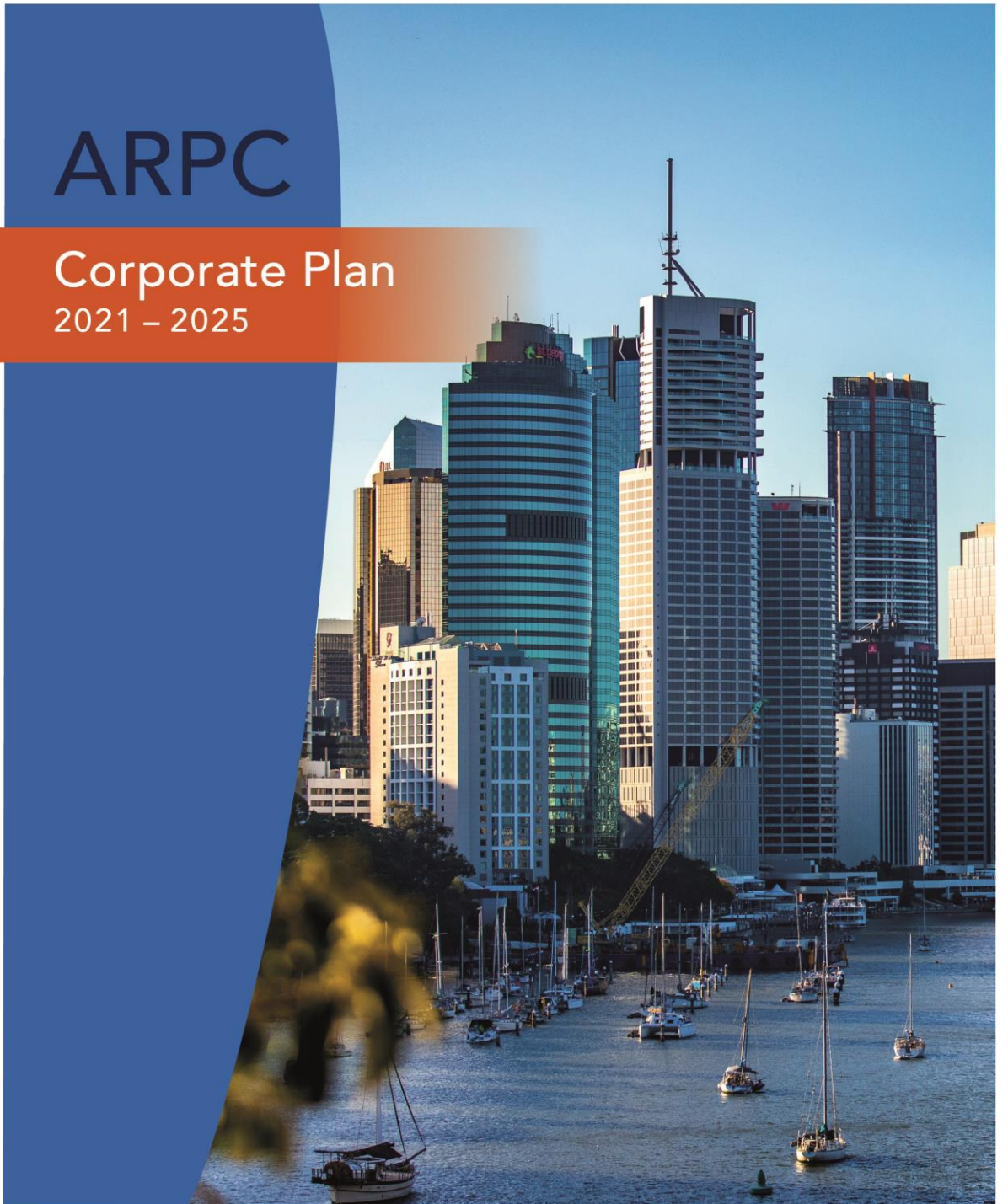




Australian Government
Australian Reinsurance Pool Corporation

ARPC

Corporate Plan 2021 – 2025



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Australian Government

Australian Reinsurance Pool Corporation

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

Dear Assistant Treasurer

On behalf of the Board, I am pleased to present you with the ARPC Corporate Plan for 2021 and beyond. This plan commences on 1 July 2021 and spans the four reporting periods to 30 June 2025.

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

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

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

Yours sincerely

(signature supplied)

Ian Carson AM
Chair
cc Senator the Hon. Simon Birmingham
Minister for Finance

1. INTRODUCTION

Australian Reinsurance Pool Corporation (ARPC) is a Corporate Commonwealth entity and Treasury portfolio agency which provides cost effective terrorism risk reinsurance. The ARPC terrorism insurance pool has \$13.7 billion in funding (excluding insurance industry retentions) available for claims arising from a Declared Terrorism Incident (DTI) and protects more than 760,000 eligible insured property assets valued at more than \$3.9 trillion nationwide.

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

The 2021-2025 ARPC Corporate Plan (Plan) covers the four-year period commencing 1 July 2021 to 30 June 2025 and is the primary planning document for ARPC. This Plan addresses its purpose, key activities, operating context (including environment, capabilities, risk management and key organisations ARPC co-operates with to deliver its purpose) and performance. This Plan has been prepared in accordance with the *Public Governance, Performance and Accountability Rule 2014*. This Plan has been approved by the Accountable Authority (the ARPC Board) as required under paragraphs 35(1) and 35(2) of the *Public Governance, Performance and Accountability Act 2013*.

