Australian Government

Australian Reinsurance Pool Corporation

ARPC

Annual Report

2020 – 2021

www.arpc.gov.au

Australian Government
Australian Reinsurance Pool Corporation

21 September 2021

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 2021. 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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ISSN: 2203-2274 (print)

ISSN: 2203-2282 (online)

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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 strategy

Our vision

‘what the future looks like’

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

‘we want to’

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

Our values

‘underpin our organisational culture’

- Delivering to our stakeholders
- Personal leadership
- Collaboration
- Integrity
- Wellbeing

Strategic Priorities ‘we will’

Extend thought leadership and expertise.	Provide a world class response to terrorism incidents.

Key Activity Areas ‘we delivered’

- Provided advice to Government as a trusted expert on terrorism risk insurance.
- Prepared for the 2021 Triennial review.
- Reviewed, identified and informed the insurance market about potential gaps in cover.
- Continued to raise awareness of emerging terrorism risks such as cyber terrorism.
- Developed a terrorism risk mitigation Handbook for property owners with Standard Australia.

- Continued catastrophe modelling for blasts and biochemical scenarios throughout Australia.
- Developed a probability matrix to enhance deterministic models with probabilistic capabilities.
- Purchased retrocession reinsurance.
- Regularly tested and updated ARPC’s Declared Terrorism Incident response.
- Regularly tested and updated ARPC’s claims response plan.

Key Performance Areas ‘we will focus on’

Provide reinsurance for eligible terrorism losses	Encourage private sector participation through the retrocession program

Performance Measures ‘how we will know if we are successful’

Gross Written Premium	Retrocession Measures

Business Functions ‘our capabilities’

- Underwriting
- Claims
- Operations
- Finance and Risk
- Governance and Compliance

Enhance and strengthen the preparedness of our people and organisation.	Embrace and evolve to a changing market environment.	Engage, understand and collaborate with stakeholders.
▪ Made payments to government as per Ministerial Direction. ▪ Monitored the Capital Management Policy to support ARPC's financial sustainability. ▪ Redesigned the risk management framework with a focus on risk culture. ▪ Continued to focus on the wellbeing and professional development of employees. ▪ Conducted and monitored employee engagement survey and action plans.	▪ Hosted the Cyber Terrorism Research and Insurance Seminar to share cyber research findings with industry and government. ▪ Engaged with local universities to research terrorism risk and development of analytical tools. ▪ Maintained postcode changes and rating tiers for accurate insurance premium pricing. ▪ Continued to review and upgrade the IT environment to leverage contemporary platforms and focus on cyber security.	▪ Enhanced stakeholders' understanding of terrorism reinsurance pooling. ▪ Developed and launched an insurer customer survey to set a baseline for measuring effectiveness. ▪ Delivered the annual Terrorism Risk Insurance Seminar to share knowledge of terrorism trends. ▪ Participated in global and local forums on terrorism risk insurance and catastrophe insurance financing. ▪ Participated in the OECD High Level Advisory Board for the Financial Management of Large-Scale Catastrophe. ▪ Contributed to discussions on terrorism risk with Australian government departments.
Compensate the Government	Maintain financial sustainability and organisational resilience	Engage, understand and collaborate with stakeholders
Fees and Dividend to Government	Net Assets	▪ Stakeholder Engagement Activities ▪ Insurer Customer Survey

Deliver Strategic Projects

Our People

- Board Members
- Employees
- Contractors

Stakeholders 'we engage with'

- Insurer Customers
- Government and Government Agencies
- Industry Associations
- Property Owners
- Global Reinsurers
- Catastrophe Modellers and Advisors

Our Purpose is expressed through our Vision and Mission.

About us

ARPC is a public financial corporation established by the *Terrorism Insurance Act 2003* to administer the terrorism insurance pool. 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

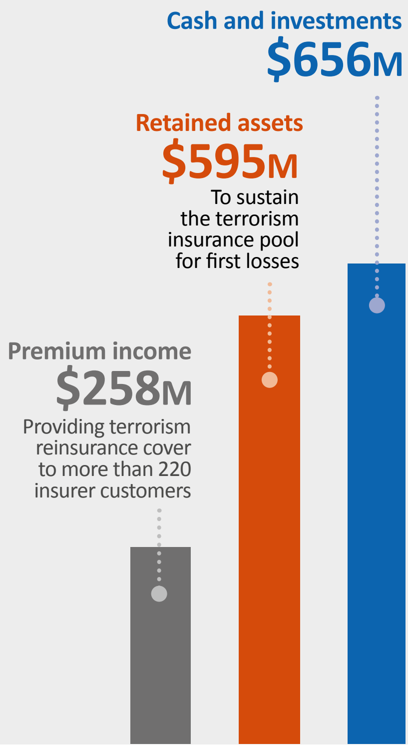
$3.475B
Reinsurance sector funding for claims
Protecting the Government guarantee and encouraging participation by more than 70 reinsurers

$10B Solvency guarantee
Provided by the Australian Government

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

4% p.a. Operating expenses
Operating expenses are less than 4% of gross written premium

25 Staff
Cost effective with 25 professional staff



Strategic projects

Catastrophe modelling

Working with specialist providers to enhance ARPC's modelling capability

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

2021 Terrorism reinsurance pool structure

FUNDING LAYERS

Up to $10B Commonwealth guarantee

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

$3.475B Retrocession program

This layer of funding is sourced from the commercial reinsurance market. It is mostly placed as multi-year deals.

$225M ARPC deductible

This is funded from ARPC net assets.

$100K to $200M 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.

Performance summary

ARPC met or exceeded all targets set in the 2020-24 Corporate Plan

Measure 1	Gross written premium – **Exceeded**	✔ ✔
Measure 2	Pool capacity – **Exceeded**	✔ ✔
Measure 3	Private sector participation – **Exceeded**	✔ ✔
Measure 4	Payments to Government – **Met**	✔
Measure 5	Net assets – **Exceeded**	✔ ✔
Measure 6	Projects – **Substantially Met**	✔
Measure 7	Stakeholder activity – **Met**	✔
Measure 8	Stakeholder survey – **Met**	✔

Our story

ARPC

2021 Government announces intention to establish a cyclone reinsurance pool to be administered by 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 pool 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 2020-21 Chair Report for Australian Reinsurance Pool Corporation.

Our thoughts are with our stakeholders impacted by the ongoing COVID-19 pandemic. We all continue to adapt in response to this terrible global event.

In November 2020, we farewelled Member Karen Payne and thanked her for her service to ARPC. During her term with ARPC she was also appointed Inspector General of Taxation and Taxation Ombudsman.

In June 2021, Member, Elaine Collins was appointed for an additional three-year term and the Board welcomed the new appointment of Jan van der Schalk as a Member. At this time, Members, Janet Torney and John Peberdy completed their terms for which we gratefully thank them.

Our new Member Jan van der Schalk's appointment will benefit ARPC as he has deep reinsurance and investment experience.

I sincerely thank John Peberdy and Janet Torney for their significant contributions during their Board terms with ARPC. Janet Torney skillfully chaired ARPC's Audit & Compliance Committee and contributed investment and governance expertise. John Peberdy assisted with the annual reinsurance program placement and major procurements.

In September 2021, the Minister appointed Julie-Anne Schafer as a Board Member of ARPC. She is a lawyer and brings deep insurance and government experience to ARPC.

Cyclone Reinsurance Pool proposal welcomed

ARPC welcomed the Prime Minister's May 2021 announcement of the Government's intention to establish a reinsurance pool for cyclone and cyclone disaster flooding events, which would be administered by ARPC.

The proposed reinsurance pool is intended to improve the affordability and accessibility of insurance in cyclone-prone areas, predominantly located in northern Australia.

ARPC stands ready to support The Treasury as it completes the detailed design of the new pool.

With deep experience running a Government-backed reinsurance pool, ARPC is well positioned to engage with stakeholders in the development of the new pool.

Since the announcement, a Treasury-led Taskforce has worked to develop a proposed final design of the reinsurance pool in consultation with industry, subject to further Government consideration.

More details on the cyclone reinsurance pool can be found in Chapter 2, page 53 (The Terrorism Reinsurance Pool).

Our thoughts are with our stakeholders impacted by the ongoing COVID-19 pandemic. We all continue to adapt in response to this terrible global event.

2021 Triennial Review

The *Terrorism Insurance Act 2003* requires that a review be conducted at least once every three years to test whether market failure for terrorism insurance exists and therefore whether the Act (and ARPC) should continue. Previous reviews have also been used as an opportunity to improve the pool.

The terms of reference for the 2021 Triennial Review comprise:

- whether there continues to be market failure in the private sector supply of terrorism insurance, and consequently whether there is a need for the Act to continue
- whether the governance, administration and resourcing of the scheme remain appropriate, including interactions between the Cyclone Reinsurance Pool and the Terrorism Reinsurance Pool and
- whether the risk of cyber terrorism causing physical property damage should be included in the scheme.

ARPC looks forward to this important report and working with Treasury to assist implementing recommendations.

Board meetings

In 2020-21, the Board met eight times comprising four meetings for general business, two-out-of-session meetings and two strategic planning workshops. The Audit and Compliance Committee met four times.

The ARPC Board and senior executive team attended the annual strategic planning workshop in Canberra in March 2021. The workshop included Board engagement with key Government and insurance sector stakeholders.

ARPC wins Gold in annual report awards

Building on last year's success, ARPC received a coveted Gold Award for its third annual report entry into the Australasian Reporting Awards (ARA), where ARPC's 2019-20 Annual Report satisfied the demanding ARA criteria. This improves on the Silver Award earned for the 2018-19 Annual Report and a Bronze Award awarded the prior year.

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

21 September 2021

From the CEO

Dr Christopher Wallace | CEO

Delivering on our purpose

ARPC reported excellent financial and operational results in 2020-21.

We continued to engage with insurer customers and government stakeholders including those affected by the COVID-19 pandemic.

We pivoted successfully to working remotely and to undertaking our work online. We also regularly engaged with Treasury to provide insurance and reinsurance expertise as required.

In 2020-21, ARPC had 237 insurer customers which insure $3.9 trillion sum insured for commercial property and business interruption. ARPC had funding capacity for claims of $13.7 billion. This capacity was provided through a combination of $595 million ARPC net assets, $3.475 billion retrocession cover purchased from 73 global reinsurers and the $10 billion Commonwealth guarantee.

During the year, ARPC continued to observe increases in commercial insurance premiums in the private insurance market, while global capacity for terrorism risk reinsurance remained stable.

ARPC's seminars were converted to webinars. ARPC launched the findings of its cyber terrorism research project titled 'Insurance risk assessment of cyber terrorism in Australia' at a Cyber Terrorism Research and Insurance Webinar in September 2020, with 135 attendees.

The scope of the research included identifying and exploring current and prospective threats, plausible scenarios and the practicalities of extending insurance coverage to include cyber terrorism in Australia. ARPC commissioned the Organisation for Economic Co-operation and Development (OECD) and Cambridge Centre for Risk Studies at the University of Cambridge's Judge Business School (Cambridge), to undertake the research.

The annual ARPC Terrorism Risk Insurance Seminar also took place as a Webinar with more than 200 delegates registered to attend the event on 12 November.

The hybrid combination of in office and remote work did not stop our Declared Terrorism Incident exercises, of which we had four in the financial year.

Cyclone Reinsurance Pool

Furthering comments made by ARPC Chair Ian Carson AM, ARPC remains ready to support the proposed cyclone reinsurance pool which is subject to the Treasury-led Taskforce recommendations and further Government consideration.

Security threat 'constant, challenging and changing'

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'.

> ARPC reported excellent financial and operational results in 2020-21.

As at 30 June 2021 according to the Department of Home Affairs, since September 2014, when the national terrorism threat level was raised to Probable:

- 135 people have been charged as a result of 63 counter terrorism related operations around Australia.
- There have been nine attacks and 21 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.

In his 2021 Annual Threat Assessment, ASIO Director General Mike Burgess described the Australian security outlook as "complex, challenging and changing". He said investigations into ideologically motivated violent extremists such as racists and nationalists were about 40 per cent of ASIO's Australian counter terrorism cases and growing.

However, religiously motivated extremism, such as that promoted by ISIL, are still Australia's most serious terrorist threat, he said.

Overseas, the period was marked by persistent terrorism threats. As in the previous year, many attacks were conducted by lone perpetrators using knives, guns or vehicles.

Engaging the private reinsurance market

Terrorism insurance pools like ARPC exist in many major countries and are recognised as an efficient 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. ARPC met online with almost 70 reinsurers in key global markets to negotiate the 2021 retrocession reinsurance program. For the program, ARPC purchased an additional $25 million layer of reinsurance at the bottom of the program. This reduced ARPC's deductible from $250 million to $225 million and improved ARPC's capital strength. The 2021 placement of $3.475 billion of retrocession capacity included approximately $3 billion of capacity written on a multi-year agreement, to reduce retrocession pricing volatility for ARPC.

2021 Triennial Review

ARPC is supporting the 2021 Triennial Review of the ARPC pool by The Treasury. As you may be aware, this periodic review of the TI Act 2003 tests the need for the Act and the pool to continue.

As noted by Ian Carson AM, ARPC Chair, one of the three terms of reference is: whether the risk of cyber terrorism causing physical property damage should be included in the pool.

A gap in pool coverage is physical damage to property arising from computer crime (including cyber terrorism), and ARPC's research on cyber terrorism is an input to the 2021 Triennial Review.

Value for money

The average price of ARPC terrorism reinsurance cover for insurers in 2020-21 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 2020-21, ARPC participated in key international forums on terrorism and other systemic risk, managed by the OECD and the International Forum of Terrorism Risk (Re) insurance Pools respectively.

I was honoured to provide a presentation to the September 2020 OECD (Insurance and Retirement Savings Roundtable) Webinar on the impact of COVID-19.

In October 2020, I delivered a presentation to an IFTRIP LIVESTREAM Panel session – 'Terrorism, how do we reinforce the re? How could the design of a terrorism pool be adapted for other systemic risks like pandemic?'

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 late 2021. 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.

Solid 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. According to ARPC's inaugural annual survey of insurer customers by ORIMA Research, ARPC is delivering on its vision, is a valued partner, a trusted expert and is communicating and engaging well with stakeholders. For more information, refer to the article in Chapter 1, page 32.

Global connections

ARPC supports and participates in the OECD High Level Advisory Board for the Financial Management of Large-scale Catastrophes and the IFTRIP. These engagements have enhanced ARPC's links with global counterparts and reinsurers.

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

Employee 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.

> Terrorism insurance pools like ARPC exist in many major countries and are recognised as an efficient way to provide cost effective terrorism reinsurance to the commercial insurance sector.

During 2020-21, all team members successfully navigated a hybrid working arrangement. During ordinary times, employees balanced their work and personal lives by remote working up to two days a week, with the remaining three days in the office to catch up with colleagues and collaborate on projects. During COVID-19 lockdowns, all employees worked remotely and continued supporting our stakeholders through ARPC's processes and systems. Our Pandemic Response Plan remained active and the Pandemic Response Team met regularly and updated employees with relevant information and advice. ARPC's Wellness Committee ran 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.

Stakeholder support during COVID-19

ARPC has contributed to the business community during COVID-19 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, and
- supporting Treasury projects and policy development related to insurance and reinsurance markets to assist addressing market failure.

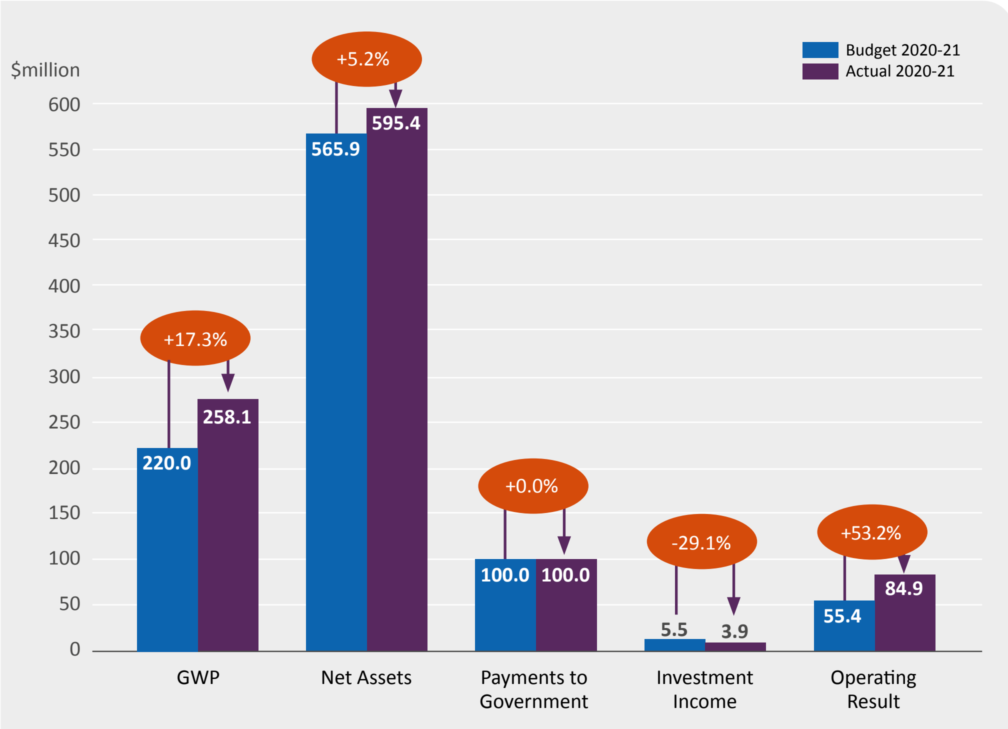
Financial performance was better than forecast for 2020-21

ARPC's overall financial performance for 2020-21 was better than expected, largely owing to rate rises in underlying commercial insurance premiums, with the operating result for the year ending 30 June 2021 at $84.9 million, $29.5 million better than forecast.

