



Australian Government

Australian Reinsurance Pool Corporation

# The Cyclone Reinsurance Pool Onboarding Insurance Companies

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## Disclaimer

The Australian Reinsurance Pool Corporation ("**ARPC**") is established by section 9 of the Terrorism and Cyclone Insurance Act 2003 (Cth) ("**the Act**"). The functions and powers of the ARPC are set out in sections 10 and 11 of the Act. The ARPC's main functions are to provide insurance cover for eligible terrorism losses and to operate a cyclone and related flood damage reinsurance pool. The ARPC has power to do all things necessary or convenient to be done for or in connection with the performance of its functions. In the performance of its functions, the ARPC may engage in discussions with and provide information to insurers concerning the provision by the ARPC of reinsurance cover for eligible terrorism losses and eligible cyclone losses. The ARPC does not hold itself out as providing legal or other advice to insurers, the public or anyone else in relation to the interpretation, construction or application of the Act or regulations made under the Act or the reinsurance cover provided by the ARPC, and does not do so. The ARPC provides general information only on its website, in its publications and in the course of its discussions and other dealings with insurers and their representatives about the Act, the regulations made pursuant to the Act and ARPC's reinsurance agreements with respect to eligible terrorism losses and eligible cyclone losses. That information does not constitute legal or other advice and should not be relied on as such. Insurers dealing with or proposing to deal with the ARPC should obtain their own legal and other professional advice for the purpose of making decisions (including in relation to dealing with the ARPC and in relation to the reinsurance cover provided by the ARPC) and otherwise on any matter in connection with the Act.





### 3. Transitioning

- 3.1 Insurers have the option of how their brands and classes of business will be transferred into the Pool and consideration should be given to the complexity and timing of the transition. ARPC will work with insurers to facilitate a flexible and smooth transitioning process.
- 3.2 Transferred Contracts are defined in Clause 2(b) of the reinsurance agreement.
- 3.3 Insurers should consider what it would mean for them if they were to enter the scheme on a run-on basis or one-off-transfer basis as a run-on basis may lead to a split portfolio for the purposes of cyclone reinsurance protection and claim recovery allocation.
- 3.4 Insurance companies are not required to publish the cyclone reinsurance premium or display the premium on insurance policy documentation. However, the ACCC will have a price monitoring role.
- 3.5 Premium due to ARPC is a reinsurance premium and the reinsured are not required to implement this into their IT systems. The reinsured will have the option to hold the reinsurance costs 'off-system' or fully implement the pricing into their IT infrastructure: it is at the discretion of the reinsured how they chose to manage the ARPC reinsurance premium - noting premiums will be subject to periodic audit and review.
- 3.6 Reinsurance premium reporting conventions are contained within the reinsurance agreement.
- 3.7 Calculating the Cyclone Written Premium – the reinsured should use the ARPC rates provided by ARPC and use the assistance of the premium rater tools provided.
- 3.8 In deciding when to best join the Pool, the reinsured should consider:
  - a) When it is mandatory for them to join the Pool (depending on the size of their premium income)
  - b) Their current reinsurance arrangements and the periods of coverage
  - c) The impact on final pricing to consumers
  - d) How much time it takes to get any pricing changes out to market
  - e) Time required for any implementation of pricing changes and ARPC data transfer requirements.
- 3.9 ARPC encourages insurers to review their responsibilities under GPS 320 Actuarial and Related Matters and seek guidance regarding the following:
  - a) Capital implications of the Pool
  - b) When is a convenient time for the insurer to join the Pool
  - c) What are the ARPC reinsurance premium pricing and reporting requirements, and the possible impact on policies, processes, or procedures.

### 4. One-off-Transfer & Run-on

- 4.1 Premium will be calculated using the ARPC cyclone premium rates.
- 4.2 Insurers should join the Pool at a defined quarterly reporting period agreed with ARPC.
- 4.3 It is suggested, where possible, data should be provided in-line with and reconcilable with the entity's APRA returns. This will provide the ability to reconcile the figures reported to ARPC and APRA, avoid duplication of effort and to enable a smooth cedant review and audit process.
- 4.4 Premium Raters will be provided to the reinsured to enable them to calculate cyclone premium at a risk level using the following tools:
  - a) Pricing algorithm Rater - will be provided to the reinsured in excel for their information
  - b) Rater in a box – to be made available to insurance companies to run test scenarios (this will be made available at a later stage).