1.1 PURPOSE AND FUNCTIONS

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

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

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

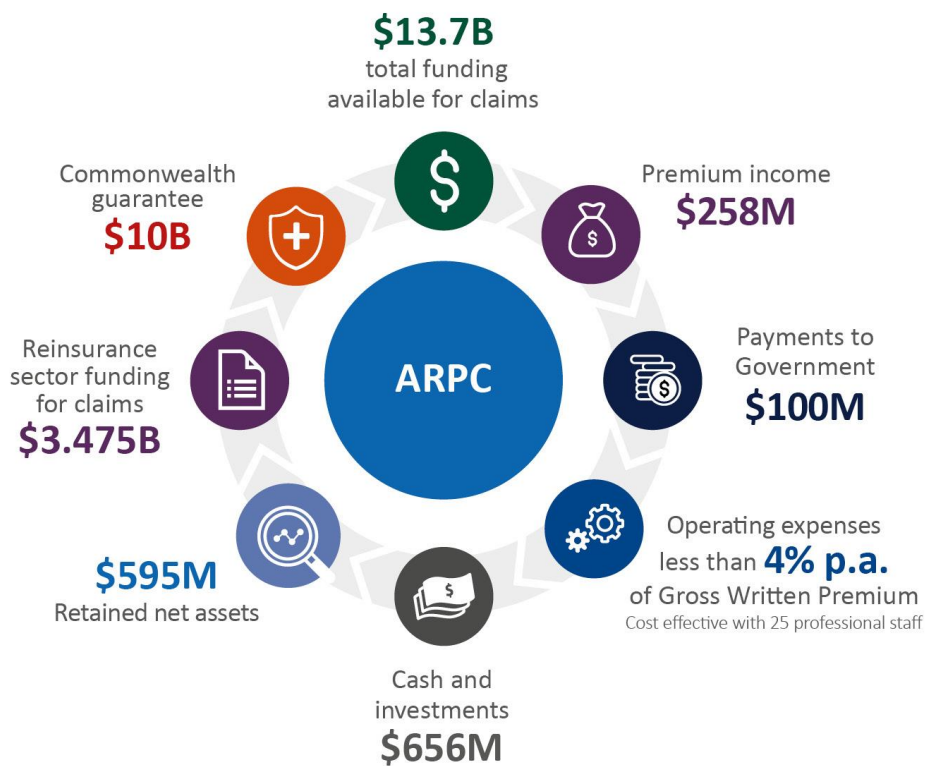
- a) to provide insurance cover for eligible terrorism losses (whether by entering into contracts or by other means); and
- b) any other functions that are prescribed by the Regulations.

1.2 STRATEGIC PRIORITIES

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



Figure 1:2 ARPC Financial Snapshot 2020-21 as at 30 June 2021.



1.3 PERFORMANCE AREAS

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

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

A tabular view of how these five areas link to strategic priorities is shown in *Figure 2.3* on page 13 with full financial details in **Section 3, Performance**, starting on page 24.

1.4 KEY ACTIVITIES

Over the four-year period of this Plan, ARPC will continue the following key activities to support the functions of ARPC:

- continue the retrocession program
- enhance our catastrophe modelling capabilities
- develop thought leadership by engaging and working with academics both locally and internationally and continue our strong engagement with other global terrorism pools through the International Forum of Terrorism Risk Insurance Pools (IFTRIP)
- improve our capability to respond to a terrorism catastrophe by improving systems and processes, through regular testing and continuous improvement, and
- work with the Government as the general insurance experts within Government.

2. OPERATING CONTEXT

2.1 ENVIRONMENT

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

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

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

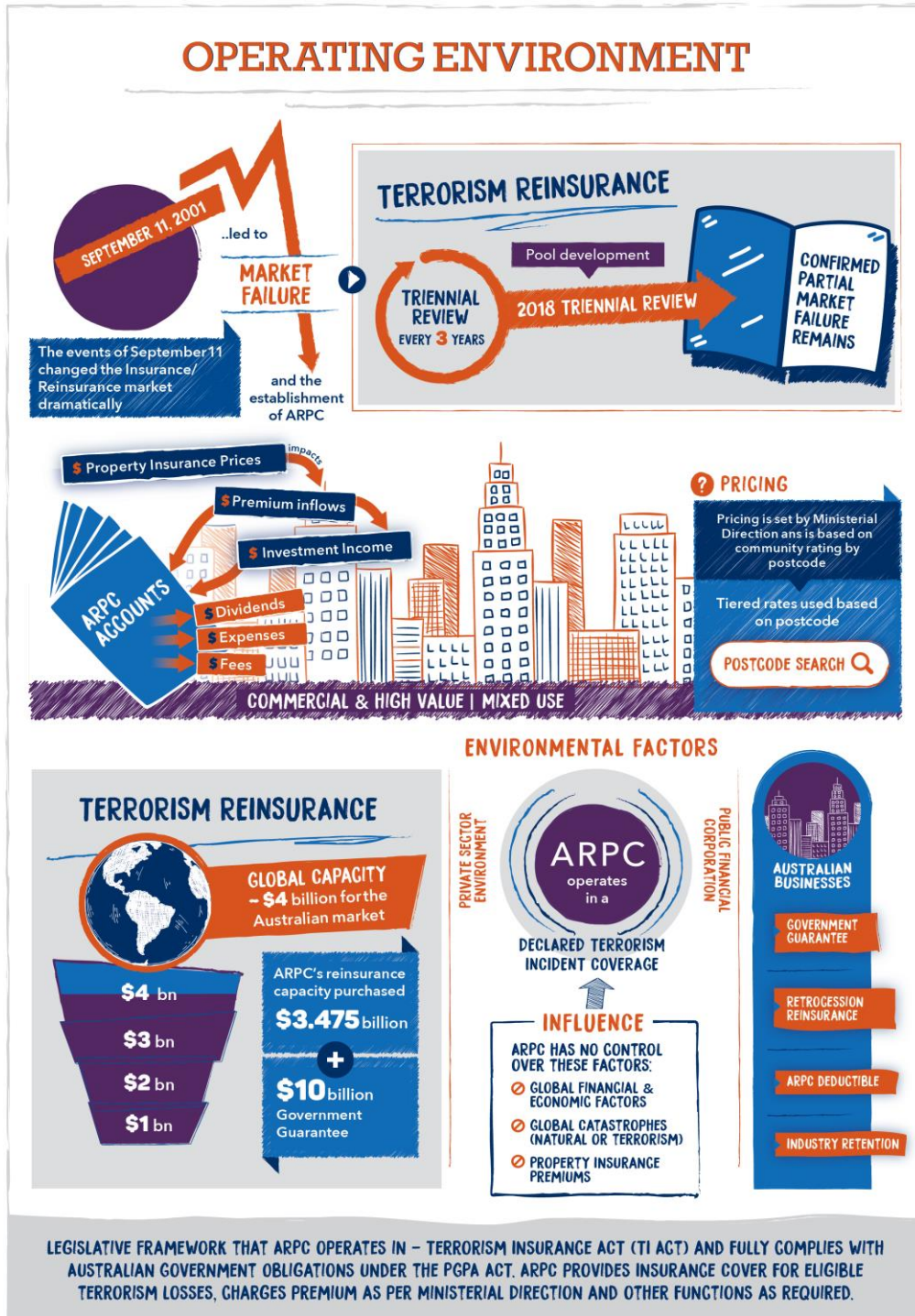
ARPC has the power to charge premiums and a fee for service in return for reinsurance contracts. Pricing terrorism insurance is very difficult, as the frequency and severity of terrorist attacks is impossible to predict. Claims from a terrorism incident could also be very large in scale. Premiums are set through Australian Government Ministerial Direction.