During 2020-21, all team members successfully navigated a hybrid working arrangement.

Figure 1: Summary of Key Financial Metrics 2020-21 comprises a summary of key financial metrics. Further detail is available in Chapter 3, Annual Performance Statement.

Figure 1: Summary of Key Financial Metrics 2020-21.



ARPC achieved excellent performance operationally and financially during the year.

ARPC made good progress on strategic projects during 2020-21, including the following:

- cyber terrorism research project completion and launch to stakeholders
- Standards Australia Handbook for the 'Base Building Physical Security Handbook – Terrorism and Extreme Violence', and
- development and Board approval of a risk culture statement as part of the risk management framework re-design.

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 2021. 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

21 September 2021

Robin Low
BCom FCA GAICD
Member and Chair of the Audit, Risk and Compliance Committee

21 September 2021

Australian Government
Australian Reinsurance Pool Corporation

1 ARPC's Strategy

Barangaroo development, Sydney. *P Sandberg*

Background

ARPC is a public financial corporation established on 1 July 2003 under the *Terrorism Insurance Act 2003* (TI Act) to administer the terrorism reinsurance pool (the pool). 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 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.

ARPC remains true to the pool'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

Strategic context

Addressing market failure

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

After 18 years of the Pool 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 pool 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 Pool 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 Christchurch, 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.

COVID-19 has seen a reduction in terrorism activity in western economies due to lockdowns and restricted movement. However, the period has seen an increase in online radicalisation, which will heighten the risk of future attacks. Internationally and in Australia, a significant number of terrorists serving sentences for crimes committed earlier in the century are being released from prison. Many individuals are not reformed. There has also been an increase in extreme right-wing groups and individuals. These groups and individuals have been displaying increasingly violent rhetoric.

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.

Australia is experiencing an increase in extreme right-wing activity, with 40 per cent of counter terrorism cases now involving right-wing extremism. Extreme right-wing terrorists are more likely to target institutions than individuals, and subsequently the commercial property covered by the ARPC pool has a heightened risk of being targeted.

The National Terrorism Threat Advisory System (NTTAS), launched by the Australian Government on 26 November 2015 to inform the public about the likelihood of an act of terrorism occurring in Australia, shows our 2020-21 NTTAS threat level as Probable, reflecting the intelligence assessment by the National Threat Assessment Centre. NTTAS has five levels to indicate the national threat level as shown in Figure 1.2. 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/Securityandyourcommunity/Pages/National-Terrorism-Threat-Advisory-System.aspx

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 2020-24 Corporate Plan set out five strategic priorities based on business objectives.

1 Extend thought leadership and expertise

2 Engage, understand and collaborate with stakeholders

3 Provide a world class response to terrorism incidents

4 Embrace and evolve to a changing market environment

5 Enhance and strengthen the resilience and preparedness of our people and organisation

Progress against the 2020-24 Strategic Priorities

ARPC made progress against all five strategic priorities outlined in the 2020-24 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

1 **Strategic Priority** Extend thought leadership and expertise	**Key Performance Areas**				
Core activities and achievements	**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.	✔	✔			✔
Progress 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.	✔			✔	✔

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

Strategic Priority 2 Engage, understand and collaborate with stakeholders	Key Performance Areas				
Core activities and achievements	**One**	**Two**	**Three**	**Four**	**Five**
Enhance stakeholders' understanding of terrorism reinsurance pooling.	✔				✔
Develop and launch a stakeholder engagement survey to set a baseline for measuring effectiveness.	✔				✔
Deliver the annual Terrorism Risk Insurance Seminar to share knowledge of global and local terrorism trends.	✔	✔			✔
Continue to participate in global and local forums on terrorism risk insurance and catastrophe insurance and financing.		✔			✔
Participate in the OECD High Level Advisory Board for the Financial Management of Large-Scale Catastrophe.		✔			
Participate in discussions on terrorism risk with Australian Government departments.			✔		✔

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

Strategic Priority 3 Provide a world class response to terrorism incidents	Key Performance Areas				
Core activities and achievements	**One**	**Two**	**Three**	**Four**	**Five**
Continue catastrophe modelling development for blasts and biochemical events in Australia.		✔		✔	
Commence development of a probability matrix to enhance the deterministic models with probabilistic capabilities.		✔		✔	
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.		✔			
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.				✔	
Continuous improvement of ARPC's claims response plan.				✔	

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
Host the postponed Cyber Terrorism Research and Insurance Seminar to share findings with industry and government to advance understanding and solutions.	✔			✔	✔
Engage with local universities on research to further knowledge of terrorism risk and development of analytical tools.	✔	✔			✔
Maintain postcode changes and rating tiers for accurate pricing.	✔		✔		
Continue to review and upgrade the IT environment for maximum operational effectiveness.				✔	

Key Performance Areas

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
Make payments to government as per Ministerial Direction.			✔		
Continue professional development for employees.				✔	
Update employee engagement survey and action plans.				✔	
Continue to monitor the Capital Management Policy to support ARPC's financial sustainability.				✔	
Redesign of risk management framework with a focus on risk culture (refer to risk culture statement).				✔	

Key Performance Areas

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

Working with ARPC stakeholders

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

During 2020-21, 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:

- ARPC events such as our online market briefing (Sydney) for the 2021 retrocession program, our Cyber Terrorism Research and Insurance Webinar, our annual Terrorism Risk Insurance Webinar, and a stakeholder networking function in Canberra
- insurer customer review program
- electronic direct mail distribution of our quarterly newsletter Under the Cover
- LinkedIn posts
- website, and
- articles in insurance industry publications.

Outcome-based metrics

In 2020-21, ARPC launched its inaugural stakeholder engagement survey. This survey, which establishes a benchmark for future surveys, was 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?

More information, including the results of activity and outcome-based metrics on stakeholder engagement can be found in Chapter 3, Performance Statement, pages 68-70.

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 2020-21, ARPC representatives attended various industry forums (many this year were online due to COVID-19) 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 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 pool 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. During 2020-21, the team used a combination of remote reviews and onsite reviews as permitted by the pandemic.

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 pool, 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 is a repository for information about the pool and how it operates, as well as for annual publications, quarterly newsletters, research papers, media releases, events 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 pool and provides an opportunity for stakeholders to stay informed about global developments in terrorism risk and insurance. During 2020-21, ARPC attended industry conferences and events including (but not restricted to):

- ANZIIF General Insurance virtual breakfast
- ANZIIF RISC Reimagined, ANZIIF's reinsurance study course
- Career Trackers Gala event awards (online)
- AICD – Australian Governance Summit
- ARPC stakeholder dinner Canberra
- ARPC Cyber Terrorism Research and Insurance webinar
- ARPC Terrorism Risk Insurance Webinar
- Cybersecurity Taskforce Webinar – Capacity Building for Resilience
- ASPI webinars
- Dragoman virtual seminar
- IFTRIP LIVESTREAM
- IFTRIP Pools call
- APS200 event
- Dragoman dinner event
- Australian Bankers' Association – Natural Disasters Seminar
- MunichRe cocktail event
- Finity Director Forum
- Aon Impact Forecasting Revealed 2021
- Property Council Chief Risk Officer Roundtable
- OECD-ADBI Roundtable on Insurance and Retirement Saving in Asia

ARPC ENGAGES WITH GLOBAL TERRORISM POOLS

ARPC's stakeholder engagement strategy includes developing links with peer terrorism pools overseas to share knowledge and experience. The key channel for this type of engagement is membership of the International Forum of Terrorism Risk (Re)Insurance Pools (IFTRIP), an organisation of national terrorism pools.

The 2020 IFTRIP annual conference was converted to a virtual event due to the COVID-19 pandemic. In October 2020, more than 800 delegates from around the world tuned into IFTRIP LIVESTREAM.

ARPC CEO and IFTRIP President, Dr Christopher Wallace, presented on the topic, 'Beyond Terrorism: How do we reinforce the Re?', which highlighted similarities between terrorism and pandemics. As is usually the case, the open conference was preceded by a one-day closed terrorism pool meeting. This was followed by the main conference which brings together sovereign-backed terrorism reinsurance pools, industry experts and the wider counter terrorism community.

IFTRIP was formally ratified at the ARPC-OECD Global Terrorism Risk Insurance Conference in Canberra in 2016. Subsequent IFTRIP annual conferences have been held in Paris (2017), Moscow (2018) and Brussels (2019).

> The open conference was preceded by a closed terrorism pools meeting.

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); Sri Lanka; UK (Pool Re) and USA (TRIP).

ARPC LAUNCHES
CYBER TERRORISM RESEARCH FINDINGS

ARPC hosted its highly anticipated Cyber Terrorism Research and Insurance Webinar in September 2020, proving digital channels could be just as interactive as ARPC's pre-COVID-19 seminars.

The webinar was used to formally launch ARPC's cyber terrorism research project, 'Insurance Risk Assessment of Cyber Terrorism in Australia', undertaken by the OECD and the University of Cambridge's Centre for Risk Studies.

There were 135 webinar attendees whose participation was aided by an open chat box, live polls, and a discussion panel. This was the first time ARPC had hosted a webinar.

The positive feedback highlighted the variety and credibility of the speakers, engaging content and efficient timing.

Dr Christopher Wallace

Speakers comprised:

- **Professor Paula Jarzabkowski**
  High profile insurance academic, author and International Forum of Terrorism Risk (Re)Insurance Pools (IFTRIP) presenter, who chaired the event.
- **Dr Christopher Wallace**
  ARPC CEO, who called for clarity (in future triennial reviews of the ARPC pool), on the computer crime exclusion in the Terrorism Insurance Act 2003 which effectively removes cover for physical property damage and business interruption from acts of cyber terrorism.
- **Leigh Wolfrom**
  OECD Policy Analyst (Insurance), summarised OECD's research findings including existing cyber insurance coverage, global pools coverage of cyber and the practicalities of expanding ARPC's Pool to include cyber terrorism.
- **Simon Ruffle**
  Director of Research & Innovation, Centre for Risk Studies, Cambridge Judge Business School, University of Cambridge, provided an overview of Cambridge's research findings including plausible scenarios and potential economic and insured losses from cyber terrorism.

ARPC HOSTS
TERRORISM RISK AND INSURANCE WEBINAR

At ARPC's annual Terrorism Risk and Insurance Webinar, ARPC CEO, **Dr Christopher Wallace** and Chief Underwriting Officer, **Michael Pennell PSM**, gave an overview of the terrorism landscape, including the threat posed by the extreme right wing (XRW).

XRW groups constitute 40 per cent of counterterrorism caseloads nationally, up from 10-15 per cent of cases before 2016.

The Webinar took place on 12 November 2020 after being converted to a webinar due to COVID-19 restrictions on mass gatherings.

Chris Holt MBE and **Jerry Smith OBE** from CHC Global in the United Kingdom, delivered an insightful presentation on chemical, biological and radiological (CBR) threats using the 2018 Salisbury novichok poisonings as a case study.

This was followed by **Dr Ryan Crompton**, Managing Director of Risk Frontiers, who presented a response to the Federal Government's 2020 Cyber Security Strategy.

More than 200 industry professionals registered for ARPC's live event, with an additional 262 requesting a recording.

More than 80 per cent of attendees rated the overall presentation skills of the speakers as Excellent, with many commenting on their expertise and ability to relate issues back to the wider insurance space.

Michael Pennell PSM

ARPC IS A 'VALUED PARTNER' CUSTOMER SURVEY FINDS

ARPC is delivering on its vision, is a valued partner, a trusted expert and is communicating and engaging well with stakeholders, according to ORIMA Research's inaugural annual survey of ARPC's insurer customers.

Survey results indicated that ARPC is considered to be a trusted provider of terrorism insurance.

Insurer customers (Australian and overseas) called ARPC expert, efficient, trustworthy and valuable when asked to describe the organisation in a couple of words.

Pleasingly, 92 per cent of Australian respondents and 75 per cent of overseas respondents saw ARPC as a valued partner to their organisation.

ARPC's publications and digital business-to-business communications were rated strongly, and insurer customer reviews were well regarded by customers.

Based on survey feedback, there are opportunities for ARPC to provide further technical information on terrorism insurance through its website, as well as face-to-face meetings.

The survey also revealed Australian respondents (who account for 90 per cent of ARPC's premium income) are more engaged with ARPC than overseas respondents.

Value Indicators	Definition	Overall	Aust.	Overseas
To what extent do you feel the following describes ARPC: Valued partner to our organisation	Totally + large extent	89%	92%	75%

Perception Indicators	Definition	Overall	Aust.	Overseas
To what extent do you feel the following describes ARPC: Trusted expert on terrorism reinsurance	Totally + large extent	98%	100%	82%
Easy to deal with	Totally + large extent	96%	100%	75%
Transparent	Totally + large extent	89%	92%	75%

Source: ORIMA Research

Context

In ARPC's 2020-24 Corporate Plan, ARPC said it would develop and launch an annual insurer customer survey to set a baseline for measuring stakeholder engagement effectiveness and to improve stakeholder outcomes.

Methodology

The survey design was guided by a senior executive workshop which identified several 'Big questions': Are we delivering on our vision? What do our customers think of us? Does ARPC represent value for money? Does ARPC engage effectively with stakeholders?

Conducted by ORIMA in November and December 2020, the short online survey was sent to the primary contact for ARPC's 225 insurer customers, 36 of which are based in Australia and 189 based overseas. Responses were received from 63 insurer customers (28 per cent), including 12 of 36 Australian insurer customers (33 per cent) and 51 of 189 overseas insurer customers (27 per cent).

ORIMA noted that the response rates for the survey are within the typical range for surveys like this and that the general pattern of results are a reasonable indicator of the views of insurer customers.

Next steps

ARPC thanked insurer customers for their strong overall support of ARPC in the inaugural survey.

ARPC has committed to an annual insurer customer survey to gather feedback and make continuous improvements which benefit customers.

The full survey report is published on the ARPC website at arpc.gov.au/publications/media-releases/

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 2020. 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 2020 and again in April 2021 to address the feedback received during the Public Comment phase and subsequent 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 Terrorism Reinsurance Pool

View from Crown Tower, Melbourne

How ARPC's terrorism reinsurance pool operates

The pool 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.

Under the TI Act, insurers have three options in respect of providing terrorism insurance coverage for a DTI. 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 Pool in the event of a DTI. Insurers are required to meet claims in accordance with the other terms and conditions of individual policies.

Pool coverage excludes loss or liability arising from the hazardous properties of nuclear fuel, material or waste. Pool 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 pool. Claims against the pool will be met once an individual insurer's retention is exhausted. In this way, and in line with good risk management practices, the pool 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 ($225 million for the 2021 calendar year). Above this point, an additional $3.475 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 pool funding capacity is the total value of the pool, which as at 30 June 2021 totalled $13.7 billion. The pool'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 2021, ARPC reduced the retrocession deductible by a further $25 million to be $225 million. This provides ARPC with more capital to reinstate the pool in the event of a DTI and is in accordance with the recommendations from the recent ANAO report.

Background to the pool

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 pool that provided terrorism cover on eligible insurance contracts (the pool) 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.

Pool coverage

The total capacity of the pool at 30 June 2021 stood at $13.7 billion including all sources of funding. Figure 2.1 shows ARPC funding layers for terrorism claims from all sources as at 30 June 2021.

Contracts of insurance covered by the Pool 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 pool's exclusions are:

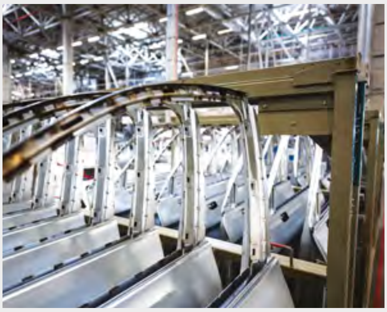
- loss or liability arising from the hazardous properties of nuclear fuel, material or waste
- residential property or the contents of residential property where the building, or a group of buildings on a single strata policy, has a sum insured less than $50 million
- farms, unless they hold insurance 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 Pool

Commercial

Construction

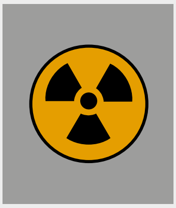
High value residential



Industrial

Farms with Business Interruption coverage

Exclusions from the Pool



Radiological

Nuclear

Cyber

Government property

Residential property

Marine

Machinery breakdown

Workers' Compensation

Pool funding capacity

As at 30 June 2021, 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 2021

FUNDING LAYERS

Up to $10B Commonwealth guarantee

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

$3.475B Retrocession program

This layer of funding is sourced from the commercial reinsurance market. It is mostly placed as multi-year deals.

