in the financial statements.

Application of AASB 16 Leases

ARPC adopted AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented for 2019 is not restated, that is, it is presented as previously reported under AASB 117 and related interpretations.

AASB 16 provides for certain optional expedients, including those related to the initial adoption of the standard. ARPC applied the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics
- Exclude initial direct costs from the measurement of right-of-use assets at the date of initial application for leases where the right-of-use asset was determined as if AASB 16 had been applied since the commencement date
- Reliance on previous assessments on whether leases are onerous as opposed to preparing an impairment review under AASB 136 Impairment of assets as at the date of initial application, and
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application

As a lessee, ARPC previously classified leases as operating or finance based on its assessment of whether the lease transferred substantially all of the risk and rewards of ownership. Under AASB 16, ARPC recognises right-of-use assets and lease liabilities for all leases.

On adoption of AASB 16, ARPC recognised a right-of-use asset and lease liability in relation to the lease of office space, which had previously been classified as an operating lease.

This lease was measured at the present value of the remaining lease payments, discounted using ARPC's incremental borrowing rate as at 1 July 2019. ARPC's incremental borrowing rate is the rate at which similar borrowing could be obtained from an independent creditor under comparable terms and conditions. The weighted-average rate applied was 0.98%.

The right-of-use asset was measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

Impact on transition

On transition to AASB 16, ARPC recognised a right-of-use asset and lease liability. Lease incentive was reversed, and the difference was recognised in retained earnings. The impact on transition is summarised below:

	1 July 2019
Right-of-use assets – property, plant and equipment	1,729,795
Lease liabilities	1,729,795
Reduction in lease incentive provision	(136,428)
Increase in retained earnings	136,428

The following table reconciles the minimum lease commitments disclosed in ARPC's 30 June 2019 annual financial statements to the amount of lease liabilities recognised on 1 July 2019:

	1 July 2019
Minimum operating lease commitment at 30 June 2019	1,760,291
Undiscounted lease payments	**1,760,291**
Less: effect of discounting using incremental borrowing rate as at the date of initial application	(30,496)
Lease liabilities recognised at 1 July 2019	**1,729,795**

New and revised Australian Accounting Standards

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 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.

AASB 2018-7 – Amendments to Australian Accounting Standards – Definition of Material

AASB 2018-7 amends the definition of 'material' and clarifies that materiality will depend on the nature or magnitude of information or both. ARPC will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. AASB 2018-7 aligns the definition of 'material' across AASB 101 Presentation of Financial Statements and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors and clarifies certain aspects of the definition. ARPC will apply AASB 2018-7 in the 2020-21 financial year and the expected impact is considered minimal.

AASB 1060 – General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities

AASB 1060 is the new simplified disclosure standard developed by the AASB based in IFRS for small to medium-sized entities. It requires Tier 2 entities to follow the recognition and measurement requirements under Australian Accounting Standards but to apply the simplified disclosure requirements in AASB 1060. This standard will only apply to disclosures. ARPC will apply AASB 1060 in the 2021-22 financial year and is yet to analyse the possible impact of this standard on the financial statements.

Taxation

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

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

Insurance

ARPC has insured its operating risks with a number of leading insurers using the brokering services of Aon Risk Services Australia Limited. The insurance coverage includes Directors and Officers Liability, Public and Products Liability, Group Journey Injury Insurance, Corporate Travel Insurance, Cyber Liability 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 (2019: $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 and a liability will be held if it is estimated that claims are in excess of the primary insurers' 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.

Notes to the financial statements

1. Financial performance

This section analyses the financial performance of ARPC for the financial year ended 30 June 2020.

1.1 Revenue

1.1A: Net premium revenue	**2020 $'000**	2019 $'000
Gross written premium	234,348	204,544
Movement in unearned premium reserve	(13,472)	(13,711)
Total premium revenue	220,876	190,833
Outwards retrocession premium expense	(65,827)	(64,801)
Commonwealth guarantee fee	(55,000)	(55,000)
Net premium revenue	100,049	71,032

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 2020 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 04 September 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	**2020 $'000**	2019 $'000
Retrocession commission income	**3,023**	5,149
Total retrocession commission income	**3,023**	5,149

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	**2020 $'000**	2019 $'000
Cash at bank	**26**	98
Term deposits	**9,624**	13,435
Total investment income	**9,650**	13,533

Accounting policy

Interest revenue is recognised using the effective interest method.