Premium income is linked to the commercial property insurance market and as such is affected by property insurance premiums set by insurers, the volume of policies sold by insurers, global catastrophes, financial market fluctuations and global terrorism incidents, all of which impact the underlying price of commercial property insurance.

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

See *Figure 2.1* for a pictorial view of ARPC's Operating Environment

Figure 2.1: ARPC's Operating Environment



2.1.1 MARKET GAPS

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

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

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

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

The review made the following recommendations and findings:

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

At the time of writing this Plan, Treasury was in the process of undertaking the 2021 Triennial Review.

ARPC has identified a gap in cover for physical damage to commercial property as a result of cyber terrorism and has undertaken research to understand the risk so it can be considered for inclusion in the terrorism insurance pool.

2.1.2 PRICING TERRORISM INSURANCE

ARPC is a Public Financial Corporation operating in a commercial environment that is subject to global economic factors. As previously noted, there are often events outside ARPC's control that can significantly impact the organisation's operations.

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

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

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

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

Over the past 12 months, increased underlying premiums in commercial property insurance has led to increased premium income for ARPC. Commercial property insurance rates commenced increasing in 2017-18 and premium rates continued to increase through 2020-21 after a decade of low and unprofitable premium rates for insurers.

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

2.1.3 POOL STRUCTURE

ARPC provides significant reinsurance capacity to insurer clients with \$13.7 billion reinsurance cover available in the event of a DTI.

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

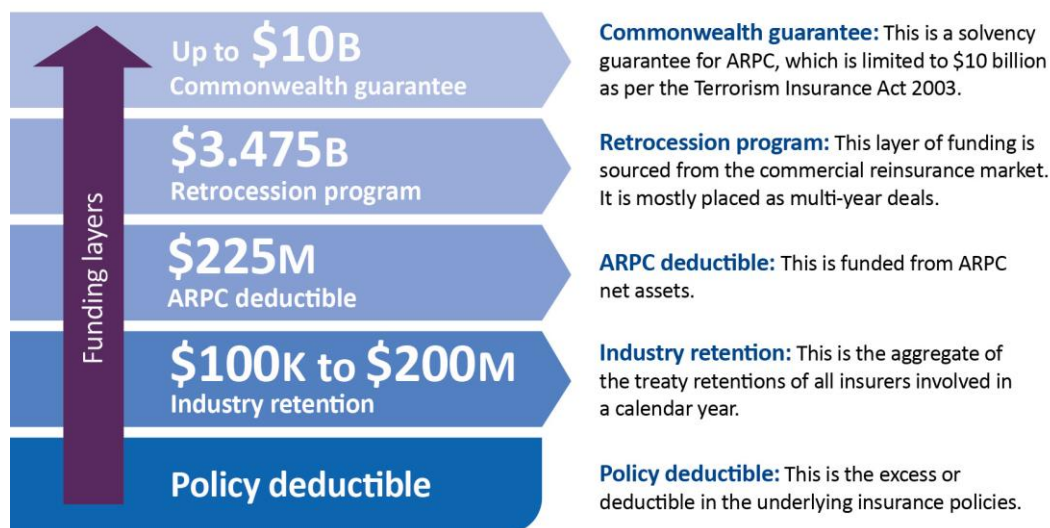
ARPC places an annual retrocession (private market reinsurance) program to provide a valuable funding source for rebuilding Australian commercial infrastructure in the event of a major terrorist attack. Additionally, the program encourages the private market and reduces the risk to Government that ARPC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

In the 2021 calendar year, ARPC purchased a \$3.475 billion retrocession program.

Although the maximum funds available to pay claims is \$13.7 billion (excluding industry retentions), the insurers who have cover with ARPC insure approximately \$3.9 trillion in Australian-based commercial property sector assets.

Figure 2:2 illustrates the funding layers of the ARPC Pool Structure at 30 June 2021

Figure 2.2 ARPC Pool Structure



▪ As at 1 January 2021

In 2021, ARPC purchased an additional \$25 million of retrocession compared to 2020. This was achieved by ARPC reducing the deductible from \$250 million to \$225 million. This improved ARPC's financial strength and ability to respond to a subsequent DTI.

In 2020, ARPC increased private reinsurance sector participation in the pool purchasing an additional \$135 million of retrocession.

2.1.4 NEW POLICY PROPOSAL FOR A CYCLONE AND RELATED FLOODING REINSURANCE POOL

The Australian Government has announced that it intends to establish a reinsurance pool to cover cyclone and related flood damage to commence from 1 July 2022.

The policy is intended to improve the affordability and accessibility of insurance in cyclone-prone areas, predominantly located in northern Australia, and is a significant policy announcement for the insurance sector, residents and small businesses in those areas.

The reinsurance pool was announced in Cairns, far north Queensland, on 4 May 2021, by The Hon. Scott Morrison MP, Prime Minister of Australia; The Hon. Michael Sukkar MP, Assistant Treasurer, Minister for Housing, Minister for Homelessness, Social and Community Housing; The Hon. Warren Entsch MP, Member for Leichhardt; and Mr Phillip Thompson OAM, MP, Member for Herbert.

In response to the Prime Minister's announcement, ARPC issued a media release and an Electronic Direct Mail (eDM) welcoming the cyclone reinsurance pool proposal and committed to supporting Treasury as it completes the detailed design of the pool.

ARPC has deep experience running a Government-backed reinsurance pool and is well positioned to engage with stakeholders in the development of the new pool. ARPC has existing capability in catastrophe reinsurance and would complement current employee insurance and reinsurance expertise with the recruitment of new team members.

2.2 CAPABILITY

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

2.2.1 CORE ACTIVITIES

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

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

The relationship between ARPC's strategic priorities, core activities and performance areas is summarised in *Figure 2.3*.

Figure 2.3: 2021-2025 Activities to deliver the strategic priorities

Strategic Priority 1. Extend thought leadership and expertise	Performance Areas				
Core Activities	One	Two	Three	Four	Five
● Prepare for the 2021 Triennial Review of the pool by Treasury.	✓				✓
● Continually review, identify and inform the market about potential gaps in cover.	✓	✓			✓
● Continue to raise awareness of emerging terrorism risks, such as cyber terrorism.	✓			✓	✓
● Complete project with Standards Australia to develop a risk mitigation Handbook for business. Promote the Handbook to stakeholders to assist property owners to mitigate terrorism risk.		✓			✓
● Provide advice to Government as a trusted expert on terrorism risk insurance.				✓	✓

Note: Core activities have been allocated to the Performance Area that they predominantly address.