$225M ARPC deductible

This is funded from ARPC net assets.

$100K to $200M 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 pool 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 calendar year)
3. a $225 million ARPC retrocession deductible
4. retrocession capacity of $3.475 billion and
5. a Commonwealth guarantee of up to $10 billion.

ARPC provided insurers with an annual claims funding capacity of $13.7 billion in reinsurance capacity

Brisbane River, Brisbane

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.

How the pool 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.

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 pool provides for tier rates to be adjusted following a claim on the pool, 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 pool capacity
- positions the Commonwealth further away from the risk of terrorism losses under the pool
- 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 2021 placement of $3.475 billion includes $2.57 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.

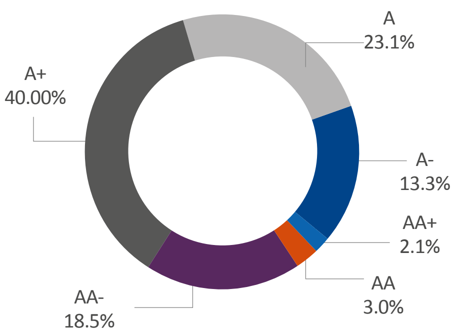
Figure 2.4: Retrocession program detail

Total Pool Capacity is $13.7 billion

$13.7bn $3.7bn	Commonwealth Guarantee $10 billion			
$3.35bn	**$350m xs $3,350m** Annual Placement (100.000%)			
$1.5bn	$1,850m xs $1,500m 3rd year of 19/20/21 Tranche (22.660%)	$1,850m xs $1,500m 2nd year of 20/21/22 Tranche (30.000%)	$1,850m xs $1,500m 1st year of 21/22/23 Tranche (30.000%)	$1,850m xs $1,500m Annual placement (17.340%)
$500m	$1,000m xs $500m 3rd year of 19/20/21 Tranche (21.666%)	$1,000m xs $500m 2nd year of 20/21/22 Tranche (30.000%)	$1,000m xs $500m 1st year of 21/22/23 Tranche (30.000%)	$1,000m xs $500m Annual placement (18.334%)
$250m	$250m xs $250m 3rd year of 19/20/21 Tranche (21.661%)	$250m xs $250m 2nd year of 20/21/22 Tranche (30.000%)	$250m xs $250m 1st year of 21/22/23 Tranche (30.000%)	$250m xs $250m Annual placement (18.339%)
$225m	$25m xs $225m 2021 (21.661%)	$25m xs $225m 21/22 (30.000%)	$25m xs $225m 21/22/23 (30.000%)	$25m xs $225m 2021 (18.339%)
0	ARPC Retrocession Retention $225m			
	Insurance Industry Retention up to a maximum of $200m. Individual Insurer Retention of 5% of gross written premium with a minimum of $100,000 and a maximum of $12.5m.			

There are currently 73 participants in the retrocession program drawn from the Australian market and from the Lloyds, European, Bermudian, USA and Asian markets. Figure 2.5: Retrocession program counterparty credit rating CY 2021 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 2021



The 2021 $3.475 billion (2020: $3.45 billion) retrocession program was placed in five layers in excess of $225 million (2020: $250 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 2021 totalled $64.9 million gross (compared with $62.8 million in 2019-20).

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 new three-year maintenance and development program for 2021-24 to keep both models current and to expand the model's capability to include stochastic analysis in city locations.

Geospatial model

ARPC continued to develop the geospatial two-dimensional (2D) blast model that incorporates some three-dimensional attributes covering all mainland locations in Australia and can estimate the business interruption from police exclusion zones applied to attack sites. This geospatial catastrophe model is based on the original 2D blast model developed by Risk Frontiers in 2007 and was commissioned in 2020.

Exposure risk management

A key Australian Government expectation is that ARPC will be able to advise the Minister of the estimated reinsured losses (under the Pool) 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	2017-18	2018-19	2019-20	2020-21
Full review	35**	28*	37**	12***
Proportion of GWP covered	27%	75%	24%	62%

*   Includes reviews on Lloyd's syndicates
**   Includes reviews on Singapore-based captive insurers
***The review of Lloyds` syndicates initially scheduled in May 2021 was deferred due to the ongoing impact of COVID-19 and border restriction

Insurer customer review trends

Most insurer customers were found to have high levels of compliance but there were some errors. In recent years, 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 contains 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, and
- 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 237 in 2020-21, compared to 227 in 2019/20.

The percentage split between each category 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 2.8: Active client reinsurance agreements*

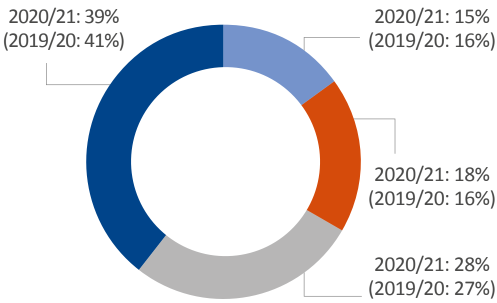
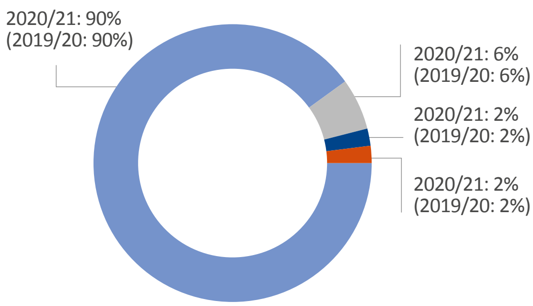


Figure 2.9: ARPC gross written premium by insurer customer type



Australian Insurer | Captive Insurer | Lloyds Insurer | Overseas Insurer

*as at 30 June 2021

Insurance premium reports

The following tables show that GWP by tier, state and business class (between 2017 and 2021) has remained stable, with most premium generated from Tier B.

Figure 2.10: ARPC gross written premium by tier

	Actual					
	2020-21 %	2019-20 %	2018-19 %	2017-18 %	2016-17 %	2015-16 %
Tier A	21%	21%	20%	21%	19%	19%
Tier B	58%	59%	59%	56%	57%	56%
Tier C	21%	20%	21%	23%	24%	25%
Total GWP $'000	258,326*	233,882	201,879	181,766	159,945	130,490

* Note that the premium revenue for the 2020-21 underwriting year of $258 million is the amount as at 8 August 2021

Figure 2.11: ARPC gross written premium by state

	Actual					
	2020-21 %	2019-20 %	2018-19 %	2017-18 %	2016-17 %	2015-16 %
NSW	31%	32%	32%	32%	31%	32%
VIC	25%	25%	25%	25%	25%	24%
QLD	21%	21%	21%	21%	20%	21%
WA	12%	12%	12%	12%	14%	13%
SA	7%	7%	7%	7%	7%	7%
TAS	1%	1%	1%	1%	1%	1%
NT	1%	1%	1%	1%	1%	1%
ACT	2%	1%	1%	1%	1%	1%
Total GWP $’000	258,326*	233,882	201,879	181,766	159,945	130,490
Cumulative total $’000	2,458,806	2,200,480	1,966,598	1,764,719	1,582,953	1,423,008

* Note that the premium revenue for the 2020-21 underwriting year of $258 million is the amount as at 8 August 2021

Figure 2.12: ARPC gross written premium by business class

	Actual					
	2020-21 %	2019-20 %	2018-19 %	2017-18 %	2016-17 %	2015-16 %
Fire/ISR/BI	88%	88%	86%	85%	85%	84%
Contract Works	6%	6%	7%	8%	6%	7%
Burglary	1%	1%	3%	3%	4%	4%
Miscellaneous Accident	0%	0%	1%	1%	2%	2%
Mobile Plant	4%	4%	2%	2%	2%	2%
Glass	1%	1%	1%	1%	1%	1%
Farm	0%	0%	0%	0%	0%	0%
Total GWP $’000	258,326*	233,882	201,879	181,766	159,945	130,490
Cumulative total $’000	2,458,806	2,200,480	1,966,598	1,764,719	1,582,953	1,423,008

* Note that the premium revenue for the 2020-21 underwriting year of $258 million is the amount as at 8 August 2021.

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*

Underwriting year	ARPC premium revenue ($ million)	Insurer customer sum insured ($ million)	Insurer customer GWP ($ million)	ARPC premium as % of GWP
2011-12	124.7	3,080,062	3,516.6	3.5%
2012-13	129.8	3,009,662	3,710.1	3.5%
2013-14	126.6	3,114,901	3,608.6	3.5%
2014-15	128.5	3,425,056	3,660.4	3.5%
2015-16	130.5	3,593,017	3,500.6	3.7%
2016-17	159.9	3,681,649	3,419.3	4.7%
2017-18	181.8	3,464,734	3,764.4	4.8%
2018-19	201.9	3,711,900	4,142.4	4.9%
2019-20	233.9	3,882,379	4,744.8	4.9%
2020-21	258.3*	**	5,220.7	4.9%

* The premium revenue for the 2020-21 underwriting year of $258 million is the amount to 30 June 2021 as at 8 August 2021
** The 2020-21 risk reports are submitted into our RISe platform from July 2021 until September 2021. Therefore this information is not available as at 30 June 2021

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 2019-20 by tier (as at 30 June 2020)

Tier	ARPC premium revenue ($ million)	Insurer customer sum insured ($ million)	Insurer customer GWP ($ million)	ARPC premium as % of GWP
A	48.4	494,368	302.9	16.0%
B	137.5	2,123,581	2,595.3	5.3%
C	48.0	1,264,430	1,846.6	2.6%
Aggregated	**233.9**	**3,882,379**	**4,744.8**	**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 2019-2020 by state, as at 30 June 2020

State	ARPC premium revenue ($ million)	Insurer customer sum insured ($ million)	Insurer customer GWP ($ million)	ARPC premium as % of GWP
NSW	74.0	1,285,086	1,408.4	5.2%
VIC	57.7	877,445	1,064.3	5.4%
QLD	47.8	766,964	1,049.5	4.5%
WA	28.8	525,630	661.5	4.4%
SA	16.1	228,616	305.1	5.3%
NT	3.2	56,461	99.9	3.2%
TAS	3.2	79,089	93.0	3.5%
ACT	3.1	63,088	63.1	4.8%
Aggregated	**233.9**	**3,882,379**	**4,744.8**	**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 2020.

Figure 2.16: Aggregate sum insured amounts by tier

Tier	2019-20 $ trillion	2018-19 $ trillion	2017-18 $ trillion	2016-17 $ trillion	2015-16 $ trillion
A	0.5	0.5	0.4	0.4	0.4
B	2.1	2.0	1.9	2.0	1.9
C	1.3	1.2	1.2	1.3	1.3
Total aggregate sum insured $ trillion	3.9	3.7	3.5	3.7	3.6

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

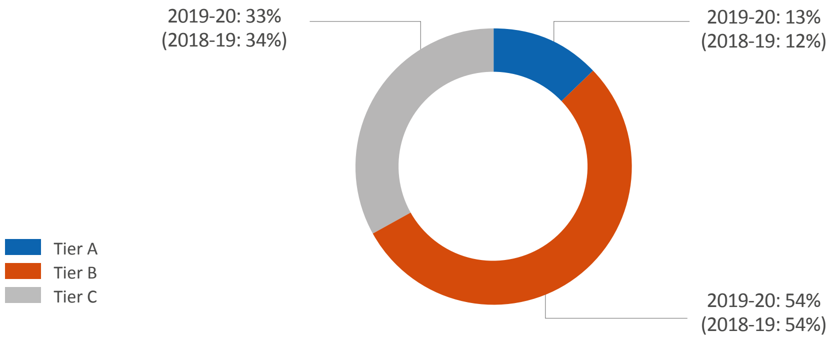
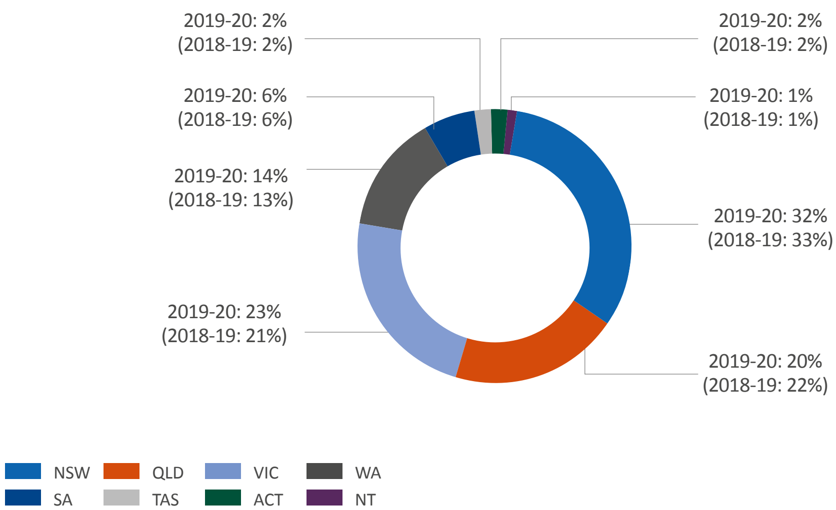


Figure 2.18: Aggregate sum insured by tier 2019-2020

2019-20	Tier A	Tier B	Tier C
Spread:	13%	54%	33%
	$494 billion	$2,124 billion	$1,264 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 2019-2020



ARPC SUPPORTS THE TREASURY WITH THE 2021 TRIENNIAL REVIEW

The *Terrorism Insurance Act 2003* requires that a review be conducted at least once every three years to test whether market failure for terrorism insurance exists and therefore whether the Act should continue. Previous reviews have also been used as an opportunity to improve the pool.

Previous reviews completed in 2006, 2009, 2012, 2015 and 2018 each found there was insufficient terrorism insurance available commercially on reasonable terms, and concluded that the Act should continue in operation, subject to further review, in no more than three years.

The terms of reference for the 2021 Triennial Review comprise:

- whether there continues to be market failure in the private sector supply of terrorism insurance, and consequently whether there is a need for the Act to continue
- whether the governance, administration and resourcing of the pool remain appropriate, including interactions between the Cyclone Reinsurance Pool and the Terrorism Reinsurance Pool and
- whether the risk of cyber terrorism causing physical property damage should be included in the pool.

ARPC supports the review including connecting stakeholders to The Treasury if they wish to provide input into the Review.

As in previous years, The Treasury is responsible for undertaking the 2021 review and preparing a report for ARPC's Minister, The Hon. Michael Sukkar MP, Assistant Treasurer, Minister for Housing and Minster for Homelessness, Social and Community Housing.

The 2021 Review is due to be presented to the Minister by 31 December 2021.

Previous reviews completed in 2006, 2009, 2012, 2015 and 2018 each found there was insufficient terrorism insurance available

CYCLONE REINSURANCE POOL PROPOSAL

The Government would provide a $10 billion annually reinstated guarantee to ARPC in support of administering the cyclone reinsurance pool.

On 5 May 2021, the Australian Government announced that it intended 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 and for the residents and small businesses in those areas.

The cyclone reinsurance pool was announced at a media doorstop in Cairns, far north Queensland, on 4 May 2021, by The Hon. Scott Morrison MP, Prime Minister; 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.

Further information can be found in the joint media release issued 4 May 2021 by The Hon. Scott Morrison MP, Prime Minister; The Hon. Josh Frydenberg MP, Treasurer; The Hon. David Littleproud, Minister for Agriculture, Drought and Emergency Management; and The Hon. Keith Pitt MP, Minister for Resources, Water and Northern Australia.

The joint media release containing the Prime Minister's announcement can be found here: https://ministers.treasury.gov.au/ministers/michael-sukkar-2019/media-releases/more-affordable-access-insurance-northern-australians

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

Waterfront cyclone damage, Convention Centre, Darwin

Torrential rain during Cyclone Ita on The Strand, Townsville

Australian Government
Australian Reinsurance Pool Corporation

3 Annual Performance Statement

George Street, Sydney

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 2020-21 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.

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 (Refer to Chapter 1 – Strategy, 'Vision Mission and Values').

Performance criteria

ARPC's performance against the 2020-24 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 2020-21 reporting period. A summary of achievements against the 2020-24 Corporate Plan is shown in Figure 3.2.

Financial snapshot

Figure 3.1: ARPC by numbers as at 30 June 2021

Figure 3.2: Achievements against 2020-24 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 $258.1 million vs target of $140 million.
	ARPC's pool capacity and total funding available; and level of insurance market involvement.	Measure 2 – pool capacity, before the Commonwealth guarantee, per calendar year.[3]	Exceeded Retrocession capacity of $3.475 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 73 reinsurers participated in the 2021 program vs a target of 15. 58.9% 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 2021 – $595.4 million vs a minimum of $285 million and a target of $345-$425 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]	Substantially Met Major projects have been delivered on time and within budget or are substantially on track to be completed on time and within budget. There have been some delays with finalising the HB188 Handbook as it progresses through Standards Australia's editing and consultation processes. ARPC expects Standards Australia to publish the handbook during the second half of 2021. There has been a delay in commencing the research collaboration with the University of Queensland due to difficulties recruiting a post-doctoral research fellow in the COVID-19 environment. The post-doctoral research fellow will commence work in September 2021.
5 Engage, understand and collaborate with stakeholders	ARPC will record and report on stakeholder engagement activity and will use this to inform future stakeholder engagement activities.	Measure 7 – Record and report our stakeholder activity.[8]	Met Stakeholder activity for the year has occurred and has been reported.
	ARPC committed to developing a stakeholder survey to measure stakeholder engagement outcomes and to establish a benchmark for future surveys.	Measure 8 – Develop and launch baseline stakeholder survey and use results to improve stakeholder outcomes.[9]	Met Stakeholder survey designed in consultation with ORIMA was conducted during year. The results of the survey were published for stakeholders during the year.