1.1D: Other income	**2020 $'000**	2019 $'000
Other revenue	**11**	30
Total other income	**11**	30

1.2 Expenses

1.2A: Employee benefits	**2020 $'000**	2019 $'000
Wages and salaries	**3,139**	3,244
Superannuation		
Defined contribution plans	**432**	456
Defined benefit plans	**4**	4
Leave and other entitlements	**318**	302
Separation and redundancies	**34**	–
Total employee benefits	**3,927**	4,006

Accounting policy

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

1.2B: Suppliers	**2020 $'000**	2019 $'000
Goods and services supplied or rendered		
Consultants	**1,775**	2,352
Reinsurance broker services	**571**	537
Information & communications technology	**365**	245
Assurance services	**264**	277
Travel	**251**	260
Staff development and training	**137**	179
Shared services	**180**	178
Legal fees	**92**	144
Other	**442**	521
Total goods and services supplied or rendered	**4,077**	4,693
Goods supplied	**107**	88
Services rendered	**3,970**	4,605
Total goods and services supplied or rendered	**4,077**	4,693
Other supplier expenses		
Operating lease rentals[1]	**–**	411
Workers compensation insurance	**18**	25
Total other supplier expenses	**18**	436
Total supplier expenses	**4,095**	5,129

1.ARPC has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117.

The above lease disclosures should be read in conjunction with the accompanying notes 1.2C, 1.2E, 2.2A and 2.6A.

For the current financial year ARPC paid $105,000 for the provision of external audit services (2019: $105,000).

Accounting policy

Short-term leases and leases of low-value assets

ARPC has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets (less than $10,000). ARPC recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

1.2C: Depreciation and amortisation	**2020 $'000**	2019 $'000
Depreciation		
Leasehold improvements	125	109
Property, plant and equipment	54	51
Total depreciation	179	160
Amortisation		
Intangibles – computer software	16	18
Right-of-use asset – office lease	386	–
Total amortisation	402	18
Total depreciation and amortisation	581	178

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	**2020 $'000**	2019 $'000
Capital holding fee	35,000	35,000
Total capital holding fee paid to the Commonwealth	35,000	35,000

1.2E: Finance charges	**2020 $'000**	2019 $'000
Bank charges	3	3
Interest on lease liabilities	13	–
Total finance charges	16	3

ARPC has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117.

The above lease disclosures should be read in conjunction with the accompanying notes 1.2B, 1.2C, 2.2A and 2.6A.

Accounting policy

All finance charges are expensed as incurred.

1.2F: Losses from asset sales	**2020 $'000**	2019 $'000
Property, plant and equipment		
Carrying value of assets disposed	44	–
Total losses from asset sales	44	–

1.2G: Reconciliation of expenses to the Statement of Comprehensive Income	**2020 $'000**	2019 $'000
Expenses by nature		
Employee benefits	3,927	4,006
Suppliers	4,095	5,129
Depreciation and amortisation	581	178
Capital holding fee paid to the Commonwealth	35,000	35,000
Finance charges	16	3
Losses from asset sales	44	–
Total expenses by nature	43,663	44,316
Expenses by function		
Acquisition costs	1,739	1,619
General and administration expenses	41,924	42,697
Total expenses by function	43,663	44,316
Reconciliation of expenses to the Statement of Comprehensive Income		
General and administration expenses	41,924	42,697
Less: Capital holding fee paid to the Commonwealth	(35,000)	(35,000)
Less: Finance costs	(16)	(3)
Other operating expenses	6,908	7,694

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	**2020 $'000**	2019 $'000
Cash at bank	**1,775**	1,099
Total cash and cash equivalents	**1,775**	1,099

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	**2020 $'000**	2019 $'000
Premium receivable	**57,378**	52,013
Commission receivable	**931**	2,080
Interest receivable	**1,441**	2,851
Net GST receivable from the Australian Taxation Office	**37**	90
Total receivables	**59,787**	57,034

Credit terms are net 30 days (2019: 30 days). Trade debtors are non-interest bearing.