Strategic Priority 2. Engage, understand and collaborate with stakeholders	Performance Areas				
Core Activities	<i>One</i>	<i>Two</i>	<i>Three</i>	<i>Four</i>	<i>Five</i>
<ul style="list-style-type: none"> ● Enhance stakeholders' understanding of terrorism reinsurance pooling 	✓				✓
<ul style="list-style-type: none"> ● Keep stakeholders informed about ARPC 					✓
<ul style="list-style-type: none"> ● Conduct an annual insurer customer survey for measuring effectiveness. 	✓				✓
<ul style="list-style-type: none"> ● Deliver the annual Terrorism Risk Insurance Seminar to share knowledge of global and local terrorism trends 	✓	✓			✓
<ul style="list-style-type: none"> ● Organise the International Forum of Terrorism Risk Insurance Pools (IFTRIP) conference to be held in Sydney in 2023. Continue to participate in global and local forums on terrorism risk insurance and catastrophe insurance and financing 		✓			✓
<ul style="list-style-type: none"> ● Participate in the OECD High Level Advisory Board for the Financial Management of Large-Scale Catastrophe. 		✓			
<ul style="list-style-type: none"> ● Participate in discussions on terrorism risk with Australian government departments 			✓		✓

Note: Core Activities have been allocated to the Performance Area that they predominantly address.

Strategic Priority 3. Provide a world class response to terrorism incidents	Performance Areas				
	One	Two	Three	Four	Five
Core Activities					
<ul style="list-style-type: none"> Continue catastrophe modelling development for blasts and biochemical events throughout Australia. 		✓		✓	
<ul style="list-style-type: none"> Commence development of a probability matrix to enhance the deterministic models with probabilistic capabilities. 		✓		✓	
<ul style="list-style-type: none"> Purchase retrocession reinsurance to increase ARPC's total funds available for claims following a DTI, while reducing the need to call on the Commonwealth guarantee. 		✓			
<ul style="list-style-type: none"> Continuous improvement of ARPC's DTI Response Procedure through regular DTI exercises, including an issues log and an external firm to track employee responses to scenarios, and monitoring completion of improvement opportunities. 				✓	
<ul style="list-style-type: none"> Continuous improvement of ARPC's claims response plan. 				✓	

Note: Core Activities have been allocated to the Performance Area that they predominantly address.

Strategic Priority 4. Embrace and evolve to a changing market environment	Performance Areas				
	One	Two	Three	Four	Five
Core Activities					
<ul style="list-style-type: none"> Continue to raise awareness of cyber terrorism causing physical damage with industry and government to advance understanding and solutions. 	✓				✓
<ul style="list-style-type: none"> Engage with local universities on research to further knowledge of terrorism risk and development of analytical tools. 	✓	✓			✓
<ul style="list-style-type: none"> Maintain postcode changes and rating tiers for accurate pricing. 	✓		✓		
<ul style="list-style-type: none"> Continue to review and upgrade the IT environment for maximum effectiveness. 				✓	

Note: Core Activities have been allocated to the Performance Area that they predominantly address.

Strategic Priority 5. Enhance and strengthen resilience and preparedness of our people and organisation	Performance Areas				
Core Activities	<i>One</i>	<i>Two</i>	<i>Three</i>	<i>Four</i>	<i>Five</i>
<ul style="list-style-type: none"> ● Make payments to government as per Ministerial Direction. 			✓		
<ul style="list-style-type: none"> ● Continue professional development for employees. 				✓	
<ul style="list-style-type: none"> ● Update employee engagement survey and action plans. 				✓	
<ul style="list-style-type: none"> ● Continue to monitor the Capital Management Policy to support ARPC's financial sustainability. 				✓	
<ul style="list-style-type: none"> ● Continue the development of the risk management framework with a focus on risk culture 				✓	

Note: Core Activities have been allocated to the Performance Area that they predominantly address.

2.2.2 PEOPLE CAPABILITY

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

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

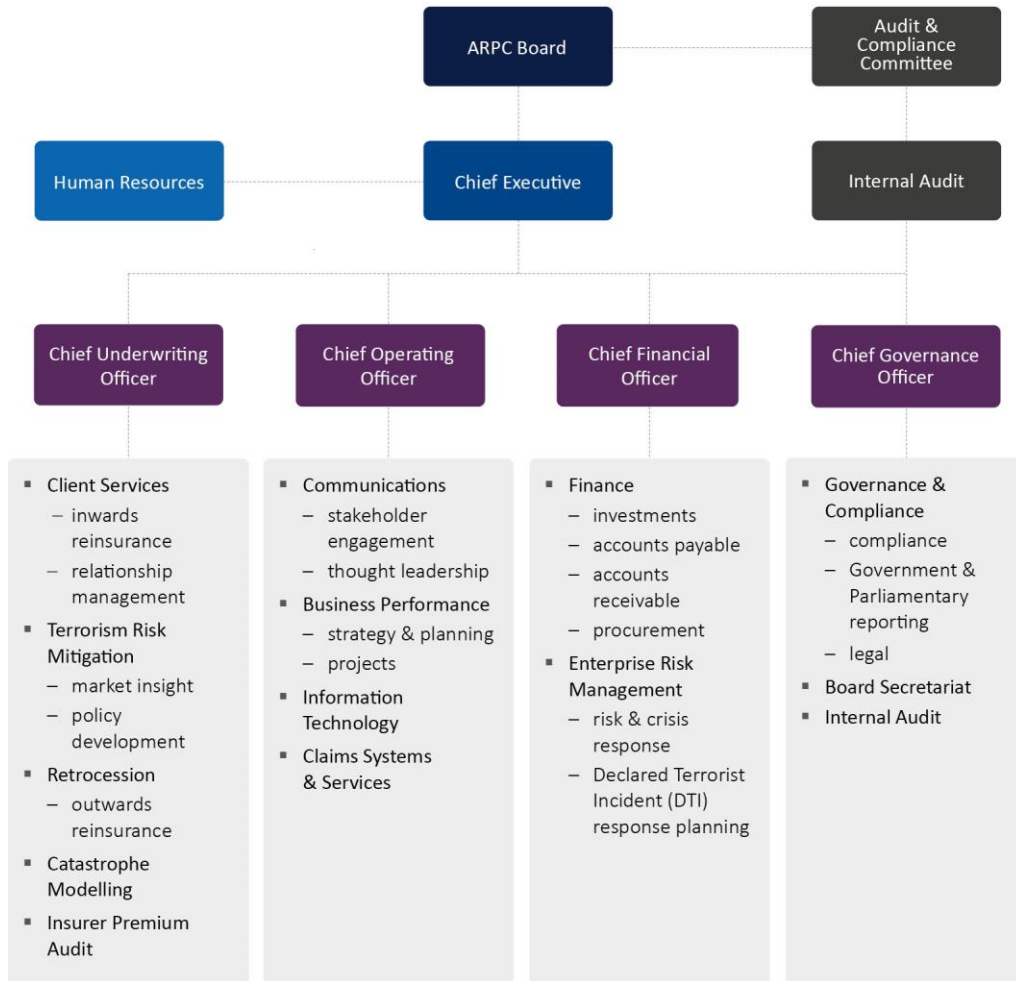
Through workforce and succession planning, ARPC ensures employees have suitable capabilities to undertake core functions during business-as-usual periods and in the event of a DTI. The primary employee capabilities within ARPC include:

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

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

See *Figure 2.4* to view the Organisational Function Chart as at August 2021.