- 4.5 After joining the pool, the reinsured should calculate their per policy Annual Cyclone Ri Premium by taking the defined sum insured and applying ARPC’s risk characteristics modifiers e.g. Building type, Year of construction, etc, for each relevant peril. The contained within the ARPC rating algorithm and tables (within the Raters):

$$\text{Annual Cyclone Ri Premium} = \text{Sum insured} \times \text{modifiers} \times \text{rates}$$

- 4.6 **All-cyclone-exposure** premium transfer basis for in-force premium at the reinsurance inception date using the 365 days method:

$$\text{Daily Cyclone Ri Premium} = \frac{\text{Annual Cyclone Ri Premium}}{365 \text{ (days)}}$$

$$\text{Ri Premium} = \text{Daily Cyclone Ri Premium} \times \text{days on risk at and post Ri inception}$$

- 4.7 **Run-On Basis** where policy inception occurs on the date of or after the reinsurance contract incepts:

$$\text{Annual Cyclone Ri Premium} = \text{ARPC Ri Premium}$$

- 4.8 **Transitioning premium and discounts** – After joining the pool the reinsured will not have to retrospectively apply any cyclone reinsurance premium rates or discounts to policies that incepted prior to the date their reinsurance contract with ARPC incepts. It is expected that the reinsured adjust their rates at the earliest opportunity after joining the Pool.

## 5. Next Steps

- 5.1 All insurers need to understand the following:

- a) The deadline is for joining the Pool:

### Explanatory memorandum – 2.11

2.11 *Insurers are expected to enter into reinsurance agreements with the ARPC that take effect from 1 July 2022. Large insurers have until 31 December 2023 to join the scheme, at which point they must have obtained reinsurance for all their eligible cyclone risks with the ARPC. Small insurers must reinsure all their eligible cyclone risks with the ARPC by 31 December 2024.*

- b) What happens if an insurer passes the threshold for mandatory participation in the Pool:

### Explanatory memorandum – 1.133

1.133 *The cyclone reinsurance Pool comes into effect on 1 July 2022 at which time insurers are expected to start joining the Pool. Insurers can enter into contracts with the ARPC prior to 1 July 2022. To mitigate costs and risks associated with transitioning from existing reinsurance contracts, insurers generally have until 31 December 2023 to reinsure all eligible cyclone insurance risks with the ARPC.*

*[Schedule 1, item 27, Application of section 8A of the Act]*

### Explanatory memorandum – 1.134

1.134 *During the transition period between 1 July 2022 and 31 December 2023, cyclone losses can be gradually ceded to the reinsurance pool. That is, insurers can progressively transfer their eligible cyclone policies into the reinsurance pool during this period. From 1 January 2024, insurers with eligible cyclone losses will be subject to the participation mandate. Lloyd’s syndicates and unauthorised foreign*



insurers who choose to reinsure eligible cyclone losses with the ARPC will be subject to the ‘one-in all-in’ rule from 1 January 2024. [Schedule 1, item 27, Application of section 8A of the Act]

#### **Explanatory memorandum – 1.135**

1.135 Small general insurers that enter into insurance contracts totalling less than \$300 million of gross written premiums for household insurance in the last financial year before 31 December 2022 must reinsure eligible cyclone losses with the ARPC by 31 December 2024. The additional time for small insurers to reinsure with the ARPC provides them with additional flexibility to transition to the new arrangements.

[Schedule 1, item 27, application of section 8A of the Act]

- c) What happens if an insurer does not pass the threshold for mandatory participation in the Pool:

#### **Explanatory memorandum – 1.18**

1.18 Some insurers are not required to participate in the cyclone reinsurance scheme. The following insurers have the option not to participate:

- general insurers with minimum exposure to policies with eligible cyclone risks, if their total gross written premiums for a calendar year are below the threshold amount prescribed by the regulations (exempt general insurer); **[5A Premium income threshold for eligible cyclone loss cover - (1) For the purposes of subsection 8A(5) of the Act, the prescribed threshold amount is \$10 million.]**
- Lloyd’s underwriters under the Insurance Act 1973; and
- unauthorised foreign insurers under the Insurance Regulations 2002.