Interest receivable

Effective interest rates range from 0.10% to 1.72% (2019: 0.65% to 2.80%) 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	**2020 $'000**	2019 $'000
Fixed interest term deposits	**571,500**	504,100
Total investments	**571,500**	504,100

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 1.06% (2019: 2.41%). Interest is payable on maturity for all term deposits. Terms are between 91 and 276 days (2019: 90 and 369 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	2020 $'000	2019 $'000
(i) Deferred insurance assets			
Deferred retrocession premium	2.1D(ii)	33,340	32,850
Deferred acquisition costs	2.1D(iii)	886	763
Total deferred insurance assets		34,226	33,613
(ii) Deferred retrocession premium			
Deferred retrocession premium as at 1 July		32,850	32,487
Retrocession premium deferred		33,340	32,850
Amortisation charged to expense		(32,850)	(32,487)
Deferred retrocession premium as at 30 June		33,340	32,850
(iii) Deferred acquisition costs			
Deferred acquisition costs as at 1 July		763	765
Acquisition costs deferred		886	763
Amortisation charged to expense		(763)	(765)
Deferred acquisition costs as at 30 June		886	763

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 (2019: $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 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 1 July 2019	**481**	**150**	**17**	**181**	**829**
Recognition of right-of-use asset on initial application of AASB 16	1,730	–	–	–	1,730
Adjusted total as at 1 July 2019	**2,211**	**150**	**17**	**181**	**2,559**
Additions – By purchase	142	62	217	–	421
Depreciation and amortisation expense	(125)	(54)	(16)	–	(195)
Amortisation on right-of-use asset	(386)	–	–	–	(386)
Asset disposal	–	(130)	(517)	–	(647)
Accumulated depreciation on asset disposal	–	85	517	–	602
Other movements – transfer between classes	–	–	–	(181)	(181)
Total as at 30 June 2020	**1,842**	**113**	**218**	**–**	**2,173**
Total as at 30 June 2020					
Gross book value	2,692	213	2,361	–	5,266
Accumulated depreciation, amortisation and impairment	(850)	(100)	(2,143)	–	(3,093)
Total as at 30 June 2020	**1,842**	**113**	**218**	**–**	**2,173**
Carrying amount of right-of-use asset	1,344	–	–	–	1,344

No indicators of impairment were found for property, plant and equipment and intangibles (2019: Nil). No property, plant and equipment and intangibles are expected to be sold or disposed of within the next 12 months. At the time of preparing the prior year financial year financial statements, there were no plans to dispose of assets within the next 12 months.

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. Financial assets are initially measured at their fair value plus transaction costs where appropriate. Assets acquired at no cost or for nominal consideration are initially recognised as assets and 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.

Lease Right of Use (ROU) Assets

Leased ROU assets are capitalised at the commencement date of the lease and comprise of the initial lease liability amount, initial direct costs incurred when entering into the lease less any lease incentives received. These assets are accounted for by Commonwealth lessees as separate asset classes to corresponding assets owned outright, but included in the same column as where the corresponding underlying assets would be presented if they were owned.

On initial adoption of AASB 16 ARPC has adjusted the ROU assets at the date of initial application by the amount of any provision for onerous leases recognised immediately before the date of initial application. Following initial application, an impairment review is undertaken for any right of use lease asset that shows indicators of impairment and an impairment loss is recognised against any right of use lease asset that is impaired. Leased ROU assets continue to be measured at cost after initial recognition in Commonwealth agency, GGS and Whole of Government financial statements.

Revaluations

Following initial recognition at cost, property, plant and equipment (excluding ROU assets) 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 property, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to ARPC using, in all cases, the straight-line method of depreciation.

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:

	2020	2019
Leasehold improvements	Lease term	Lease term
Plant and equipment	3 to 8 years from purchase date	3 to 8 years from purchase date

The depreciation rates for ROU assets are based on the commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term.

Impairment

All assets were assessed for impairment at 30 June 2020. 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 to 5 years (2019: 4 years).

All software assets were assessed for indications of impairment as at 30 June 2020.