Figure 2.4: Organisational Function Chart



2.2.3 VALUES

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

The organisation promotes a values-based approach to its workforce and decision-making. These values support ARPC' strategic priorities and are fundamental to the success of the organisation. *Figure 2.5* shows the detail of ARPC's values.

Figure 2.5: ARPC's values



2.3 RISK OVERSIGHT AND MANAGEMENT

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

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

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

2.3.1 RISK MANAGEMENT POLICY

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

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

2.3.2 ACCOUNTABILITIES

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

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

2.3.3 RISK APPETITE AND TOLERANCE STATEMENT

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

2.3.4 LEGISLATIVE COMPLIANCE

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

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

2.3.5 RISK CULTURE STATEMENT

During 2020-21, ARPC developed a risk culture statement through a cross-functional working group comprising Executive Leaders, led by the Senior Manager Enterprise Risk and Crisis Response, and supported by EY's Enterprise Risk Practice. The risk culture statement developed by this working group was endorsed by the Senior Executive Team and approved by the Board at the March 2021 Strategy session.

A positive risk culture will enable us to better administer the terrorism reinsurance pool, which provides primary insurers with reinsurance for commercial property and associated business interruption losses arising from a declared terrorist incident.

ARPC views a positive risk culture to be a working environment where we consider and manage risks proactively and appropriately as part of our day-to-work. This type of risk culture enables transparency and open discussion about uncertainties and opportunities, encourages employees to raise issues or concerns, and provides processes to facilitate escalation of concerns to appropriate levels to support a proportionate response. Through our risk management practices, ARPC can continuously improve towards enhancing our risk culture to behave in a way that reflects its values.

ARPC has developed the following statements to continue enhancing our positive risk culture:

- Our leaders understand and demonstrate good risk behaviours.
- We lead by example taking ownership and responsibility where required.
- We maintain a robust and clear control environment to manage risks.
- We are accountable for risk management and understand our roles.
- We speak up and feel confident to raise issues.
- We encourage the simplification of information and transparency of communication.

- We recognise the importance of attracting and engaging the right talent.

The risk culture statement and the journey that was undertaken to arrive at the Board-approved risk culture statement was presented to all employees at an offsite event in April 2021. Continued training and awareness activities, including development and roll-out of ARPC's enhanced Incident Management Procedure, will embed risk culture in ARPC's culture.

2.4 KEY ORGANISATIONS

ARPC co-operates with the following key organisations to deliver our purpose:

- Treasury
- Australian Office of Financial Management (AOFM)
- Insurer customers
- Aon, ARPC's reinsurance broker
- Global reinsurers
- Geoscience Australia
- Risk Frontiers
- Defence Science and Technology Group
- Finity Actuarial Consultants
- Standards Australia

ARPC is an agency within the Treasury portfolio. ARPC works with Treasury to assist ARPC to deliver to the needs of the Government. ARPC meets with Treasury regularly.

AOFM will raise funds in the event of a catastrophic terrorism event that would require a call on the \$10 billion Commonwealth guarantee.

Under ARPC's reinsurance business model, ARPC operates with a small team of 25 employees. ARPC relies on the claim infrastructure of its insurer customers to manage all claims in the first instance. ARPC will conduct post claims audits to validate that public funds have been used in an efficient and effective manner.

ARPC uses the services of a reinsurance broker to access global reinsurance markets. ARPC currently has 73 reinsurers participating in its \$3.475 billion retrocession program. The reinsurance broker would also administer and co-ordinate the collection of reinsurance recoveries in the event ARPC makes a claim on its retrocession program. ARPC has negotiated claims recovery wordings in its retrocession agreements that allows ARPC to make recoveries before paying any claims to insurers to further protect the Commonwealth.

Global reinsurers support ARPC's retrocession program by providing \$3.475 billion of claims paying capacity before the \$10 billion Commonwealth guarantee will be called on. This retrocession program increases the size of the terrorism pool that protects Australia in the event of a terrorism catastrophe and protects the Commonwealth guarantee.

ARPC works with two organisations, Geoscience Australia and Risk Frontiers, to build catastrophe models. These models assist ARPC to estimate the cost of potential attacks and design a pool size that meets the needs of the Australian economy.

The models also help to educate and inform global reinsurers about the risk so they are able to provide capital to support terrorism insurance in Australia.

ARPC has partnered with Geoscience Australia to build classified three-dimensional explosive blast and bio-chemical plume catastrophe models that cover the central business districts of each capital city. The biochemical catastrophe model utilises inputs from the Federal Government's Defence Science and Technology Group (DSTG). ARPC has also partnered with Risk Frontiers to build a geospatial catastrophe model covering the entire mainland of Australia for commercial property assets.

During the plan period, ARPC intends to build a probability matrix to be used in conjunction with these deterministic catastrophe models to add probabilistic capability to our catastrophe models.

ARPC has appointed Finity as actuarial consultants. In the event of a DTI, Finity will perform the actuarial valuation process, using claim estimation models.

In accordance with our strategic priority to extend thought leadership and expertise, ARPC is working with Standards Australia to develop a risk mitigation handbook to assist property owners mitigate physical damage to assets from terrorism risk.

3. PERFORMANCE

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

3.1 PERFORMANCE MEASURES

The performance areas are listed in *Figure 3.1*, together with the performance measures and assessment criteria used to determine success.