2 ARPC Corporate Plan 2020-24, page 24
3 ARPC Corporate Plan 2020-24, page 25
4 ARPC Corporate Plan 2020-24, page 26
5 ARPC Corporate Plan 2020-24, page 27
6 ARPC Corporate Plan 2020-24, page 28-29
7 ARPC Corporate Plan 2020-24, page 30-31
8 ARPC Corporate Plan 2020-24, page 32
9 ARPC Corporate Plan 2020-24, page 32

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

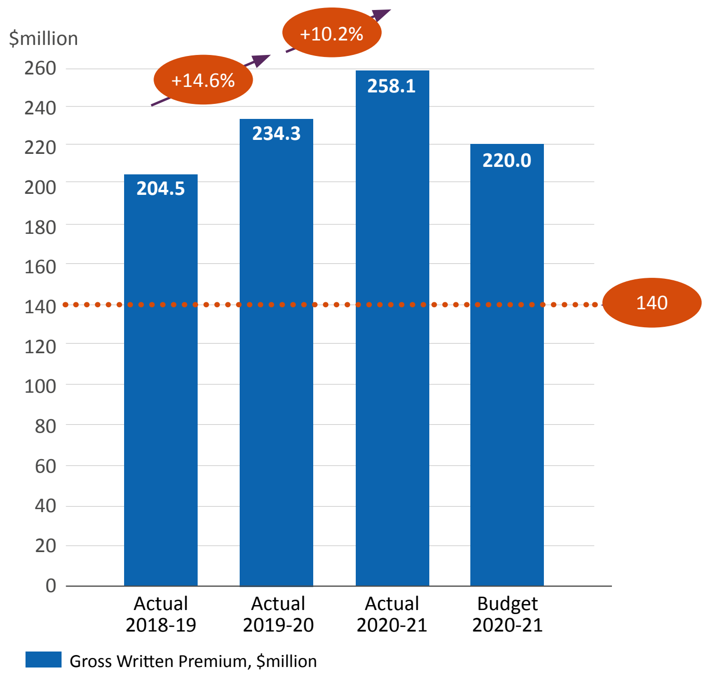
To improve financial sustainability and achieve higher-than-target premium in each plan period.

Source

Measure 1, Gross Written Premium, ARPC Corporate Plan 2020-24, page 24.

RESULT – Exceeded

Figure 3.3: Gross written premium



ARPC's objective for Measure 1 for 2020-21 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 2020-21 was $258.1 million which was $118.1 million better than its Corporate Plan target, and $38.1 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.

Measure 2

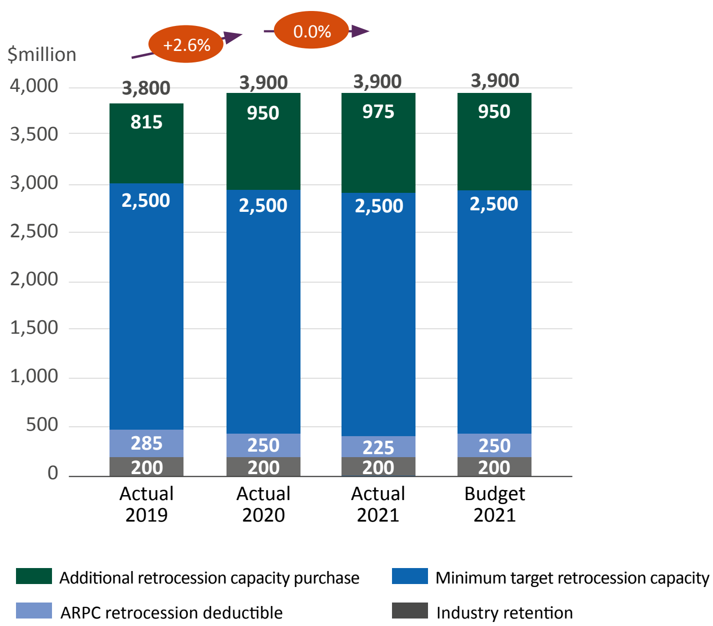
To protect the government from losses through the purchase of greater than $2.5 billion in retrocession in each program period.

Source

Measure 2, pool capacity, before the Commonwealth guarantee, per calendar year, ARPC Corporate Plan, 2020-24, page 25.

RESULT – Exceeded

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



*Assumes no change to the current pool.

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 $3,475 million ($3.475 billion) (2020: $3.45 billion) retrocession program for the 2021 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 2021 calendar year was $3.475 billion which was $975 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 pool.

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

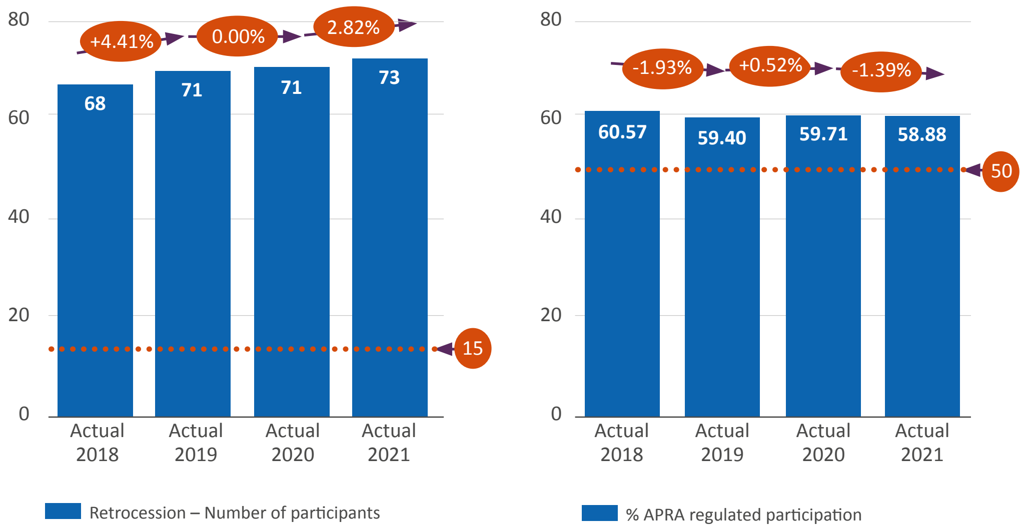
The objective is to maximise private sector participation in the retrocession program.

Source

Measure 3, Private reinsurance sector participation, ARPC Corporate Plan 2020-24, page 26.

RESULT – Exceeded ✔✔

Figure 3.5: Retrocession program detail*



*Assumes no change to the current pool

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 APRA regulated or APRA recognised or who hold a Standard & Poor's 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 pool 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 2021 period ARPC had 73 participants in the program against a target of 15 and 58.9 per cent of participants were APRA regulated reinsurers versus 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

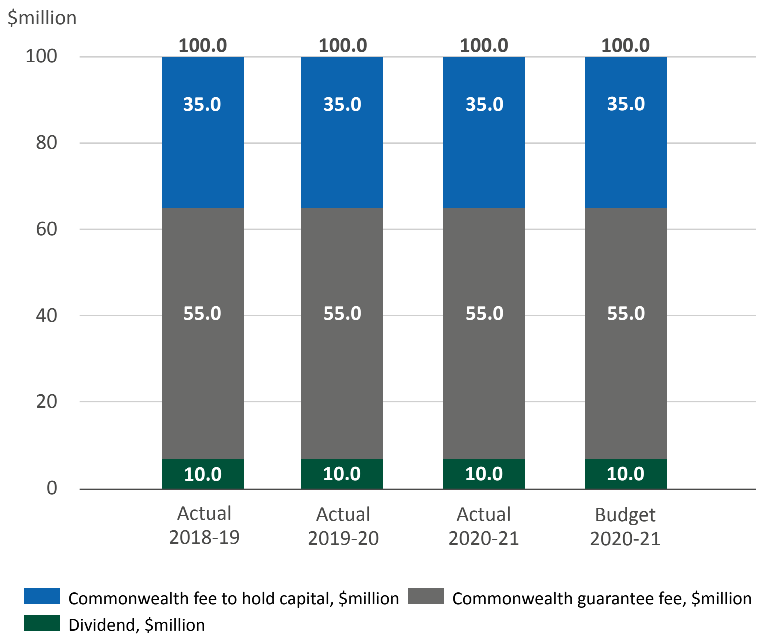
To meet ARPC's obligations, the target is to deliver the Government payments in each plan period.

Source

Measure 4, Payments to Government, ARPC Corporate Plan, 2020-24, page 27.

RESULT – Met

Figure 3.6: ARPC delivered payments to Government totalling $100.0 Million in 2020-21



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

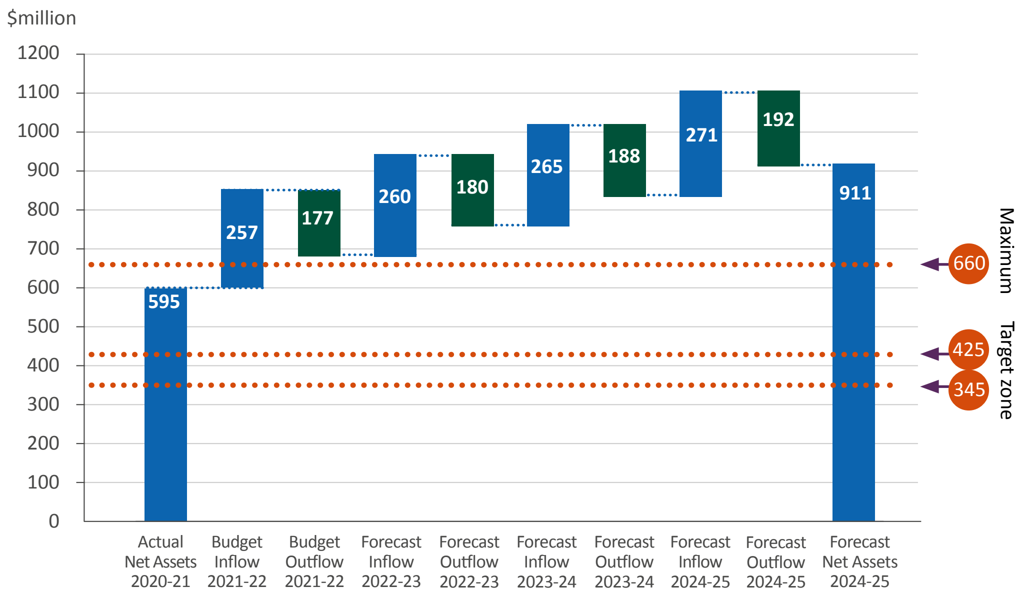
Net Assets against ARPC target and minimum capital.

Source

Measure 5, Net Assets against ARPC target and minimum capital, ARPC Corporate Plan, replace with 2020-24, page 28-29.

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 2021, ARPC's net assets were $595 million, which was higher than target capital and above the target zone.

ARPC's Capital Management Policy levels include:

- Minimum Capital is recommended by the Board to be above $285 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 $345 million and $425 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 $660 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.

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, 2020-24, page 30-31.

RESULT – Substantially 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. During the year, ARPC enhanced the geospatial catastrophe model with a major version update completed in May 2021. Further maintenance and enhancement of the model will be ongoing.
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 sectors. 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 delivered a webinar in 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 was provided to Treasury and is an input into the 2021 Triennial Review.
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 help businesses protect assets against malicious attacks including terrorism. ARPC has completed its contribution to the Handbook. Standards Australia will likely publish the handbook titled 'Base-Building Physical Security Handbook – Terrorism and Extreme Violence' in the second half of 2021. Subsequent to Standards Australia publishing the handbook, ARPC plans to run a roadshow to promote the handbook to our stakeholders and to promote risk mitigation.
Undertake initial assessment of available options for ARPC's core insurance system	ARPC, with assistance from EY, has completed a market assessment of commercial off-the-shelf core insurance systems. Three options have been chosen with detailed specifications and evaluation criteria documented as part of a formal approach to market. There has been a slight delay in going to market due to the Government's May 2021 budget announcement to establish a cyclone reinsurance pool. ARPC had to undertake additional work to allow specifications to accommodate underwriting perils other than terrorism. The formal approach to market was made in early August 2021.
University Research Collaborations	ARPC entered a partnership agreement with the University of Queensland (UQ) for a two-year period. There was a delay in commencement due to difficulties recruiting a post-doctoral research fellow due to COVID-19. UQ has recruited a post-doctoral research fellow who commenced in September 2021.
Redesign of risk management framework with a focus on risk culture	An ARPC cross-functional team worked with a subject matter resource from EY to develop a risk culture statement to underpin a desired risk culture. The risk culture statement was approved by the Board in March 2020. Embedding the desired risk culture was initiated at an all staff offsite in April 2020. Additional activities include development of an incident management procedure and training on this procedure, the development of a risk culture survey for employees which will be conducted in the following financial year to set a baseline.

5 Engage, understand and collaborate with stakeholders

Measure 7

Stakeholder engagement activity – record and report our stakeholder activity.

Source

Record and report our stakeholder activity, ARPC Corporate Plan, 2020-24, page 32.

RESULT – Met ✔

High Priority Stakeholder Meetings

In the period, ARPC senior executives and the insurer customer audit team met with about 125 high priority stakeholders across government and the insurance industry. This includes government agencies, insurers, reinsurers, industry associations, global associations and consultants.

Events

Despite the challenges of the COVID-19 pandemic and associated restrictions, ARPC hosted two webinars and a networking dinner. All experienced better than expected attendance and feedback was positive.

Figure 3.9: Events

	Event date	Number of attendees
ARPC Networking Dinner (Canberra)	9 March 2021	47 attendees
ARPC Cyber Terrorism Research and Insurance Webinar	3 September 2020	135 attendees 210 Cyber Research Compendiums were distributed as part of webinar registration
ARPC Annual Terrorism Risk Webinar	12 November 2020	102 attendees

Social Media

Target audience engagement with ARPC grew steadily over the period as shown by the high average engagement rate per post on ARPC's LinkedIn page and the significant increase in followers.

Figure 3.10: Social Media Engagement

Number of posts (12 months)	Average engagement rate per post*	Average impressions per post**	% Increase in followers from June 2020 to June 2021
17	7.7%	569	31% increase

* **Average Engagement Rate** is the number of engagement actions (e.g., likes, shares, comments) a post receives relative to your total number of followers. Between 3.5 per cent and 6 per cent is considered a high engagement rate.

** Average impressions per post is the number of times a post was displayed on someone's social media feed, regardless of whether it was clicked.

Traditional Media

ARPC maintained a solid presence in target insurance trade media over the period including Insurance News, Asia Insurance Review, Insurance Business Australia and The Insurer. This comprised coverage of ARPC announcements as well as interviews.

Following the Australian Government announcement of a Cyclone Reinsurance Pool, ARPC attracted greater coverage from mainstream media including the Australian Financial Review and Northern Australian media such as the Cairns Post.

Figure 3.11: Media References

Trade media	Mainstream media
47	6

Electronic Direct Mail (eDMs)

ARPC sent 11 eDMs in the period, comprising quarterly newsletters, special issue newsletters and other announcements such as event invitations, customer survey results and insurer customer notices. Target audience engagement with eDMs was higher than average for government and insurance industry sectors as shown in the example below of average open and click rates for our Under the Cover (UTC) Newsletter eDMs.

Figure 3.12: eDM Engagement

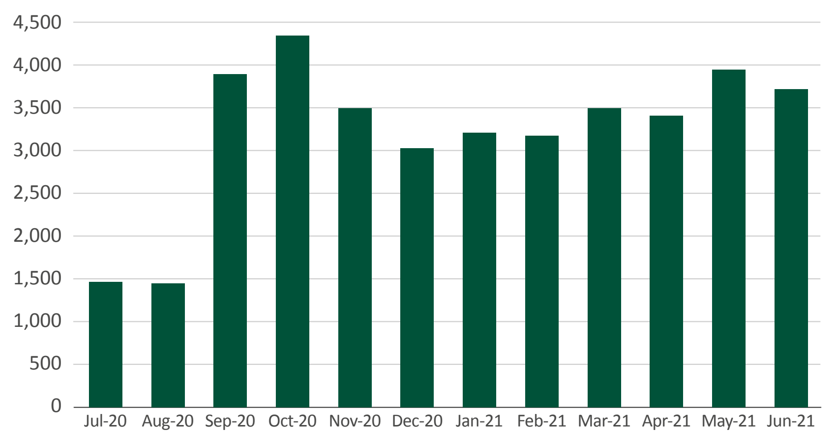
eDMs (total) (July 2020-30 June 2021)	Open rate average (Under the Cover)	Click rate average (Under the Cover)
11	296 opens (28.6%) Government standard 28.77% Insurance industry standard 21.36%	99 clicks (8.7%) Government standard 3.99% Insurance industry standard 2.13%

Source: Mailchimp

Website engagement (by monthly users)

The number of new and returning users to the ARPC website has grown over the period, with spikes in users coinciding with publication of ARPC news and publications.