2.2B: Other non-financial assets	**2020 $'000**	2019 $'000
Prepayments	64	113
Total other non-financial assets	64	113

2.3 Unearned liabilities

2.3A: Unearned liability	Notes	2020 $'000	2019 $'000
Unearned premium liability	2.3B	112,300	98,828
Unearned commission liability	2.3C	936	2,097
Total unearned liability		113,236	100,925

2.3B: Unearned premium liability	2020 $'000	2019 $'000
Unearned premium liability as at 1 July	98,828	85,117
Deferral of premiums on contracts written in the period	112,300	98,828
Earning of premiums written in the previous periods	(98,828)	(85,117)
Unearned premium liability as at 30 June	112,300	98,828

2.3C: Unearned commission liability	2020 $'000	2019 $'000
Unearned commission liability as at 1 July	2,097	3,086
Deferral of commissions on contracts written in the period	936	2,097
Earning of commissions written in the previous periods	(2,097)	(3,086)
Unearned commission liability as at 30 June	936	2,097

2.4 Payables

2.4A: Supplier payables	2020 $'000	2019 $'000
Retrocession payable	33,159	32,582
Trade creditors	63	–
Accruals	418	512
Total supplier payables	33,640	33,094

Retrocession payable

In accordance with ARPC's retrocession treaty expiring 31 December 2020, 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	2020 $'000	2019 $'000
Salaries and wages	48	198
Superannuation	6	25
Total other payables	54	223

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 2019	136	122	487	745
Additional provisions made	–	–	–	–
Amounts used	(136)	–	(487)	(623)
Unwinding of discount	–	–	–	–
Amounts owing at 30 June 2020	–	**122**	–	**122**

Provisions noted in Other provisions relate to future premium refund payable (2019: future premium refund payable).

ARPC currently has one (2019: one) agreement for the leasing of premises which has a provision requiring ARPC to restore the premise to their original condition at the conclusion of the lease. ARPC has made a provision to reflect the present value of this obligation.

The financial statements have not included an outstanding claims liability (2019: nil).

2.6 Interest bearing liabilities

2.6A: Leases	**2020 $'000**	2019 $'000
Lease liabilities		
Office lease	1,376	–
Total leases	1,376	–

Accounting policy

Refer to Overview Section for accounting policy on leases.

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	**2020 $'000**	2019 $'000
Leave	570	480
Total employee provisions	570	480

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 and long service leave. No provision has been made for personal leave (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 2020 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 Portfolio Minister and Cabinet, ARPC's seven Board Members, the Chief Executive, the Chief Underwriting Officer, the Chief Operating Officer, the Chief Financial Officer and the General Counsel.

Key management personnel remuneration is reported in the table below:

	2020 $	2019 $
Short-term employee benefits	**1,496,409**	1,448,620
Post-employment benefits	**146,816**	133,871
Other long-term employee benefits	**69,406**	6,611
Total key management personnel remuneration expense	**1,712,631**	1,589,102

The total number of key management personnel that are included in the above table are 12 (2019: 11).

The above key management personnel remuneration excludes the remuneration and other benefits of the 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.

3.3 Related party disclosures

Members of ARPC at 30 June 2020 were:

Mr Ian Carson AM
Ms Karen Payne
Mr John Peberdy
Ms Elaine Collins
Ms Janet Torney
Ms Robin Low
Maria Fernandez PSM

New appointments during the year:

- Ms Maria Fernandez was appointed on 23 April 2020 for a 3-year term.

Changes in membership during the year:

- Mr Michael Callaghan's term expired on 4 October 2019.
- Ms Robin Low's term expired on 4 October 2019 and she was re-appointed effective 23 April 2020 for a 3-year term.
- Mr Ian Carson's term expired on 30 June 2020 and he was re-appointed effective 1 July 2020 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 2020 were:

- Dr Christopher Wallace – Chief Executive
- Mr Michael Pennell PSM – Chief Underwriting Officer
- Ms Helen Williams – Chief Operating Officer
- Mr John Park – Chief Financial Officer
- Ms Janice Nand – General Counsel