Figure 3.1: Performance Measures

Performance Area	Measure	Assessment Criteria	Level of ARPC Influence
One: Provide reinsurance for eligible terrorism losses.	Measure 1: Income – Gross Written Premium	Gross Written Premium (GWP) against target	Limited
	Measure 2: Pool Capacity – Total Funding Available	Purchase of > \$2.5 billion in retrocession within approved budget ¹	Moderate
Two: Encourage private sector participation through the retrocession program	Measure 3: Private sector participation	Number and quality of retrocessionaires (reinsurers) in the program	Moderate
Three: Compensate the Government	Measure 4: Payments to government	Payments made as per Ministerial Direction	Limited
Four: Maintain financial sustainability and organisational resilience	Measure 5: Net assets against ARPC target and minimum capital	Net assets at or above \$345million	Limited
	Measure 6: Strategic Projects - timeliness, cost effectiveness	Strategic projects progressed or completed to plan	High
Five: Engage, understand and collaborate with stakeholders	Measure 7: Stakeholder engagement activity-based metrics	Measure and publish stakeholder engagement activity	High
	Measure 8: Stakeholder-engagement outcome-based metrics	Conduct an annual stakeholder survey and use results to improve stakeholder outcomes	High

¹ Purchase must also be value for money.

3.2 PERFORMANCE ASSESSMENT

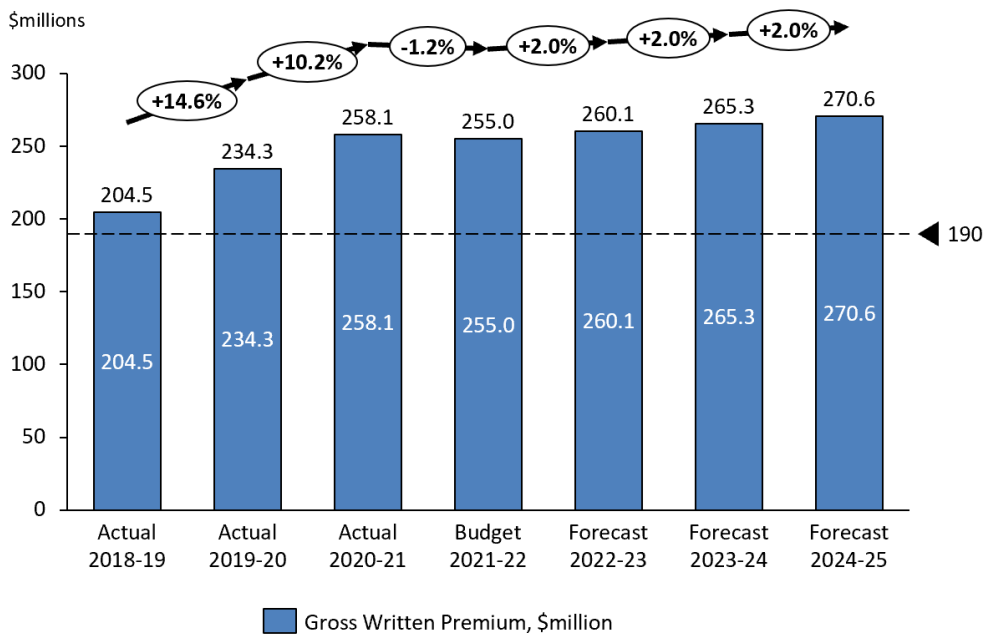
ONE: PROVIDE REINSURANCE FOR ELIGIBLE TERRORISM LOSSES

Measure 1: Income – Gross Written Premium

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

Notwithstanding ARPC’s limited capacity to influence this performance area, providing reinsurance for eligible terrorism losses is ARPC’s function under section 10 of the TI Act. Over the period covered by the Corporate Plan, the success for this activity will be measured by ARPC’s total premium income, with the minimum target premium level for the forecast period being \$190 million.

Figure 3.2: Gross written premium



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

Measure 2: Pool capacity – total funding available

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

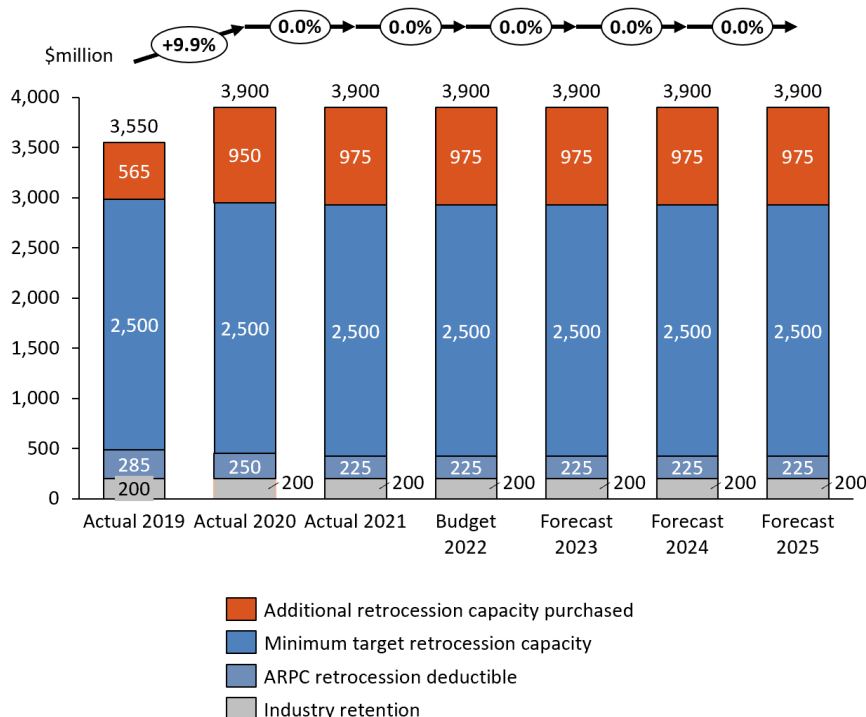
ARPC uses premium income to purchase retrocession (reinsurance cover from private sector reinsurers) and to compensate the Australian Government for the Commonwealth guarantee. Through ARPC's retrocession program and the Commonwealth guarantee, ARPC has \$13.7 billion in funding available to meet DTI claims as at 30 June 2021.

ARPC purchases retrocession from global terrorism reinsurers, thereby transferring a large proportion of risk to the private sector and reducing risk to the Australian Government. For 2021, reinsurers, or 'retrocessionaires', provide \$3.475 billion² private cover for claim payments above the \$225 million ARPC deductible and any industry retentions.

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

To measure success in this activity, ARPC measures total retrocession capacity purchased each calendar year and the total purchase cost, while monitoring the number of participating retrocessionaires. Pool capacity details can be viewed in *Figure 3.3*.

Figure 3.3: Pool capacity (including retrocession) before the Commonwealth guarantee



² Representative of the tranche of cover commencing in that calendar year.