Figure 3.13: ARPC website users



Measure 8

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

Source

Measure 8, ARPC Corporate Plan, 2020-24, page 32.

RESULT – Met

In December 2020, a short online survey was sent to ARPC's 225 insurer customers, 36 of which are in Australia and 189 based overseas.

Overall, the survey results indicated that ARPC is delivering on its vision, is a valuable and important partner, a trusted expert and is communicating and engaging well.

The survey design was guided by a senior executive workshop which identified several 'Big questions': Are we delivering on our vision? What do our customers think of us? Does ARPC represent value for money? Does ARPC engage effectively with stakeholders?

Key survey findings included that:

- 97 per cent of respondents overall (Australia and overseas) believe ARPC is an effective provider of terrorism risk insurance
- 98 per cent agree ARPC is a trusted expert on terrorism reinsurance
- 96 per cent agree ARPC is easy to deal with and 89 per cent agree ARPC is transparent
- Respondents rated ARPC's publications and digital business to business communications strongly, particularly Australian respondents
- 80 per cent found the ARPC insurer customer review process very or somewhat useful

This first annual survey of insurer customers formed a baseline measure to assess and report on the effectiveness of stakeholder engagement efforts in future years.

A full article on the findings can be found in Chapter 1, page 32.

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.

Investment assets

At 30 June 2021, ARPC held $654.7 million in term deposits and $2.0 million in cash (2020: $571.5 million and $1.8 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 25 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 2020-21. All investments are held in ARPC's name.

ARPC recognises the need to fund the retrocession retention of $225 million within 90 days based on actuarial analysis conducted. ARPC manages the investment maturity profile to meet this liquidity requirement.

Figure 3.14: Investments by credit rating as at 30 June each year

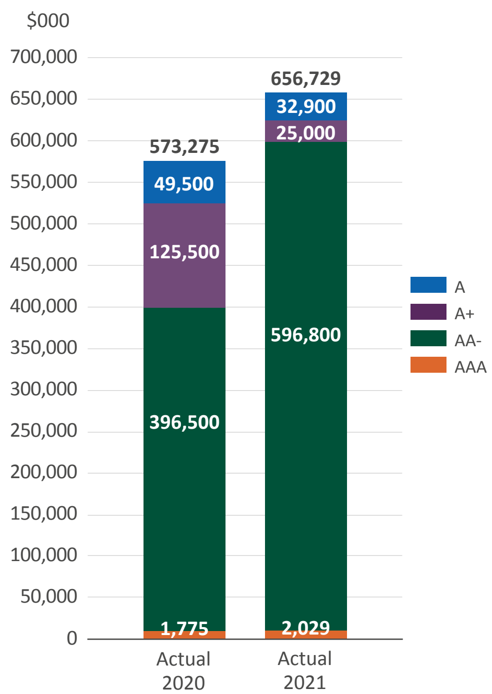
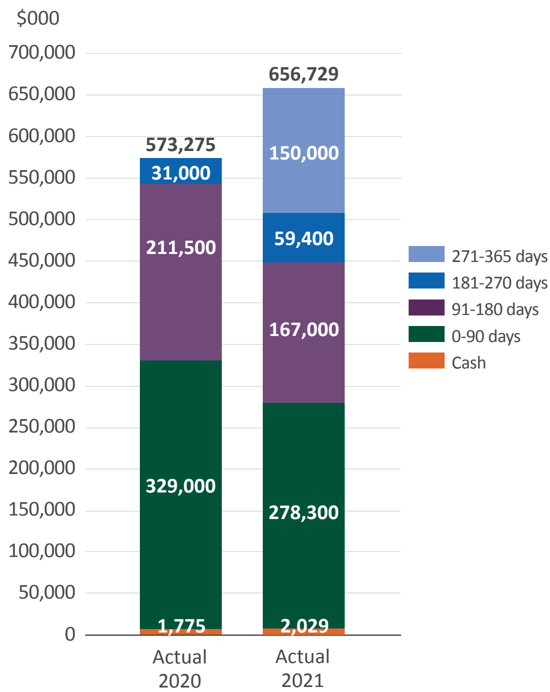


Figure 3.15: Investments by maturity as at 30 June each year



Investment income

Investment income fell to $3.9 million (2020: $9.7 million) owing to lower interest rates in 2020-21. This is consistent with expectations.

Interest rates in Australia are at historic lows, and ARPC expects investment income to remain low over the next year.

ARPC has increased investment duration to attract slightly higher yields while maintaining the liquidity to fund the retrocession retention within 90 days.

Analysis of performance against purpose

During 2020-21, 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 commencing the research partnership with University of Queensland. This will commence in 2021-22, as the university has successfully recruited a post-doctoral research fellow. During the period, the following factors impacted ARPC's performance. These are displayed in Figure 3.16.

Figure 3.16: 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 as insurers endeavour to improve performance to target. 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 2021, ARPC purchased an additional layer of $25 million of retrocession which reduced the retention to $225 million, bringing total retrocession capacity purchased to $3.475 billion.	Limited	Minor (positive)
Government compensation	Payments to Government in 2020-21 of $100.0 million.	Limited	Moderate (negative)

Australian Government
Australian Reinsurance Pool Corporation

4 Governance

Golden hour, Melbourne CBD

Governance framework

ARPC's governance framework is set out in 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.

The role and functions of ARPC are set out in the TI Act and include:

1. to provide insurance cover for eligible terrorism losses (whether by entering into contracts or by other means)
2. any other functions that are prescribed by the regulations.

The Board appoints the Chief Executive who is responsible for managing the affairs of the Corporation, subject to directions of, and in accordance with the delegations and policies determined by the Board.

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

The Minister gave one written direction in FY2020-21. All Ministerial Directions are published on ARPC's website.

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 2020 and subsequently three members after Ms Karen Payne's term as a Board member expired.

Under the PGPA Act (section 22), the Minister for Finance 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 Government Policy Orders (GPOs) applicable to ARPC.

ARPC 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 as well as publishing it on the website. The Corporate Plan details strategic priorities and planned key activities which are reported in the annual report.

The TI Act requires there to be a review undertaken every three years for the need of the Act to continue in operation. The next review will be undertaken by The Treasury in FY 2021-22.

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

ARPC's governance framework is set out in the *Terrorism Insurance Act 2003* (TI Act) and ARPC's status as a corporate Commonwealth entity

Board

During 2020-21, the Board comprised a Chair and between four and six other (non-executive) members.

The term of appointment of one Board member expired on 4 October 2020. On 30 June 2021, the term of three Board members ceased. Effective 1 July 2021, Elaine Collins was appointed for a further term and Jan van der Schalk was appointed to the Board. Julie-Anne Schafer was also appointed to the Board on 14 September 2021. ARPC would like to thank Karen Payne, Janet Torney and John Peberdy whose terms ceased during the financial year.

The Board's role is to govern ARPC and includes setting the strategic direction and financial objectives and monitoring their implementation as set out in the Corporate Plan. The Board has a mix of skills and experience across diverse fields including insurance, finance, investment, actuarial, strategy, across the public and private sectors.

The names and details of ARPC Board members who held office during 2020-21 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 Executive Chair at Tanarra Restructuring Partners. Previously Ian was Chairman of Markets at PwC and prior to this 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

Chair, Audit and Compliance Committee

Janet Torney was appointed a Member of the Board on 1 July 2015 up until 30 June 2021, when she completed her term. She was Chair of the Audit and Compliance Committee from 5 October 2017 to 30 June 2021.

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.

Elaine Collins
Member

BSc (Hons) MEc FIAA FAICD
Terms: 1 July 2015 – 30 June 2018
1 July 2018 – 30 June 2021
1 July 2021 – 30 June 2024

Member, Audit and Compliance Commitee

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 holds 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 health insurer rt health.

She also holds an academic role as a Professor of Practice with the Business School at the University of New South Wales.

Elaine is a Fellow of the Actuaries Institute, a Fellow of the Australian Institute of Company Directors and a member of the Actuaries Institute's Professional Standards Committee.

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 and completed his term on 30 June 2021.

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.

John has served on a broad range of boards in the financial services sector, including bodies, government authorities and public companies.

Robin Low
Member

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

Member, Audit and Compliance Commitee

Ms Robin Low was reappointed a Member of the Board on 23 April 2020 and is a member of the Audit and Compliance Committee. From 1 July 2021, Robin will be Chair of the Audit, Risk 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.

Maria Fernandez PSM
Member

PSM, GAICD
Term: 23 April 2020 – 22 April 2023

Maria Fernandez has a distinguished career in the Australian Public Service. From 2015 to 2019, she was Deputy Secretary, Intelligence and Capability with the Department of Home Affairs. Before that, Maria was the first female head of an Australian intelligence agency as the Director (CEO) of the Australian Geospatial Intelligence Organisation. Maria's experience also includes being Deputy Director of the Australian Signals Directorate, and Chief of Staff to the Minister for Defence and the Minister for Education.

Maria provides strategic advisory and intendent assurance services to several public sector organisations, including the Department of Defence, Australian Space Agency, Geoscience Australia and the Bureau of Meteorology.

In 2017 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 a graduate of the Harvard Business School Advanced Management Program.

Karen Payne
Member

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

Member, Audit and Compliance Committee

Karen Payne was appointed a Member of the Board on 5 October 2017 and completed her term on 4 October 2020.

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.

> The Board's role is to govern ARPC and includes setting the strategic direction and financial objectives and monitoring their implementation as set out in the Corporate Plan.

Board meetings

The Board convened eight meetings during the 2020-21 financial year, comprising four meetings for general business, two out-of-session meetings and two strategic planning workshops. The table below lists the number of meetings attended by each member during the reporting period.

Figure 4.1: Number of meetings attended by each member of the Board in 2020-21

Name	Number of meetings entitled to attend	Number of meetings attended	Further information
Mr Ian Carson	8	8	N/A
Ms Janet Torney	8	8	N/A
Ms Elaine Collins	8	8	N/A
Mr John Peberdy	8	8	N/A
Ms Robin Low	8	7	N/A
Ms Karen Payne	2	2	Board Member term ceased 4 October 2020
Ms Maria Fernandez	8	6	N/A

Board remuneration

Remuneration for Board members in 2020-21 was determined by the Remuneration Tribunal (Remuneration and Allowances for Holders of Part-time Public Office) Determination 2020 and the Remuneration Tribunal (Official Travel) Determination 2019.

The base fee covers all activities undertaken by Board members in performing their duties, including part day meetings less than 5 hours, travel, committee work, teleconferences and representational activities. The Board has been assigned travel tier 1.

Figure 4.2: 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 2020 and subsequently three members after Ms Karen Payne's term as a Board member ceased.

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 EY, and external auditors, the Australian National Audit Office (ANAO). The Committee monitored the implementation of internal audit recommendations and undertook an approach to market for internal audit services where EY was appointed internal auditors from October 2020. 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 2020-21, four Committee meetings were held. The Committee members attended the number of meetings outlined in the table below.

Figure 4.3: Meetings attended by each member of the Audit and Compliance Committee in 2020-21

Name	Number of meetings entitled to attend	Number of meetings attended	Further information
Ms Janet Torney	4	4	
Ms Elaine Collins	4	4	N/A
Ms Robin Low	4	4	N/A
Ms Karen Payne	1	1	Board appointment term ceased 4 October 2020

The Board changed the name of the Committee in late June 2021 to the Audit, Risk and Compliance Committee.

Organisational and Governance Structures

The chart below sets out the organisational framework of ARPC.

Figure 4.4: Organisational chart

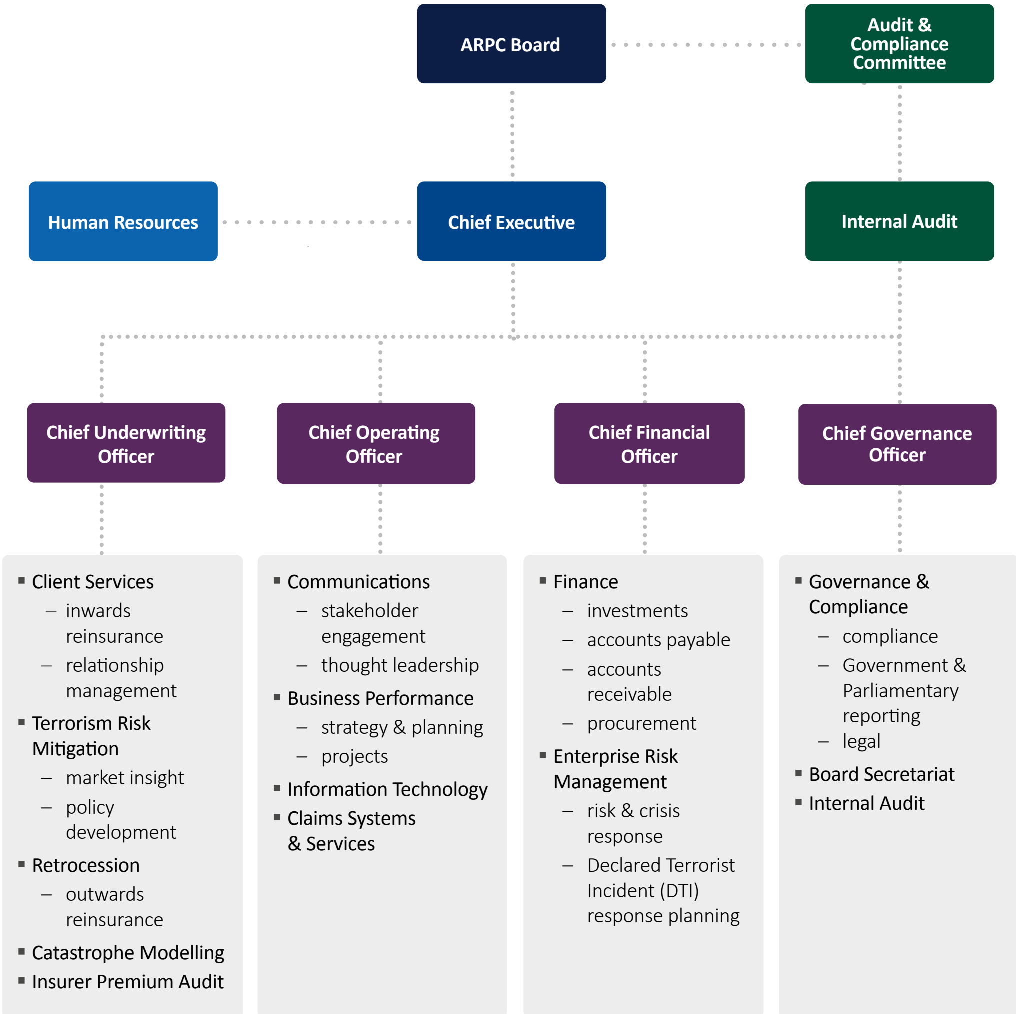
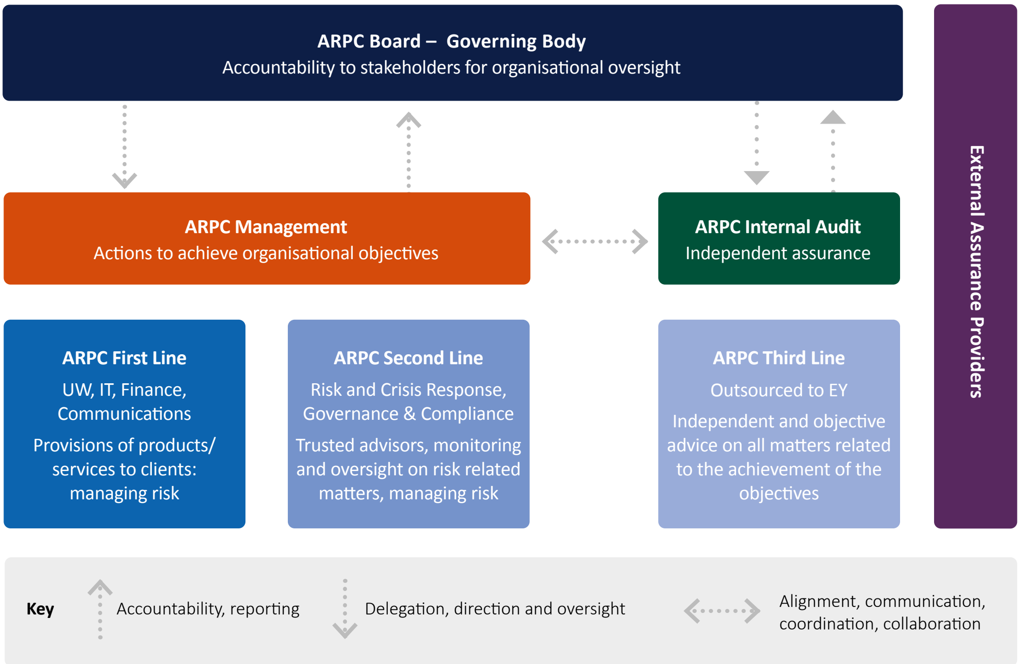


Figure 4.5: The organisation structure supports 3 lines of accountability



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/2021/09/Board-Charter_Sept-2021-Final-Approved-21-Sept-2021.pdf), the Audit and Compliance Committee Charter (https://arpc.gov.au/wp-content/blogs.dir/3/files/2021/09/Audit-Risk-and-Compliance-Committee-Charter_Approved_21-September-2021.pdf) and a suite of policies and procedures that include risk management, financial management, privacy, fraud control, conflict of interest, public interest disclosure, security management and business continuity planning.