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 is the Chairman of Markets at PwC Australia. 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 has been raised. Mr Carson does not hold a management role at PwC and is not a member of the PwC Board or Executive Committee. ARPC does not believe this matter constitutes a related party transaction as defined by AASB 124, but considers it good practice for full transparency to nevertheless report as if it was and include disclosures in respect of the matter in accordance with the requirements of AASB 124. During the year ARPC made payments to PwC to the value of $148,740 (2019: $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:

		2020 $	2019 $
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	**480,500**	448,000
The Treasury	Provision of corporate support services to ARPC	**180,223**	188,095
Australian Government Solicitor	Provision of legal services	**22,591**	77,974
Comcare	Workers compensation insurance premiums	**20,013**	25,308
Artbank	Hire of artwork	**3,929**	2,600
Department of Communications and the Arts	Copyright fees	**1,591**	1,480
Attorney General's Department	Legal services panel	**502**	–
		90,709,349	90,743,457
Related Party – Member	Purpose		
PwC Australia	Provision of internal audit services	**148,740**	301,170
		148,740	301,170
Total Related Party Transactions		**90,858,089**	91,044,627

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

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.

4.1A: 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 claim 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, and
- 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 2020 is $37.25 million (2019: $34.86 million)

4.1B: 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

4.1C: 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 $483 million (2019: $426 million)
- In the event of a DTI, ARPC would be required to pay $250 million (2019: $285 million) before claiming on its retrocession program
- ARPC has access to a $3.45 billion retrocession program in excess of the $250 million retention (2019: $3.315 billion retrocession program, in excess of $285 million), and
- 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 (2019: $10 billion)

4.1D 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 to 5 years	> 5 years	
	Notes	2020 $'000	2020 $'000	2020 $'000	2020 $'000	2020 $'000
Interest bearing financial assets						
Cash and cash equivalents	2.1A	1,775	–	–	–	1,775
Fixed term deposits	2.1C	–	571,500	–	–	571,500
Total		1,775	571,500	–	–	573,275
Weighted average interest rate		0.14%	1.06%	–	–	1.06%

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

The Department of Finance deemed a 9-basis point change to be reasonably possible and ARPC adopted this when reporting interest rate risk (2019: 20-basis point change). ARPC has considered the implied financial impact of the deemed 9 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	
	2020 %	2019 %	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Interest rate movement						
Interest bearing	+0.09	+0.20	516	1,010	516	1,010
Financial assets	-0.09	-0.20	(516)	(1,010)	(516)	(1,010)

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	2020 $'000	2020 $'000	2020 $'000	2020 $'000	2020 $'000	2020 $'000
ARPC							
Cash and cash equivalents	2.1A	1,775	–	–	–	–	1,775
Receivables	2.1B	–	–	–	–	59,787	59,787
Fixed term deposits	2.1C	–	396,500	125,500	49,500	–	571,500
Total		1,775	396,500	125,500	49,500	59,787	633,062

		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

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	**2020 $'000**	2019 $'000	**2020 $'000**	2019 $'000	**2020 $'000**	2019 $'000
Financial assets							
Premium receivables	2.1B	**57,335**	51,649	**43**	364	**57,378**	52,013
Commission receivables	2.1B	**931**	2,080	**–**	–	**931**	2,080
Interest receivable	2.1B	**1,441**	2,851	**–**	–	**1,441**	2,851
Net GST receivable	2.1B	**37**	90	**–**	–	**37**	90
Total		**59,744**	56,670	**43**	364	**59,787**	57,034

		Ageing of financial assets past due				
		0 to 30 days	**31 to 60 days**	**61 to 90 days**	**90+ days**	**Total**
	Notes	**2020 $'000**	**2020 $'000**	**2020 $'000**	**2020 $'000**	**2020 $'000**
Financial assets						
Premium receivables	2.1B	**29**	**6**	**–**	**8**	**43**
Total		**29**	**6**	**–**	**8**	**43**

		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

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 minus 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 (or equivalent) credit ratings.