TWO: ENCOURAGE PRIVATE SECTOR PARTICIPATION THROUGH THE RETROCESSION PROGRAM

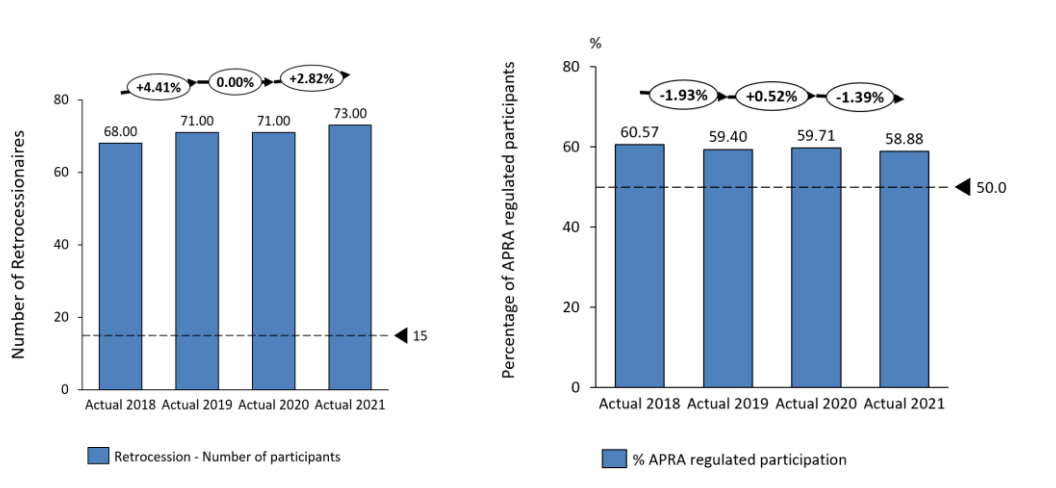
Measure 3: Private reinsurance sector participation

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

ARPC aims to maximise the participation of high credit quality reinsurers in the annual ARPC retrocession program, subject to retrocession being available at a cost that provides value to ARPC. Each year, ARPC seeks more than 15 high credit quality reinsurers³ to participate in the program. ARPC also aims to have more than 50 per cent of retrocession pool capacity provided by APRA regulated reinsurers.

Retrocession Program Detail can be viewed in *Figure 3.4*.

Figure 3.4: Retrocession Program Detail



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

THREE: COMPENSATE THE GOVERNMENT

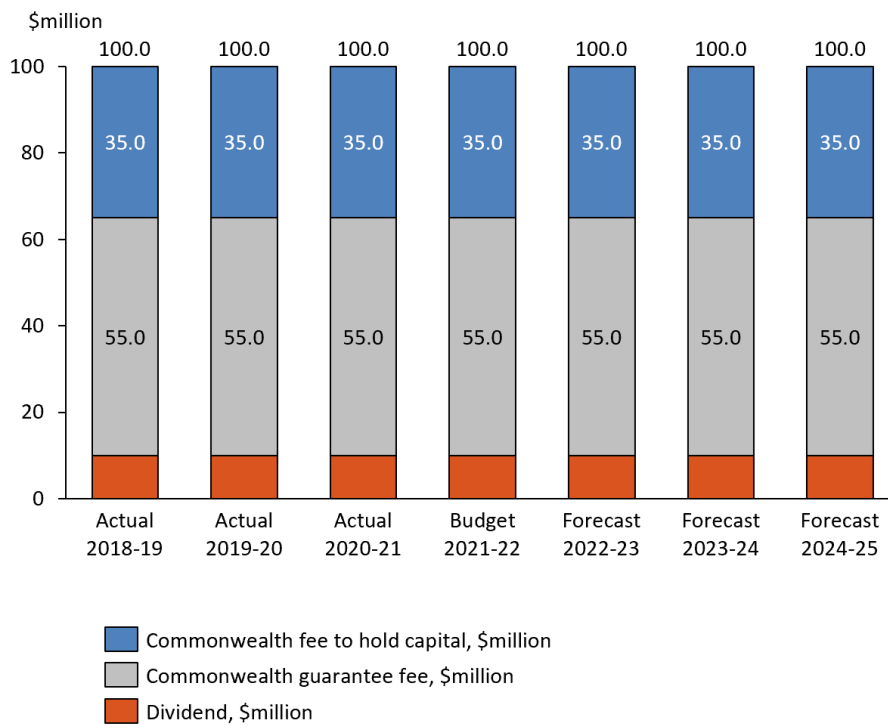
Measure 4: Payments to Government

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

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

ARPC compensates the government annually through a \$55 million fee for the Commonwealth guarantee plus a \$35 million capital holding fee and for 2018-19, 2019-20, and 2020-21, a dividend of \$10 million. Detail of payments to Government can be viewed in *Figure 3.5*.

Figure 3.5: Payments to Government



FOUR: MAINTAIN FINANCIAL SUSTAINABILITY AND ORGANISATIONAL RESILIENCE

Measure 5: Net assets against ARPC target and minimum capital

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

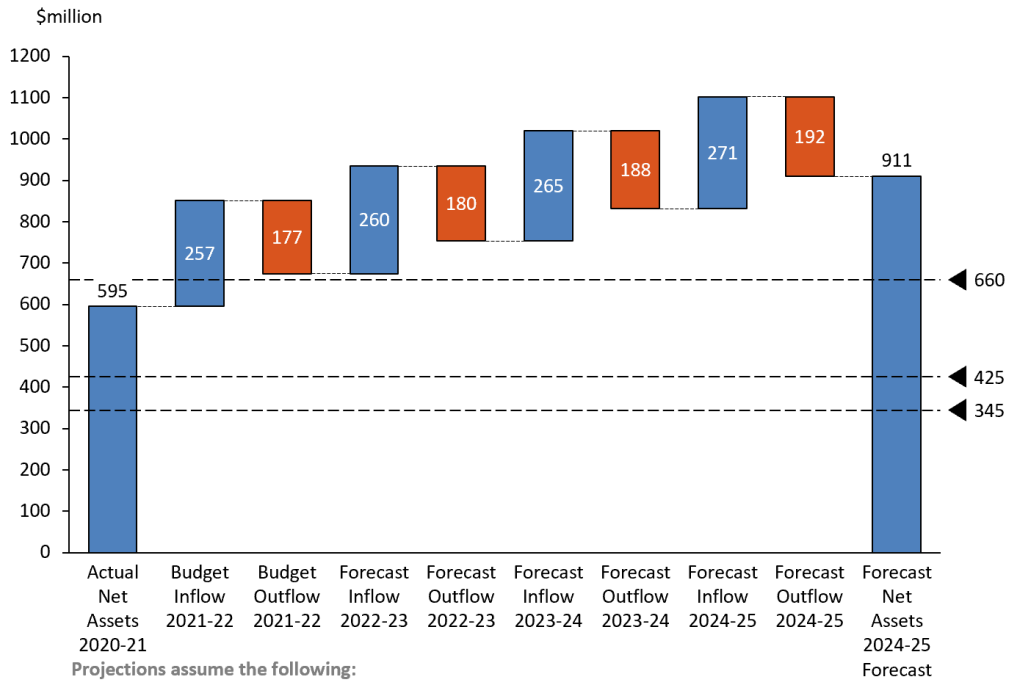
The Board approved Capital Management Policy was designed in consultation with management and ARPC’s actuarial advisory firm, Finity. The Board has set capital thresholds after consideration of:

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

Figure 3.6: Capital Management Zones and Actions Required

Zone	Monetary Boundaries	Actions Required
Red Zone	Less than Minimum Capital. Below \$285 million	Actions are required to return to the Target Zone (Green Zone).
Yellow Zone Watch and Act	Less than the bottom of the Target Zone but greater than Minimum Capital Between \$285 million and \$345 million	Actively monitor the capital position and take corrective action to return to the Target Zone (Green Zone) where the capital position is forecast to deteriorate further.
Green Zone Target Zone	Approximately +/- 10% of Target Capital Between \$345 million and \$425million	Monitor and report capital position as business as usual.
Blue Zone	Greater than the top of the Target Zone and up to Maximum Capital. Between \$425 million and \$660 million	Capital Accumulation Zone, where ARPC can accumulate additional capital to provide additional resilience following a DTI.

Figure 3.7: Projected Net Assets



Measure 6: Strategic Projects

Complete and/or progress major projects according to plan.

Figure 3.8: Performance Information on Major Projects for the 2021-25 period

Project	Performance Criteria	Assessed as	Methodology	Timeline
Risk mitigation project through Standards Australia	Finalise the HB-188 Handbook 'Physical Protective Security Treatments for Buildings' incorporating additional feedback from Australian security agencies. ARPC to promote the HB-188 Handbook 'Physical Protective Security Treatments for Buildings' to our stakeholders in government, insurance industry, and the commercial property sector.	Published by Standards Australia. Commercial property owners and operators embrace this resource for informed decision-making, creating a higher quality risk in the insurance market.	ARPC to conduct roadshow presentations to our stakeholders across Australia. ARPC to present at industry conferences, webinars, and seminars. ARPC to meet selected stakeholders individually to present the handbook.	Presentations to occur during 2022.
Geoscience Australia Blast and Plume Catastrophe Model	Add to ARPC's world class modelling for use in response to a Declared Terrorism Incident (DTI) involving biological or chemical agents.	Successful collaboration with other government stakeholders including Geoscience Australia, the Bureau of Meteorology, Defence Science and Technology and the Australian Federal Police.	ARPC undertaking collaboration and liaison with key stakeholders and subject matter experts.	Ongoing.
Core insurance system upgrade	Complete request for proposal process to limited tenderers for upgrading ARPC's premium and claims insurance systems.	Selection of successful tenderer and preparation of a detailed project plan for system upgrade.	Request for proposal, tender evaluation, systems review.	Decision on system upgrade approach and provider by December 2021.

Project	Performance Criteria	Assessed as	Methodology	Timeline
Implement a new core insurance system	Implement an off-the-shelf core insurance system that can facilitate multiple products and classes of business.	System available with basic functionality to meet core business needs from 1 July 2022.	Work with chosen vendor to implement an off-the-shelf system with minor customisation.	Basic functionality available from 1 July 2022. Enhancement of functionality ongoing as required. Transition of the terrorism portfolio from the existing RISE system to the new system by the end of the 4-year planning period.
Comprehensive ARPC Website Re-design	Website re-design to cater to diversified stakeholder groups and facilitate effective communications and access to information.	Comprehensive re-design and rebuild of website to enhance content accessibility and respond to the needs of diverse groups of stakeholders.	Stakeholder engagement to understand user journeys. Engagement of website designer.	Design framework implemented by 30 June 2022. Initial comprehensive content available 30 June 2023.
University Research Collaborations	Expand thought leadership in terrorism insurance risk.	A targeted and coherent university collaboration program to benefit the community, stakeholders and identify strategic forward-looking issues.	Initial collaboration commenced with the University of Queensland. Identification of candidate universities ongoing.	Ongoing
Triennial Review	The Treasury delivers the 2021 Triennial Review of the Terrorism Insurance Act 2003 by 31 December 2021	The Treasury delivers the 2021 Triennial Review by 31 December 2021	Assist The Treasury by providing a written submission addressing the terms of reference and other related matters.	Completion by 31 December 2021

Project	Performance Criteria	Assessed as	Methodology	Timeline
			Facilitate the arrangement of stakeholder meetings for The Treasury.	
Social Engagement Project to reduce the risk of youth engaging in anti-social behaviours that could result in violent extremism	Provide sponsorship to ReachOut (RO) to undertake research into identifying high risk youth, and to develop programs and services to connect disengaged youth to the wider community.	ReachOut is developing the next evolution of mental health services to know more about young people at risk. This will be achieved through market segmentation to better identify and target services. Better analysis of their big data, providing greater insights about high-risk groups, and measurement of the social impact from the services provided by ReachOut. Increased employee engagement of ARPC employees to ARPC's purpose.	The methodology involved identifying the most appropriate partner organisation. ReachOut was approved by the Board in June 2021. Seek opportunities for ARPC employees to contribute to ReachOut and connect ARPC's employees to ARPC's purpose of protecting the Australian economy from terrorism catastrophes.	The sponsorship partnership with ReachOut will be for a period of two years commencing July 2021.

FIVE: ENGAGE, UNDERSTAND AND COLLABORATE WITH STAKEHOLDERS

Measure 7: Stakeholder engagement activity

Record and report our stakeholder activity

ARPC will record our stakeholder engagement activity using the following categories and will report it to stakeholders in the Annual Report. ARPC will also use this information to inform future stakeholder engagement activities:

- Number of high priority stakeholder meetings
- Number of stakeholder events held
- Number of media references to ARPC
- Electronic direct mail (eDM) engagement
- Website engagement
- Social media engagement

Measure 8: Stakeholder Survey

Conduct ARPC's second annual stakeholder survey and use the results to improve stakeholder outcomes.

An external consultant, ORIMA, will again conduct a stakeholder engagement survey of our insurer customers. 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 measure how effective ARPC is perceived in the areas of:

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

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