Board oversight of 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 did 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 ARPC may face, together with opportunities, and its Risk Appetite and Tolerance Statement (RATS).

ARPC uses a risk matrix to estimate the likelihood and severity of its risks. These risks are assessed every six months and updated for continued relevance. New principal and emerging risks are also identified and evaluated at the six-monthly risk and control self-assessments or whenever change occurs.

ARPC's control environment continues to be refined to address emerging risks and the changing environment.

Processes implemented to manage risk include:

1. Maintaining a Business Continuity Policy and Procedure. Employees 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 employees are provided with the necessary tools to work remotely if required.
2. Implementing a range of IT security measures including alignment with the Essential Eight Maturity Model.
3. Having a deed of indemnity with each Board Member. In 2020-21, 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 2020-21 was $38,950 ($46,684 in 2019-20).
4. Upon commencement, all ARPC employees and Board members are required to sign a confidentiality agreement which outlines their obligations relating to confidential information.

Risk culture

A positive risk culture enables us to better administer our pool.

ARPC believes a positive risk culture is a working environment where risks are considered and managed proactively and appropriately as part of day-to-day 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.

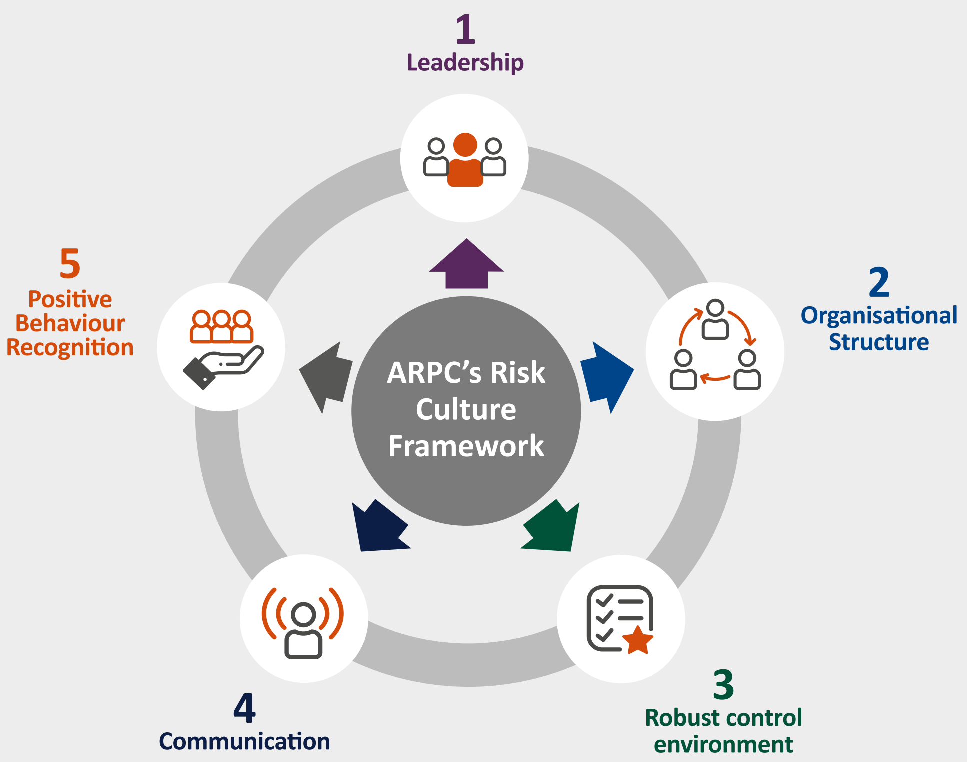
Through the organisation's risk management practices, ARPC aims to further improve enhance our risk culture to behave in a way that reflects our values.

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.

To further support ARPCs risk culture maturity journey, ARPC's management developed a Risk Culture Maturity Framework.

Figure 4.6: Overview of risk culture enablers



Enabler definitions

1. **Leadership** – Board and Executive members to drive a positive risk culture.
2. **Organisational Structure** – Risk governance and operating model support the delivery of ARPC behaviours and enable strong accountability.
3. **Robust control environment** – Accurate identification of risks, their controls and ownership. Understanding of risk management's function as an independent oversight function.
4. **Communication** – Lessons are learnt and root causes addressed. Leadership is focused on building trust with employees and seen to address risk concerns quickly and effectively.
5. **Positive Behaviour Recognition** – Recognise and reinforce positive risk behaviours.

Figure 4.7: Key components and activities of the risk culture enablers

Leadership	Organisational Structure	Robust Control Environment	Communication	Positive Behaviour Recognition
▪ Board ▪ Audit & Compliance Committee ▪ Chief Executive ▪ Senior Executive Team ▪ Board Risk Appetite & Tolerance Statement ▪ Board approved Policies ▪ ARPC Values ▪ Code of Conduct ▪ Risk reports to every Board meeting	▪ ARPC purpose and roles ▪ Clear lines of accountabilities and position descriptions	▪ Risk registers and linked controls ▪ Procedures and process documentation ▪ Strategic Internal Audit Plan ▪ Safetrac compliance training ▪ KnowBe4 cyber awareness training ▪ Employee workshops ▪ DTI exercises and training ▪ Biennial fraud assessments ▪ Manager attestations processes ▪ Risk reporting	▪ Board inductions ▪ Employee inductions ▪ All employee meetings ▪ Collaboration tools ▪ Employee engagement surveys and action plans ▪ Employee pulse surveys	▪ Employee objectives, recognitions and rewards

Figure 4.8: Overview of ARPC's Risk Culture Maturity Framework

Values

The fundamental beliefs and principles that ARPC stands for. Values aim to inspire and guide individuals at ARPC to support decision-making, collaboration and performance achievement.

Enablers

The way we achieve the desired risk culture through:

- people's skills, capabilities and knowledge
- frameworks and methodologies
- technology and data

Behaviours

The expected and observed conduct and actions of individuals and groups in their roles at ARPC.

Metrics

The system of Key Risk Indicators (KRIs) and standards of measurement relevant to ARPC's positive risk culture.

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 and identification of emerging risks lies with management. Oversight and reporting of Risk Management is provided by the Enterprise Risk and Crisis Response team to the Board each quarter, through the Risk Report.

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 and non financial risks facing ARPC, as well as the controls and mitigating strategies in place to mitigate these risks. The Key Risk Indicator (KRI) Report is used to measure ARPC's risk exposure and outlines 12 key risk indicators mapped to risks in the risk register. In addition, the risk management framework is supported by risk and control self-assessments held every six months and regular risk review meetings held with senior management, as well as compliance testing performed over key processes at ARPC.

ARPC has an enterprise incident management framework that provides a framework for the identification, reporting, investigating and remediation of incidents and breaches.

ARPC has a risk system which is used to host the risk register, controls, obligations, perform assessments and manage enterprise incidents end to end. The tool acts as the single source of truth.

Figure 4.9: Overview of ARPC's Risk Management Framework

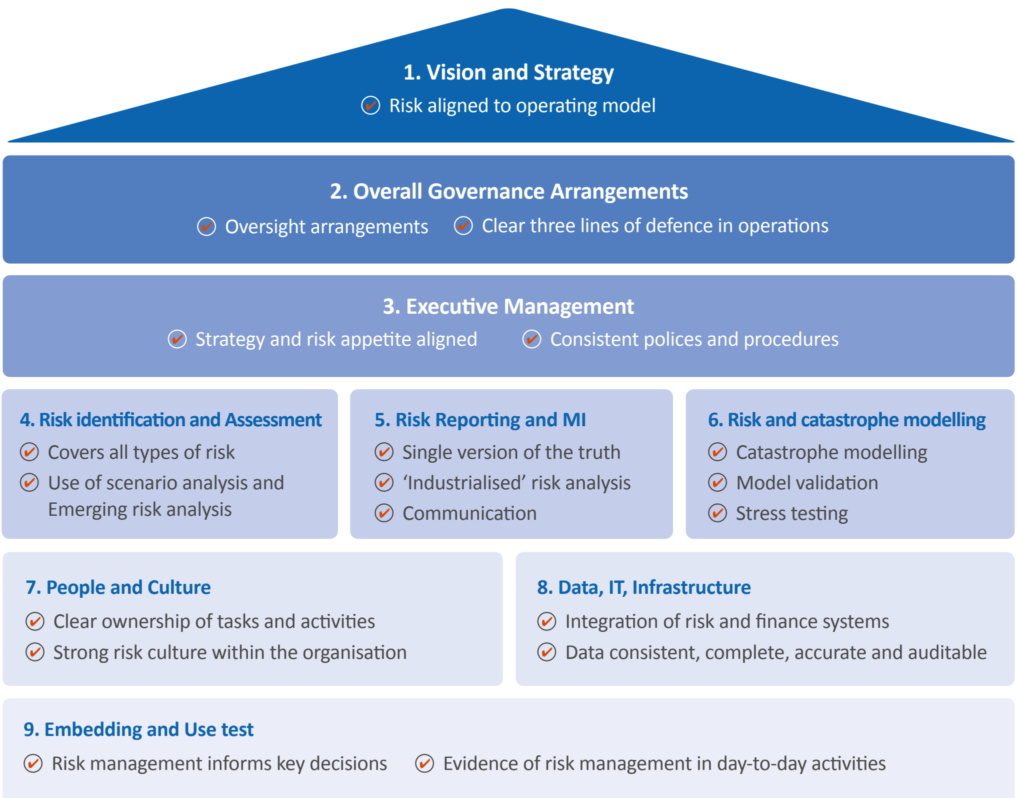
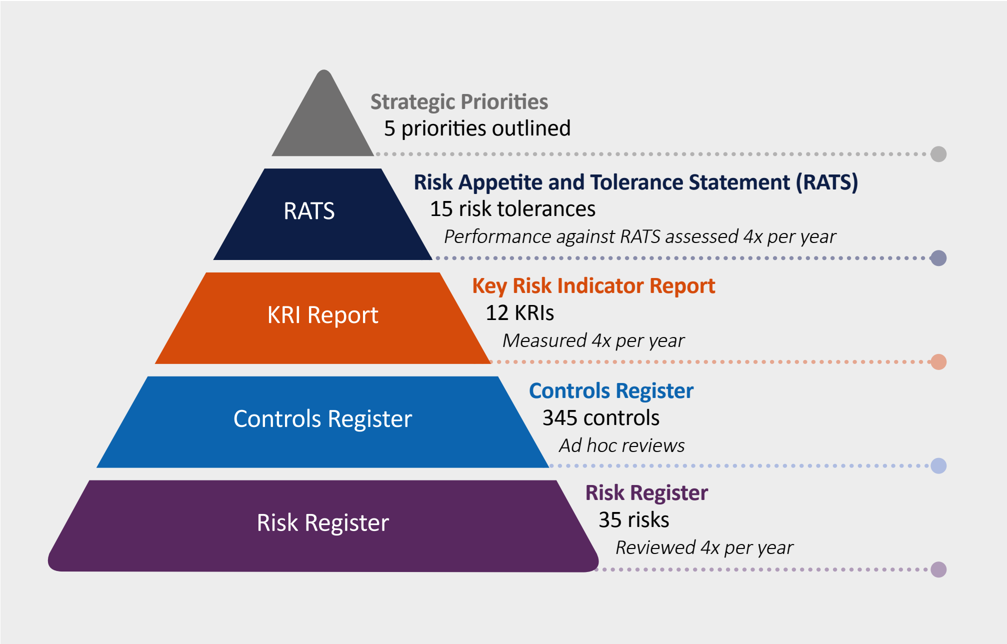


Figure 4.10: Overview of ARPC's approach to Enterprise Risk Management



Managing risk and uncertainties

Section 4 of the Financial Statements 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
  - » Pricing risk
- Credit risk
  - » Investment counterparty risk
  - » Receivables counterparty risk
  - » Retrocession counterparty risk
- Liquidity risk

Internal audit

ARPC's internal audit function is overseen by the Audit and Compliance Committee. ARPC outsources its internal audit program and PwC was the internal auditor until 11 October 2020. Following a tender process, EY was appointed 12 October 2020 as the outsourced internal audit provider. During 2020-21, the 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 2020-21 Internal Audit work plan. The new plan includes an assurance map which will assist guide future audit and compliance activities.

EY works closely with the Committee, CEO and senior management to identify and analyse business risks. The Committee regularly meets with EY, 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.

2020-21 Internal audit program

The Internal Audit Workplan for 2020-21 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 audits and management-initiated reviews.

Internal audit reviews

The following internal audits were completed during 2020-21 as per the SIAP:

- Business Resilience
- Fraud Risk Management
- Payroll Post Implementation

Figure 4.11: Internal audits 2020-21

Audit	Rating	Number of Audit Findings	Items open/closed as at 30 June 2021
Business Resilience	Effective	4	1 open, 3 closed
Fraud Risk Management	Generally Effective	4	1 open, 3 closed
Payroll Post Implementation	Effective	1	Closed

Management-initiated reviews

There were three management-initiated reviews undertaken in the reporting period, one by PwC and two by EY. As they were not defined as internal audits, they did not receive a formal rating and the outcomes were provided to the Audit and Compliance Committee.

Any observations or findings are considered by management and incorporated into business improvement activities. They form part of ARPC's ongoing commitment to improving internal controls and business processes.

The three management-initiated reviews related to payroll process mapping, IT security and retrocession contracts.

Fraud 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 employees. 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 employees were provided with training in compliance with the Fraud Control Policy and the PGPA Rule.

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 employees on relevant legislation and policies, routine information sessions for employees on relevant topics and a process of six-monthly attestations by all senior managers covering key legislation including the TI Act, PGPA Act, 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.

Project management governance

ARPC's approach to project delivery is enabled by a strong governance structure. The Executive team provides project sponsorship to support Senior Leaders in undertaking project delivery. A contemporary online project management toolset provides transparent updates on project progress and reporting in real time.

ARPC's Project Management Office is the responsibility of the Chief Operating Officer and provides regular consolidated reports to the entire organisation and mentors Senior Leaders in developing skills in this discipline. Project status reports are presented to each Board meeting and strategic projects for the upcoming year are discussed and agreed upon at the annual Board strategy sessions held in March. The Project Management Office also undertakes improvement activities to ensure the ARPC program/project methodology remains fit for purpose.

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 Act 1982* (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 2020-21, 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 2020-21, 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. payroll migration, essential Essential Eight protection
- research projects e.g. cyber terrorism, insurability and societal resilience
- retrocession advice
- independent review/advice on legal, and accounting issues
- employee development and training
- work health and safety, and
- organisational structure design 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 4.12: 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. ARPC's Average Daily Electricity Use was down 15%, from 61.62 kWh in Dec19-Mar20 to 52.51 kWh in Dec20-Mar21. 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. Implementation of best practice recycling stations, as follows: ▪ Organic Recycling (food, coffee grounds, tea bags) ▪ Mixed Recycling (glass and plastic bottles, cans, tins) ▪ Paper and Cardboard (clean paper, cardboard, newspapers, brochures) ▪ Simply Cups (takeaway coffee cups only, excluding the lids) ▪ Landfill (all other rubbish which isn't organic or recyclable) ▪ Removal of individual bins to encourage reduction of waste
Water	The building has been accredited with a 4-star water rating.
Investments	32.71% of term deposit investments are in "green deposits"

Australian Government
Australian Reinsurance Pool Corporation

5 ARPC's People

Early morning weekday, Sydney CBD

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 25 employees 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 needed to fulfil its role. ANAO's 2019 performance audit of ARPC concluded that ARPC has a suitable organisational structure in place to support the pool's operations. ARPC employees 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

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.

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)

John Park
Chief Financial Officer

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

John Park is a Chartered Accountant and has over 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 Mortgage Guaranty Insurance Corporation, 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 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 pool 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 pool.

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.

Samantha Lawrence
Chief Governance Officer

BA (Hons), MBA

Samantha Lawrence has more than 15 years' experience in governance and Board secretary roles in the public sector, financial services and insurance industries. Prior to joining ARPC, Samantha was Chief of Staff at Insurance and Care NSW (icare). She was Executive Sponsor for diversity and inclusion and previously held the position of GM, Inclusion and Diversity. She was the Company Secretary at icare from inception until 2017.

Samantha has Board secretary experience with a range of other related NSW Government organisations including the former WorkCover NSW's Workers Compensation Insurance Fund (WCIF) and Safety, Return to Work and Support (SRWS).

Samantha holds a Bachelor of Arts (Hons) in Archaeology and a Masters of Business Administration from the University of Southampton in the United Kingdom. She has undertaken the Australian Institute of Company Directors Course.

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
- payroll
- remuneration and benefits
- engagement and enablement
- performance planning and review
- organisational development
- learning and development, and
- safety and wellbeing.