Retrocession program counterparty credit rating	2020 $'000	2019 $'000
AAA	–	–
AA+	71,800	71,672
AA	91,210	88,853
AA-	648,660	612,019
A+	1,316,976	1,203,448
A	730,106	804,160
A-	591,248	534,848
ARPC Total Exposure	3,450,000	3,315,000

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	2020 $'000	2019 $'000	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Financial liabilities							
Payables	2.4A	33,640	33,094	–	–	33,640	33,094
Total		33,640	33,094	–	–	33,640	33,094

4.2 Contingent assets and liabilities

Quantifiable contingencies

As at 30 June 2020 ARPC had no quantifiable contingencies (2019: Nil).

Unquantifiable contingencies

As at 30 June 2020 ARPC had no unquantifiable contingencies (2019: 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.

4.3 Financial instruments

4.3A: Categories of financial instruments	**2020 $'000**	2019 $'000
Financial assets:		
Financial assets at fair value through profit or loss		
Cash and cash equivalents	1,775	1,099
Fixed term deposits	571,500	504,100
Total financial assets at fair value through profit or loss	573,275	505,199
Financial assets at amortised cost		
Receivables (gross)	59,787	57,034
Total financial assets at amortised cost	59,787	57,034
Total financial assets	633,062	562,233
Financial liabilities:		
Financial liabilities measured at amortised cost		
Suppliers payables	33,640	33,094
Other payables	54	223
Total financial liabilities measured at amortised cost	33,694	33,317
Total financial liabilities	33,694	33,317

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; and

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.

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.

Amortised cost is determined using the effective interest method.

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 do not 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 if 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 financial liabilities measured at amortised cost. Financial liabilities are recognised and derecognised upon 'trade date'. They represent trade creditors, accruals and leases 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.

4.3B: Net income from financial assets	**2020 $'000**	2019 $'000
Financial assets at fair value through profit or loss		
Interest revenue	9,650	13,533
Net gains on financial assets at fair value through profit or loss	9,650	13,533

4.4 Fair value measurement

		Fair value measurements at the end of the reporting period	
	Notes	**2020 $'000**	2019 $'000
Financial assets			
Cash and cash equivalents	2.1A	1,775	1,099
Receivables (gross)	2.1B	59,787	57,034
Fixed term deposits[1]	2.1C	571,500	504,100
Total financial assets		633,062	562,233
Financial liabilities			
Suppliers payables	2.4A	33,640	33,094
Other payables	2.4B	54	223
Total		33,694	33,317

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

In accordance with AASB 13 Fair Value Measurement, ARPC establishes a fair value hierarchy that categories financial assets and liabilities into three levels:

- Level 1 – Fair value 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	**2020 $'000**	2019 $'000
Assets expected to be recovered in:		
No more than 12 months	667,352	595,959
More than 12 months	2,173	829
Total assets	669,525	596,788
Liabilities expected to be settled in:		
No more than 12 months	148,669	135,048
More than 12 months	329	419
Total liabilities	148,998	135,467

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7 Index

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
CAE	Chief Audit Executive
CBD	Central business district
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIPMA	Critical Infrastructure Protection Modelling and Analysis
COO	Chief Operating Officer
CUO	Chief Underwriting 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

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
S&P	Standard and Poor's
SES	Senior executive staff
TI Act	Terrorism Insurance Act 2003
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.
Retrocessionaire	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.

List of figures

List of requirements – corporate Commonwealth entities

Below is the table set out in Schedule 2A of the PGPA rule. Section 17BE (u) requires this table to be included in entities' annual reports.