[Schedule 1, items 5, 7 and 9, section 3 and subsections 8A(5), 8A(6), 8A(9) and 8A(10) of the Act]

#### **Explanatory memorandum – 1.19**

1.19 If an exempt general insurer does elect to participate in the cyclone reinsurance scheme, they must reinsure all eligible cyclone risks they hold with the ARPC for the period the contract of reinsurance is in force.

#### **Explanatory memorandum – 1.25**

1.25 Some insurers are excluded entirely from obtaining reinsurance under the cyclone reinsurance scheme to recognise that support is provided directly to insurers (other than State or Territory government insurers and most Commonwealth Government insurers) offering policies to individuals and businesses. The following insurers are unable to participate in the scheme even where a contract of insurance issued by the insurer would otherwise be considered eligible for pool coverage:

[Schedule 1, item 9, subsection 8B(9) of the Act]

- Reinsurers (except to the extent that they also provide direct insurance);  
[Schedule 1, item 9, paragraph 8B(7)(a) of the Act]
- State and Territory Government insurers;  
[Schedule 1, item 9, subsection 8B(8) of the Act]
- Commonwealth Government insurers (other than the Defence Service Homes Insurance Scheme).  
[Schedule 1, item 8, subsection 5(1) of the Act]



- 5.2 To assist the reinsured to understand the eligible cyclone risks for the purpose of exposures and thresholds, ARPC will publish a list of areas that are not considered to meet the eligibility criteria where the risk of cyclones is low or negligible.

#### Explanatory memorandum – 1.23

*1.23 Additionally, the ARPC may determine, by notifiable instrument, that the risk of eligible cyclone losses in certain areas of Australia is so low as to be negligible. The annual premium income for cyclone losses arising in these determined areas will not count towards the premium income threshold. Insurers solely operating in these areas therefore will not be required (but may choose) to participate in the cyclone reinsurance scheme. [Schedule 1, item 9, subsections 8A(7) of the Act]*

- 5.3 If an insurer passes the threshold and/or is not exempt from joining the Pool, they should email ARPC requesting they would like to enter into a reinsurance agreement with ARPC (enquiries@arpc.gov.au). Prior to signing the agreement, the Insurer will need to do the following:
- a. Confirm they have ‘eligible’ insurance contracts for risks located in Australia (Australia includes Norfolk Island, Christmas Island and Cocos (Keeling) Islands).
    - i. Cyclone insurance for “eligible” policies is automatically provided by the reinsured via the Terrorism and Cyclone Insurance Act 2003.
  - b. The reinsured are obliged under the reinsurance agreement to cede all “eligible” policies from the entire book of business for remittance and aggregate reporting to ARPC and will not have the option to self-select which policies are covered and which are not.
  - c. ARPC only reinsures original risks and does not provide cover for reinsurance contracts. *[Schedule 1, item 9, paragraph 8B(7)(a) of the Act]*
  - d. The ARPC agreement is intended to provide coverage on an **All-cyclone-exposure** basis (Treaty) and thus should not be used as a facultative reinsurance facility.
  - e. The ARPC reinsurance agreement is made between the Insurer (cedant) and the ARPC and this is not intermediated either by a broker or agent of any type.
- 5.4 When an insurer decides to enter into a reinsurance contract for cyclone with ARPC, certain pieces of information will be collected for the reinsurance schedule and ARPC PACE insurance system. The list below is subject to change and is dependent on the final configuration of the ARPC PACE system:
1. Full Company Name Company
  2. Registration Number (ABN) Requested Agreement
  3. Inception Date
  4. Company Street Address
  5. Company Postal Address
  6. General Contact Person
    - a. Telephone Number
    - b. Mobile Number
    - c. Email Address
  7. Backup Contact Person
    - a. Telephone Number
    - b. Mobile Number



c. Email Address

- 5.5 Once ARPC receives the above information, a reinsurance agreement and schedule will be emailed to the insurer for their agreement and countersignature. When the countersigned version has been received, ARPC will provide the insurer with login details and a guide to our online submission system *PACE*.