Workforce Composition

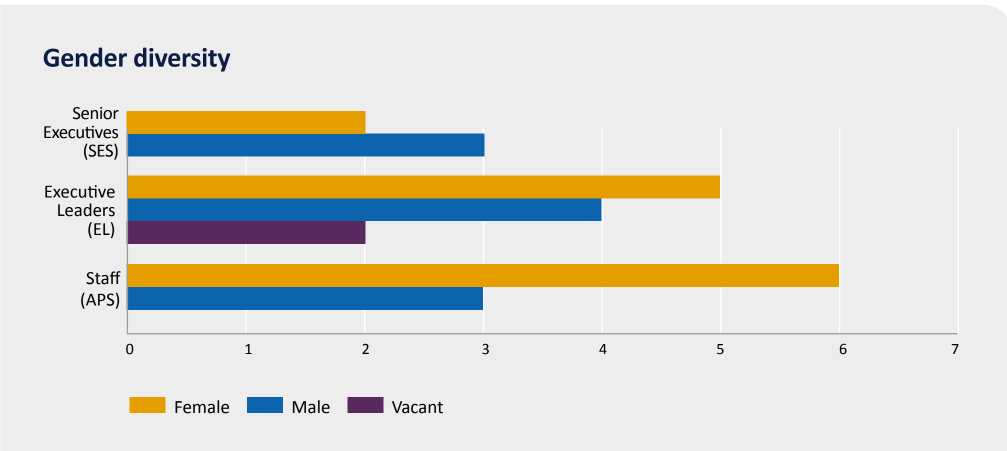
ARPC is comprised of 25 employees who contribute toward the achievement of strategic objectives through a blend of general professional and specialised skills and experience. The 25 employees are all based in Sydney and comprise 23 full-time roles, one part-time role and a part-time intern. As at 30 June 2021, 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 2021, 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 figures display the workforce composition by organisational level (classification), gender, tenure, age, and cultural background as at 30 June 2021.

Figure 5.1: Number of permanent employees by organisational level (classification) and gender (as at 30 June 2021)



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

Figure 5.2: Length of service as at 30 June 2021

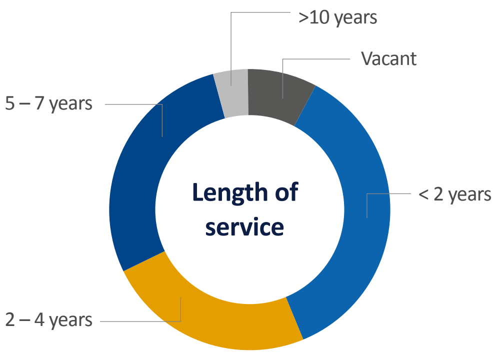


Figure 5.3: Age diversity as at 30 June 2021

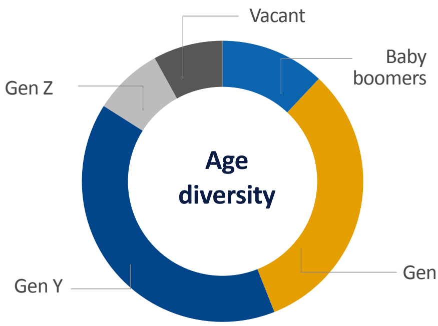
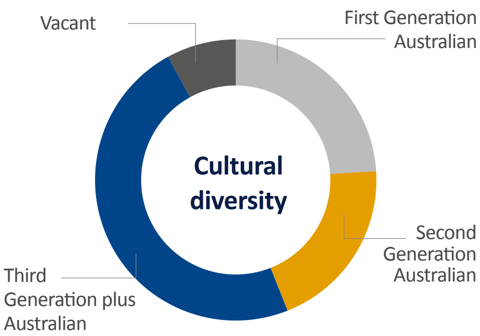


Figure 5.4: Cultural diversity as at 30 June 2021



Strong employee performance

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 HR, 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 2020-21, 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 2020-21 achieved an overall employee engagement score in the 63rd percentile (vs 60th percentile in 2019-20) within Gallup's overall global database with an overall satisfaction score of 85 per cent (vs 84 per cent in 2019-20). This was the third 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.

Key Management Personnel Remuneration

Figure 5.5 shows remuneration information for key management personnel in respect of the year to 30 June 2021. Key management personnel comprise Board members and senior executives. Senior executives (SES) receive company superannuation contributions of 9.5 per cent of base salary. SES employees received no wage increases in 2020-21 in line with the Australian Government's direction on wage restraint. In accordance with Australian Public Service Commission guidance on performance bonuses published on 13 August 2021 (www.apsc.gov.au/circulars-guidance-and-advice/performance-bonus-guidance), ARPC is not paying any discretionary performance bonus payments for outstanding performance.

Figure 5.5: Remuneration for key management personnel ($)

Name	Position	Short Term Benefits			Long Term Benefits		Termination Benefits	Total Remuneration
		Base Salary	Bonuses	Other Allowances	Superannuation Contributions	LSL		
Ian Carson	Chair	27,847	–	4,664	3,039	–	–	35,550
Janet Torney	Member	13,923	–	4,200	1,676	–	–	19,799
John Peberdy	Member	13,923	–	4,200	1,676	–	–	19,799
Elaine Collins	Member	13,923	–	4,200	1,676	–	–	19,799
Robin Low	Member	13,923	–	4,200	1,676	–	–	19,799
Karen Payne*	Member	–	–	-–	–	–	–	–
Maria Fernandez	Member	13,923	–	4,200	1,676	–	–	19,799
Christopher Wallace	CEO	401,457	–	–	37,854	11,101	–	450,412
Michael Pennell	CUO	292,525	–	–	27,916	6,544	–	326,985
John Park	CFO	274,576	–	–	26,103	7,004	–	307,683
Helen Williams	COO	282,638	–	–	26,150	4,201	–	312,989
Janice Nand**	GC	156,720	–	–	16,452	(2,375)	85,230	256,027
Samantha Lawrence***	GCO	87,601	–	–	7,763	582	–	95,946
		1,592,979	**–**	**25,664**	**153,657**	**27,057**	**85,230**	**1,884,587**

* 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 Payne's term ended on 4 October 2020.

** Janice Nand took a voluntary redundancy on 1 January 2021.

*** Samantha Lawrence commenced employment on 1 March 2021.

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/.

In accordance with Australian Public Service Commission Performance Bonus Guidance published on 13 August 2021 (www.apsc.gov.au/circulars-guidance-and-advice/performance-bonus-guidance), ARPC is not paying any discretionary performance bonus payments for outstanding performance.

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

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
230,001 - 245,000	1	192,000	–	600	34,727	5,179	232,506

ARPC measures employee engagement annually, and in 2020-21 achieved an overall employee engagement score in the 63rd percentile

Royal Exhibition Building, Melbourne

> An employee-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.

Darling Harbour, Sydney: *P Sandberg*

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
- PID Act training session
- Leader wellbeing and resilience session run by Ben Delta Consulting
- 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
- St John's first aid
- Australian Government Solicitor (AGS) Employment Law Forum
- Risk Frontiers – Risk Modelling and Management Reloaded webinar series
- Australian National Audit Office (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), 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 2020-21. 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

An employee-led Wellbeing Committee supported by HR coordinates a range of activities each quarter addressing physical and mental wellbeing, professional and personal development and community service. During the COVID-19 pandemic, with all employees working remotely at times, the Wellbeing

Committee was very active promoting both physical and mental wellbeing. The Wellbeing 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
- Daily riddles
- 'Feet unleashed' – time to go for a walk – team members then post photos on the 'Sharing is caring' channel
- 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 Wellbeing Committee has been designing team building activities for each group
- Wellbeing information communications (emails/Teams messages)
- Virtual team building activities
- Training for all employees to nurture their physical, mental and emotional wellbeing
- Training for leaders on how to support the wellbeing of their direct reports and teams
- Weekly meditation sessions

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 at least twice a year, during 2020-21 ARPC conducted 4 exercises.
- Conducting all employee offsite sessions 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 where required, 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.

Australian Government
Australian Reinsurance Pool Corporation

6 Financial Statements

City skyline, Brisbane

Contents

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 2021:

(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 2021 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 2021 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

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

Mark Vial
Acting Executive Director

Delegate of the Auditor-General

Canberra

22 September 2021

Princess Bridge, Melbourne

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

In our opinion, the attached financial statements for the year ended 30 June 2021 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
Chair
21 September 2021

Dr Christopher Wallace
Chief Executive
21 September 2021

Mr John Park
Chief Financial Officer
21 September 2021

Statement of Comprehensive Income

for the period ended 30 June 2021

	Notes	**2021 $'000**	2020 $'000
Premium revenue	1.1A	**245,722**	220,876
Outwards retrocession premium expense	1.1A	**(65,866)**	(65,827)
Commonwealth guarantee fee	1.1A	**(55,000)**	(55,000)
Net premium revenue		**124,856**	100,049
Claims expense		**–**	–
Retrocession and other recoveries revenue		**–**	–
Net claims incurred		**–**	–
Retrocession commission income	1.1B	**936**	3,023
Acquisition costs	1.2G	**(1,942)**	(1,739)
Other operating expenses	1.2G	**(7,812)**	(6,908)
Underwriting result		**116,038**	94,425
Investment income	1.1C	**3,877**	9,650
Other income	1.1D	**–**	11
Finance charges	1.2E	**(12)**	(16)
Operating result before capital holding fee		**119,903**	104,070
Capital holding fee	1.2D	**(35,000)**	(35,000)
Operating result		**84,903**	69,070

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

Statement of Financial Position

as at 30 June 2021

	Notes	2021 $'000	2020 $'000
ASSETS			
Financial assets			
Cash and cash equivalents	2.1A	2,029	1,775
Trade and other receivables	2.1B	64,707	59,787
Investments	2.1C	654,700	571,500
Deferred insurance assets	2.1D	34,052	34,226
Total financial assets		755,488	667,288
Non-financial assets			
Leasehold improvements	2.2A	1,310	1,842
Plant and equipment	2.2A	122	113
Intangibles	2.2A	175	218
Work in progress	2.2A	20	–
Other non-financial assets	2.2B	211	64
Total non-financial assets		1,838	2,237
Total assets		757,326	669,525
LIABILITIES			
Unearned liabilities			
Unearned premium liability	2.3A	124,675	112,300
Unearned commission liability	2.3A	–	936
Total unearned liabilities		124,675	113,236
Payables			
Suppliers	2.4A	34,108	33,640
Other payables	2.4B	77	54
Total payables		34,185	33,694
Provisions			
Employee provisions	3.1A	646	570
Other provisions	2.5A	1,390	122
Total provisions		2,036	692
Interest bearing liabilities			
Leases	2.6A	1,000	1,376
Total interest bearing liabilities		1,000	1,376
Total liabilities		161,896	148,998
Net assets		595,430	520,527
EQUITY			
Accumulated reserves		–	–
Asset revaluation reserve		60	60
Claims handling reserve		34,648	37,252
Reserve for claims		560,722	483,215
Total equity		595,430	520,527

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

Statement of Changes in Equity

for the period ended 30 June 2021

	Accumulated reserves		Asset revaluation reserve		Claims handling reserve		Reserve for claims		Total equity	
	2021 $'000	2020 $'000	**2021 $'000**	2020 $'000	**2021 $'000**	2020 $'000	**2021 $'000**	2020 $'000	**2021 $'000**	2020 $'000
Opening balance at 1 July	**–**	–	**60**	60	**37,252**	34,864	**483,215**	426,533	**520,527**	461,457
Income and expenses										
Net operating result	**84,903**	69,070	**–**	–	**–**	–	**–**	–	**84,903**	69,070
Total income and expenses	**84,903**	69,070	**–**	–	**–**	–	**–**	–	**84,903**	69,070
Asset revaluation reserve	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Transfers between equity components										
Transfer to reserves	**(84,903)**	(69,070)	**–**	–	**(2,604)**	2,388	**87,507**	66,682	**–**	–
Transactions with owners										
Distributions to owners	**–**	–	**–**	–	**–**	–	**(10,000)**	(10,000)	**(10,000)**	(10,000)
Closing balance at 30 June	**–**	–	**60**	60	**34,648**	37,252	**560,722**	483,215	**595,430**	520,527

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

Accounting Policy

Transactions with the 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 8 September 2020, 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 2021 totalling $100 million (2020: $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 2021

	Notes	2021 $'000	2020 $'000
OPERATING ACTIVITIES			
Cash received			
Premiums		275,594	248,729
Commission		1,024	3,313
Interest		4,339	11,060
Other cash received		–	11
Total cash received		280,957	263,113
Cash used			
Retrocession payments		68,042	68,074
Employees		4,016	4,008
Suppliers		4,422	3,501
Government		90,329	90,709
Net GST paid		20,212	18,138
Interest payments on lease liabilities		10	13
Total cash used		187,031	184,443
Net cash from operating activities		93,926	78,670
INVESTING ACTIVITIES			
Cash received			
Proceeds from maturities of term deposits		1,260,000	1,395,600
Total cash received		1,260,000	1,395,600
Cash used			
Placement of term deposits		1,343,200	1,463,000
Purchase of property, plant and equipment		96	204
Purchase of externally developed software		–	36
Total cash used		1,343,296	1,463,240
Net cash used by investing activities		(83,296)	(67,640)
FINANCING ACTIVITIES			
Cash used			
Principal payments of lease liabilities		376	354
Distributions to owners		10,000	10,000
Total cash used		10,376	10,354
Net cash used by financing activities		(10,376)	(10,354)
Net increase/(decrease) in cash held		254	676
Cash and cash equivalents at the beginning of the reporting period		1,775	1,099
Cash and cash equivalents at the end of the reporting period	2.1A	2,029	1,775

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

Darling Harbour, Sydney. *P Sandberg*

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.

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

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

AASB 17 – Insurance contracts

In July 2020 the International Accounting Standards Board published the final IFRS 17 standard (IFRS 17 Insurance Contracts), with the final amendments subsequently being adopted into AASB 17. *AASB 17 Insurance Contracts* will first be applicable to ARPC for the reporting period beginning 1 July 2023 and ending 30 June 2024, and will require comparatives for the period beginning 1 July 2022 and ending 30 June 2023. It replaces the current accounting standard used by ARPC for measuring insurance liabilities, *AASB 1023 General Insurance Contracts*. At the current time interpretation of the final standard is still ongoing and the full impacts on ARPC are still being determined.

AASB 17 will however require the application of new measurement models and extensive changes to the presentation and disclosure of the results of the insurance business. In terms of measurement models there is both a 'general measurement model' and a 'simplified' model, known as the Premium Allocation Approach (PAA). The PAA has many similarities to the current basis that general insurance contracts are accounted for under AASB 1023.

ARPC has completed a 'gap' assessment and has concluded it is likely that:

- The contracts issued that provide protection for terrorism insurance will compromise a single portfolio, and all contracts will belong to a single group;
- The contracts purchased that provide retrocession protection for terrorism risk will compromise a single portfolio, and all contracts will belong to a single group;
- Both portfolios will be eligible to be accounted for using the PAA;
- At this stage, there are no facts or circumstances to suggest that segments within the portfolio are onerous;
- The annual financial results and financial position applying AASB 17 are not expected to be materially different to the results under AASB 1023; and
- It is expected there will be substantial changes to the presentation of results and the disclosures.

The requirements of the new accounting standard are complex, and the initial views set out above may change as ARPC continues to analyse and work through implementing the standard.

Impact of COVID-19

ARPC has not been materially impacted from COVID-19. Premium revenue has increased from pre-COVID-19 levels as a result of increases in commercial property insurance premiums in the direct insurance market. This increase in premium revenue has been partially offset by a decrease in investment income on ARPC's cash and term deposit investment portfolio,
as a result of decreased interest rates.

During 2020-21, all team members successfully navigated a hybrid working arrangement. During ordinary times, employees balanced their work and personal lives by remote working up to two days a week, with the remaining three days in the office to catch up with colleagues and collaborate on projects. During COVID-19 lockdowns, all employees worked remotely and continued supporting our stakeholders through ARPC's processes and systems. Our Pandemic Response Plan remained active and the Pandemic Response Team met regularly and updated employees with relevant information and advice. ARPC's Wellness Committee ran 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. ARPC has been able to pivot stakeholder engagement activities online, converting our Terrorism Insurance Seminar and Cyber Research Seminar to webinars, and meeting with stakeholders regularly through video meetings.

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 Insurance and Business Package Insurance. Workers compensation is insured through Comcare Australia.

Outstanding claims liability

The financial statements have not included a liability for outstanding claims (2020: $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 insurer's deductible.

Net claims incurred

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

Assets backing general insurance liabilities

With the exception of property, plant and equipment and intangibles, ARPC has determined that all assets are held to back general insurance liabilities.

Events after the reporting period

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

Queen Victoria Night Market, Melbourne

Notes to the financial statements

1. Financial performance

This section analyses the financial performance of ARPC for the financial year ended 30 June 2021.

1.1 Revenue

1.1A: Net premium revenue	**2021 $'000**	2020 $'000
Gross written premium	**258,097**	234,348
Movement in unearned premium reserve	**(12,375)**	(13,472)
Total premium revenue	**245,722**	220,876
Outwards retrocession premium expense	**(65,866)**	(65,827)
Commonwealth guarantee fee	**(55,000)**	(55,000)
Net premium revenue	**124,856**	100,049

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 2021 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 08 September 2020, 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	**2021 $'000**	2020 $'000
Retrocession commission income	936	3,023
Total retrocession commission income	936	3,023

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	**2021 $'000**	2020 $'000
Cash at bank	2	26
Term deposits	3,875	9,624
Total investment income	3,877	9,650

Accounting policy

Interest revenue is recognised using the effective interest method.