PGPA Rule Reference	Part of Annual Report	Description	Requirement
17BE	Contents		
17BE(a)	Background p19	Details of the legislation establishing the body	Mandatory
17BE(b)(i)	Entity Functions p38	A summary of the objects and functions of the entity as set out in the legislation	Mandatory
17BE(b)(ii)	Background p19	The purposes of the entity as included in the entity's corporate plan for the reporting period	Mandatory
17BE(c)	Governance Framework p71	The names of the persons holding the position of responsible Minister or responsible Ministers during the reporting period and the titles of those Responsible Ministers	Mandatory
17BE(d)	Compensating the Government p62 Transactions with the Government as owners p106	Directions given to the entity by the Minister under an Act or instrument during the reporting period	If applicable, mandatory
17BE(e)	Governance Framework p71 Confirms no GPOs	Any government policy order (GPO) that applied in relation to the entity during the reporting period under section 22 of the Act	If applicable, mandatory
17BE(f)	NA	Particulars of non-compliance with: a) a direction given to the entity by the Minister under an Act or instrument during the reporting period; or b) a government policy order that applied in relation to the entity during the reporting period under section 22 of the Act	If applicable, mandatory
17BE(g)	Chapter 3	Annual performance statements in accordance with 39(1)(b) of the Act and section 16F of the rule	Mandatory
17BE(h), 17BE(i)	NA	A statement of significant issues reported to the Minister under paragraph 19(1)(e) of the Act that relates to non- compliance with finance law and action taken to remedy non-compliance	If applicable, mandatory
17BE(j)	Board Members p73-76	Information on the accountable authority or each member of the accountable authority, of the entity during the reporting period	Mandatory
17BE(k)	Organisational Chart p72	Outline of the organisational structure of the entity (Including any subsidiaries of the entity)	Mandatory
17BE(ka)	People Chapter 5	Statistics on the entity's employees on an ongoing and non-ongoing basis, including the following: a) statistics on full-time employees; b) statistics on part-time employees; c) statistics on gender; d) statistics on staff location	Mandatory

17BE(l)	The Scheme Chapter 2	Outline of the location (whether or not in Australia) of major activities or facilities of the entity	Mandatory
17BE(m)	Governance Chapter 4	Information relating to the main corporate governance practices used by the entity during the reporting period	Mandatory
17BE(n), 17BE(o)	Financial Statements p126-127	For transactions with a related Commonwealth entity or related company where the value of the transaction, or if there is more than one transaction, the aggregate of those transactions is more than $10,000 (inclusive of GST): a) the decision-making process undertaken by the accountable authority to approve the entity paying for a good or service from, or providing a grant to, the related Commonwealth entity or related company; and b) the value of the transaction, or if there is more than one transaction, the number of transactions and the aggregate value of the transactions	If applicable, mandatory
17BE(p)	NA	Any significant activities and changes that affected the operation and structure of the entity during the reporting period	If applicable, mandatory
17BE(q)	p83 Confirmed NA	Particulars of judicial decisions or decisions of administrative tribunals that may have a significant effect on the operations of an entity	If applicable, mandatory
17BE(r)	NA	Particulars of any reports on the entity given by: a) the Auditor General (other than a report under section 43 of the Act); or b) a Parliamentary Committee; or c) the Commonwealth Ombudsman; or d) the Office of the Australian Information Commissioner	If applicable, mandatory
17BE(s)	NA	An explanation of information not obtained from a subsidiary of the entity and the effect of not having the information on the annual report	If applicable, mandatory
17BE(t)	p79	Details of any indemnity that applied during the reporting period to the accountable authority, any member of the accountable authority or officer of the entity against a liability (including premiums paid, or agreed to be paid, for insurance against the authority, member or officer’s liability for legal costs)	If applicable, mandatory

17BE(taa)	Governance Chapter 4	The following information about the audit committee for the entity: a) a direct electronic address of the charter determining the functions of the audit committee b) the name of each member of the audit committee c) the qualifications, knowledge, skills or experience of each member of the audit committee d) information about each member's attendance at meetings of the audit committee e) the remuneration of each member of the audit committee	Mandatory
17BE(ta)	P92-93	Information about executive remuneration	Mandatory
17BF	**Disclosure requirements for government business enterprises**		
17BF(1)(a)(i)	NA	An assessment of significant changes in the entity's overall financial structure and financial conditions	If applicable, mandatory
17BF(1)(a)(ii)	NA	An assessment of any events or risks that could cause financial information that is reported not to be indicative of future operations or financial conditions	If applicable, mandatory
17BF(1)(a)(b)	NA	Information on dividends paid or recommended	If applicable, mandatory
17BF(1)(c)	NA	Details of any community service obligations the government business enterprise has including: a) an outline of actions taken to fulfil those obligations; and b) an assessment of the cost of fulfilling those obligations	If applicable, mandatory
17BF(2)	NA	A statement regarding the exclusion of information on the grounds that the information is commercially sensitive and would be likely to result in unreasonable commercial prejudice to the government business enterprise	If applicable, mandatory

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Australian Government

Australian Reinsurance Pool Corporation