1.1D: Other income	**2021 $'000**	2020 $'000
Other revenue	–	11
Total other income	–	11

1.2 Expenses

1.2A: Employee benefits	**2021 $'000**	2020 $'000
Wages and salaries	**3,222**	3,139
Superannuation		
Defined contribution plans	**441**	432
Defined benefit plans	**4**	4
Leave and other entitlements	**324**	318
Separation and redundancies	**123**	34
Total employee benefits	**4,114**	3,927

Accounting policy

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

1.2B: Suppliers	**2021 $'000**	2020 $'000
Goods and services supplied or rendered		
Consultants	**2,814**	1,775
Reinsurance broker services	**558**	571
Assurance Services	**440**	264
Information and Communications Technology (ICT)	**421**	365
Shared Services	**130**	180
Legal fees	**121**	92
Staff Development and Training	**50**	137
Travel	**32**	251
Other	**413**	442
Total goods and services supplied or rendered	**4,979**	4,077
Goods supplied	**86**	107
Services rendered	**4,893**	3,970
Total goods and services supplied or rendered	**4,979**	4,077
Other supplier expenses		
Workers compensation insurance	**19**	18
Total other supplier expenses	**19**	18
Total supplier expenses	**4,998**	4,095

For the current financial year ARPC paid $105,000 for the provision of external audit services (2020: $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	**2021 $'000**	2020 $'000
Depreciation		
Leasehold improvements	146	125
Property, plant and equipment	63	54
Total depreciation	209	179
Amortisation		
Intangibles – computer software	43	16
Right-of-use asset – office lease	386	386
Total amortisation	429	402
Total depreciation and amortisation	638	581

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	**2021 $'000**	2020 $'000
Capital holding fee	35,000	35,000
Total capital holding fee paid to the Commonwealth	35,000	35,000

1.2E: Finance charges	**2021 $'000**	2020 $'000
Bank charges	2	3
Interest on lease liabilities	10	13
Total finance charges	12	16

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

Accounting policy

All finance charges are expensed as incurred.

1.2F: Losses from asset sales	**2021 $'000**	2020 $'000
Property, plant and equipment		
Carrying value of assets disposed	4	44
Total losses from asset sales	4	44

1.2G: Reconciliation of expenses to the Statement of Comprehensive Income	**2021 $'000**	2020 $'000
Expenses by nature		
Employee benefits	4,114	3,927
Suppliers	4,998	4,095
Depreciation and amortisation	638	581
Capital holding fee paid to the Commonwealth	35,000	35,000
Finance charges	12	16
Losses from asset sales	4	44
Total expenses by nature	44,766	43,663
Expenses by function		
Acquisition costs	1,942	1,739
General and administration expenses	42,824	41,924
Total expenses by function	44,766	43,663
Reconciliation of expenses to the Statement of Comprehensive Income		
General and administration expenses	42,824	41,924
Less: Capital holding fee paid to the Commonwealth	(35,000)	(35,000)
Less: Finance costs	(12)	(16)
Other operating expenses	7,812	6,908

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	**2021 $'000**	2020 $'000
Cash at bank	**2,029**	1,775
Total cash and cash equivalents	**2,029**	1,775

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	**2021 $'000**	2020 $'000
Premium receivable	**63,669**	57,378
Commission receivable	**–**	931
Interest receivable	**978**	1,441
Net GST receivable from the Australian Taxation Office	**60**	37
Total receivables	**64,707**	59,787

Credit terms are net 30 days (2020: 30 days). Trade debtors are non-interest bearing.

Interest receivable

Effective interest rates range from 0.21% to 0.63% (2020: 0.10% to 1.72%) 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	**2021 $'000**	2020 $'000
Fixed interest term deposits	**654,700**	571,500
Total investments	**654,700**	571,500

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 0.37% (2020: 1.06%). Interest is payable on maturity for all term deposits. Terms are between 91 and 365 days (2020: 91 and 276 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	2021 $'000	2020 $'000
(i) Deferred insurance assets			
Deferred retrocession premium	2.1D(ii)	33,065	33,340
Deferred acquisition costs	2.1D(iii)	987	886
Total deferred insurance assets		34,052	34,226
(ii) Deferred retrocession premium			
Deferred retrocession premium as at 1 July		33,340	32,850
Retrocession premium deferred		33,065	33,340
Amortisation charged to expense		(33,340)	(32,850)
Deferred retrocession premium as at 30 June		33,065	33,340
(iii) Deferred acquisition costs			
Deferred acquisition costs as at 1 July		886	763
Acquisition costs deferred		987	886
Amortisation charged to expense		(886)	(763)
Deferred acquisition costs as at 30 June		987	886

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 (2020: $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

Reconciliation of the opening and closing balances of property, plant and equipment and intangibles for 2021

	Leasehold improvements $'000	Plant and equipment $'000	Intangibles – computer software purchased $'000	Work in progress – software purchased $'000	Total $'000
As at 1 July 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 1 July 2020	**1,842**	**113**	**218**	**–**	**2,173**
Additions – By purchase	–	76	–	20	96
Depreciation and amortisation expense	(146)	(63)	(43)	–	(252)
Amortisation on right-of-use asset	(386)	–	–	–	(386)
Asset disposal	–	(27)	–	–	(27)
Accumulated depreciation on asset disposal	–	23	–	–	23
Other movements – transfer between classes	–	–	–	–	–
Total as at 30 June 2021	**1,310**	**122**	**175**	**20**	**1,627**
Total as at 30 June 2021					
Gross book value	2,692	262	2,361	20	5,335
Accumulated depreciation, amortisation and impairment	(1,382)	(140)	(2,186)	–	(3,708)
Total as at 30 June 2021	**1,310**	**122**	**175**	**20**	**1,627**
Carrying amount of right-of-use asset	957	–	–	–	957

No indicators of impairment were found for property, plant and equipment and intangibles (2020: 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 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 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 ARPC, 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:

	2021	2020
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 2021. 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 (2020: 4 to 5 years).

All software assets were assessed for indications of impairment as at 30 June 2021.

2.2B: Other non-financial assets	**2021 $'000**	2020 $'000
Prepayments	211	64
Total other non-financial assets	211	64

2.3 Unearned liabilities

2.3A: Unearned liability	Notes	2021 $'000	2020 $'000
Unearned premium liability	2.3B	124,675	112,300
Unearned commission liability	2.3C	–	936
Total unearned liability		124,675	113,236

2.3B: Unearned premium liability	2021 $'000	2020 $'000
Unearned premium liability as at 1 July	112,300	98,828
Deferral of premiums on contracts written in the period	124,675	112,300
Earning of premiums written in the previous periods	(112,300)	(98,828)
Unearned premium liability as at 30 June	124,675	112,300

2.3C: Unearned commission liability	2021 $'000	2020 $'000
Unearned commission liability as at 1 July	936	2,097
Deferral of commissions on contracts written in the period	–	936
Earning of commissions written in the previous periods	(936)	(2,097)
Unearned commission liability as at 30 June	–	936

2.4 Payables

2.4A: Supplier payables	2021 $'000	2020 $'000
Retrocession payable	32,795	33,159
Trade creditors	17	63
Accruals	1,273	418
GST Payable to the Australian Taxation Office	23	–
Total supplier payables	34,108	33,640

Retrocession payable

In accordance with ARPC's retrocession treaty expiring 31 December 2021, 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	2021 $'000	2020 $'000
Salaries and wages	68	48
Superannuation	9	6
Total other payables	77	54

Accounting policy

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

2.5 Other provisions

2.5A: Other provisions	Provision for restoration $'000	Other provisions $'000	Total $'000
Carrying amount as at 1 July 2020	122	–	122
Additional provisions made	–	1,268	1,268
Amounts used	–	–	–
Unwinding of discount	–	–	–
Amounts owing at 30 June 2021	**122**	1,268	**1,390**

Provisions noted in Other provisions relate to future premium refund payable.

ARPC currently has one (2020: 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 (2020: nil).

2.6 Interest bearing liabilities

2.6A: Leases	**2021 $'000**	2020 $'000
Lease liabilities		
Office lease	**1,000**	1,376
Total leases	**1,000**	1,376
Maturity analysis – contractual undiscounted cash flows		
Within 1 year	404	385
Between 1 to 5 years	603	1,007
More than 5 years	–	–
Total leases	**1,007**	1,392

Total cash outflows for leases for the year ended 30 June 2021 was $385,462 (2020: $367,512)

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

Accounting policy

For all new contracts entered into, ARPC considers whether the contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'.

Once it has been determined that a contract is, or contains a lease, the lease liability is initially measured at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease, if that rate is readily determinable, or the department's incremental borrowing rate.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification to the lease. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset or profit and loss depending on the nature of the reassessment or modification.

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	**2021 $'000**	2020 $'000
Leave	646	570
Total employee provisions	646	570

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 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 2021 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, ARPC's Board Members, the Chief Executive, the Chief Underwriting Officer, the Chief Operating Officer, the Chief Financial Officer, the Chief Governance Officer and the General Counsel.

Key management personnel remuneration is reported in the table below:

	2021 $	2020 $
Short-term employee benefits	**1,613,763**	1,496,409
Post-employment benefits	**153,656**	146,816
Other long-term employee benefits	**31,938**	69,406
Termination benefits	**85,230**	–
Total key management personnel remuneration expense	**1,884,587**	1,712,631

The total number of key management personnel that are included in the above table are 13 (2020: 12).

The above key management personnel remuneration excludes the remuneration and other benefits of the Portfolio Minister. The Portfolio Minister'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 2021 were:

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

Changes in membership during the year:

- Ms Karen Payne's term expired on 04 October 2020
- Mr John Peberdy's term expired on 30 June 2021
- Ms Janet Torney's term expired on 30 June 2021
- Ms Elaine Collins' term expired on 30 June 2021 and she was re-appointed effective 1 July 2021 for a 3-year term
- Mr Jan van der Schalk was appointed effective 1 July 2021 for a 3-year term
- Ms Julie-anne Schafer was appointed effective 14 September 2021 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 2021 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 Samantha Lawrence – Chief Governance Officer

Related party relations:

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

Transactions with related parties:

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:

		2021 **$**	2020 $
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
The Treasury	Provision of corporate support services to ARPC	**204,763**	180,223
Australian Government Solicitor	Provision of legal services	**97,787**	22,591
Comcare	Workers compensation insurance premiums	**18,817**	20,013
Artbank	Hire of artwork	**7,300**	3,929
Australian Public Service Commission	Subscription Services	**350**	–
Geoscience Australia	Development of loss estimate model	**–**	480,500
Department of Communications and the Arts	Copyright fees	**–**	1,591
Attorney General's Department	Legal services panel	**–**	502
		90,329,017	90,709,349
Total Related Party Transactions		**90,329,017**	90,709,349

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; and
- 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 pool cessation or a significant DTI. The claims handling reserve as at 30 June 2021 is $34.65 million (2020: $37.25 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 Policy.

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 $561 million (2020: $483 million);
- In the event of a DTI, ARPC would be required to pay $225 million (2020: $250 million) before claiming on its retrocession program;
- ARPC has access to a $3.475 billion retrocession program in excess of the $225 million retention (2020: $3.45 billion retrocession program, in excess of $250 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 (2020: $10 billion).

4.1D Financial risk

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
- pricing 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	2021 $'000	2021 $'000	2021 $'000	2021 $'000	2021 $'000
Interest bearing financial assets						
Cash and cash equivalents	2.1A	2,029	–	–	–	2,029
Fixed term deposits	2.1C	–	654,700	–	–	654,700
Total		2,029	654,700	–	–	656,729
Weighted average interest rate		0.00%	0.37%	–	–	0.37%

		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%

The Department of Finance deemed a 74-basis point change to be reasonably possible and ARPC adopted this when reporting interest rate risk (2020: 9-basis point change). ARPC has considered the implied financial impact of the deemed 74 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	
	2021 %	2020 %	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Interest rate movement						
– Interest bearing	+0.74	+0.09	4,860	516	4,860	516
Financial assets	-0.74	-0.09	(4,860)	(516)	(4,860)	(516)

Pricing risk

Pricing 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	2021 $'000	2021 $'000	2021 $'000	2021 $'000	2021 $'000	2021 $'000
ARPC							
Cash and cash equivalents	2.1A	2,029	–	–	–	–	2,029
Receivables	2.1B	–	–	–	–	64,707	64,707
Fixed term deposits	2.1C	–	596,800	25,000	32,900	–	654,700
Total		2,029	596,800	25,000	32,900	64,707	721,436

		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

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	**2021 $'000**	2020 $'000	**2021 $'000**	2020 $'000	**2021 $'000**	2020 $'000
Financial assets							
Premium receivables	2.1B	**63,630**	57,335	**39**	43	**63,669**	57,378
Commission receivables	2.1B	**–**	931	**–**	–	**–**	931
Interest receivable	2.1B	**978**	1,441	**–**	–	**978**	1,441
Net GST receivable	2.1B, 2.4A	**38**	37	**–**	–	**38**	37
Total		**64,646**	59,744	**39**	43	**64,685**	59,787

		Ageing of financial assets past due				
		0 to 30 days	31 to 60 days	61 to 90 days	90+ days	Total
	Notes	**2021 $'000**	**2021 $'000**	**2021 $'000**	**2021 $'000**	**2021 $'000**
Financial assets						
Premium receivables	2.1B	**38**	**–**	**–**	**1**	**39**
Total		**38**	**–**	**–**	**1**	**39**

		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

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	**2021 $'000**	2020 $'000
AAA	**–**	–
AA+	**71,800**	71,800
AA	**103,579**	91,210
AA-	**643,916**	648,660
A+	**1,391,255**	1,316,976
A	**801,694**	730,106
A-	**462,756**	591,248
ARPC Total Exposure	**3,475,000**	3,450,000

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	**2021 $'000**	2020 $'000	**2021 $'000**	2020 $'000	**2021 $'000**	2020 $'000
Financial liabilities							
Payables	2.4A	**34,108**	33,640	**–**	–	**34,108**	33,640
Total		**34,108**	33,640	**–**	–	**34,108**	33,640

4.2 Contingent assets and liabilities

Quantifiable contingencies

As at 30 June 2021 ARPC had no quantifiable contingencies (2020: Nil).

Unquantifiable contingencies

As at 30 June 2021 ARPC had no unquantifiable contingencies (2020: 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	**2021 $'000**	2020 $'000
Financial assets:		
Financial assets at fair value through profit or loss		
Cash and cash equivalents	**2,029**	1,775
Fixed term deposits	**654,700**	571,500
Total financial assets at fair value through profit or loss	**656,729**	573,275
Financial assets at amortised cost		
Receivables (gross)	**64,707**	59,787
Total financial assets at amortised cost	**64,707**	59,787
Total financial assets	**721,436**	633,062
Financial liabilities:		
Financial liabilities measured at amortised cost		
Suppliers payables	**34,108**	33,640
Other payables	**77**	54
Total financial liabilities measured at amortised cost	**34,185**	33,694
Total financial liabilities	**34,185**	33,694

Accounting policy

Financial Assets

In accordance with AASB 9 *Financial Instruments*, 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.

Comparatives have not been restated on initial application.

Financial Assets at Amortised Cost

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

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

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 gains from financial assets	**2021 $'000**	2020 $'000
Financial assets at fair value through profit or loss		
Interest revenue	**3,877**	9,650
Net gains on financial assets at fair value through profit or loss	**3,877**	9,650

5. Other information

5.1 Current/non-current distinction for assets and liabilities	**2021 $'000**	2020 $'000
Assets expected to be recovered in:		
No more than 12 months		
Cash and cash equivalents	**2,029**	1,775
Trade and other receivables	**64,707**	59,787
Investments	**654,700**	571,500
Deferred insurance assets	**34,052**	34,226
Other non-financial assets	**211**	64
No more than 12 months	**755,699**	667,352
More than 12 months		
Property, plant and equipment	**1,432**	1,955
Intangibles	**175**	218
Work in progress	**20**	–
No more than 12 months	**1,627**	2,173
Total assets	**757,326**	669,525
Liabilities expected to be settled in:		
No more than 12 months		
Unearned premium liability	**124,675**	112,300
Unearned commission liability	**–**	936
Suppliers	**34,108**	33,640
Other payables	**77**	54
Employee provisions	**404**	363
Other provisions	**1,268**	–
Leases	**1,000**	1,376
No more than 12 months	**161,532**	148,669
More than 12 months		
Employee provisions	**242**	207
Other provisions	**122**	122
No more than 12 months	**364**	329
Total liabilities	**161,896**	148,998

Australian Government
Australian Reinsurance Pool Corporation

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Brisbane cityscape, Brisbane

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 p21	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 p21	The purposes of the entity as included in the entity's corporate plan for the reporting period	Mandatory
17BE(c)	Governance Framework p75	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 p64 Transactions with the Government as owners p144	Directions given to the entity by the Minister under an Act or instrument during the reporting period	If applicable, mandatory
17BE(e)	Governance Framework p75 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 p82	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 Terrorism Reinsurance Pool 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 p105-146	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)	p91 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)	p84	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)	P100-101	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)(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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