Australian Government
Australian Reinsurance Pool Corporation

ARPC Annual Report

2021-22

www.arpc.gov.au

Australian Government

Australian Reinsurance Pool Corporation

20 September 2022

The Hon Stephen Jones MP

Assistant Treasurer and Minister for Financial Services

Parliament House

CANBERRA ACT 2600

Dear Minister,

I am pleased to present the Annual Report of Australian Reinsurance Pool Corporation (ARPC) for the year ended 30 June 2022. 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 responsible Minister in accordance with section 46 of the PGPA Act.

Yours sincerely

Mr Ian Carson AM
BEc PGDip Professional Accounting FAICD
Chair

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A copy of this document and other information appears on the Australian Reinsurance Pool Corporation website www.arpc.gov.au

Australian Government
Australian Reinsurance Pool Corporation

Highlights

Our 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 purpose.
- 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'

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

Strategic Priorities 'we will'

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

Key Activity Areas 'we delivered'

- Prepared for the 2021 Triennial Review of the pool by Treasury.
- Continually reviewed, identified and informed the market about potential gaps in cover.
- Continued to raise awareness of emerging terrorism risks, such as cyber terrorism.
- Completed project with Standards Australia to develop a risk mitigation handbook for business. Promoted the handbook to stakeholders to assist property owners to mitigate terrorism risk.
- Provided advice to the Government as a trusted expert on terrorism risk insurance.
- Continued catastrophe modelling development for blasts and biochemical events throughout Australia.
- Commenced development of a probability matrix to enhance the deterministic models with probabilistic capabilities.
- Purchased retrocession reinsurance to increase ARPC's total funds available for claims following a Declared Terrorism Incident (DTI), while reducing the need to call on the Commonwealth guarantee.
- Continuously improved ARPC's DTI Response Procedure through regular DTI exercises.
- Continuously improved 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.
- Pool capacity – total funding available.
- Private sector participation.

Business Functions 'our capabilities'

- Insurance and reinsurance.
- Financial management.
- Declared terrorism Incident response.
- Stakeholder engagement.
- Technology.
- Operations.

■ Enhance and strengthen resilience and 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. ■ Continued professional development for employees. ■ Updated employee engagement survey and action plans. ■ Continued to monitor the Capital Management Policy to support ARPC's financial sustainability. ■ Conducted the development of the risk management framework with a focus on risk culture. ■ Continued the development of the risk management framework with a focus on risk culture.	■ Continued to raise awareness of cyber terrorism causing physical damage with industry and government to advance understanding and solutions. ■ Engaged with local universities on research to further knowledge of terrorism risk and development of analytical tools. ■ Maintained postcode changes and rating tiers for accurate pricing. ■ Continued to review and upgrade the IT environment for maximum effectiveness.	■ Enhanced stakeholders' understanding of terrorism reinsurance pooling. ■ Kept stakeholders informed about ARPC. ■ Conducted an annual insurer customer survey for measuring effectiveness. ■ Delivered the annual Terrorism Risk & Insurance Seminar to share knowledge of global and local terrorism trends. ■ Continued to participate in global and local forums on terrorism risk insurance and catastrophe insurance and financing. ■ Participated in the OECD High Level Advisory Board for the Financial Management of Large-scale Catastrophe. ■ Participated in discussions on terrorism risk with Australian Government departments.
■ Compensate the Government.	■ Maintain financial sustainability and organisational resilience.	■ Engage, understand and collaborate with stakeholders.
■ Payments to Government.	■ Net assets against ARPC's target and minimum capital. ■ Strategic projects.	■ Stakeholder engagement activities. ■ Insurer customer survey.

DELIVER STRATEGIC PROJECTS

Our People

- Board members.
- Employees.
- Contractors.

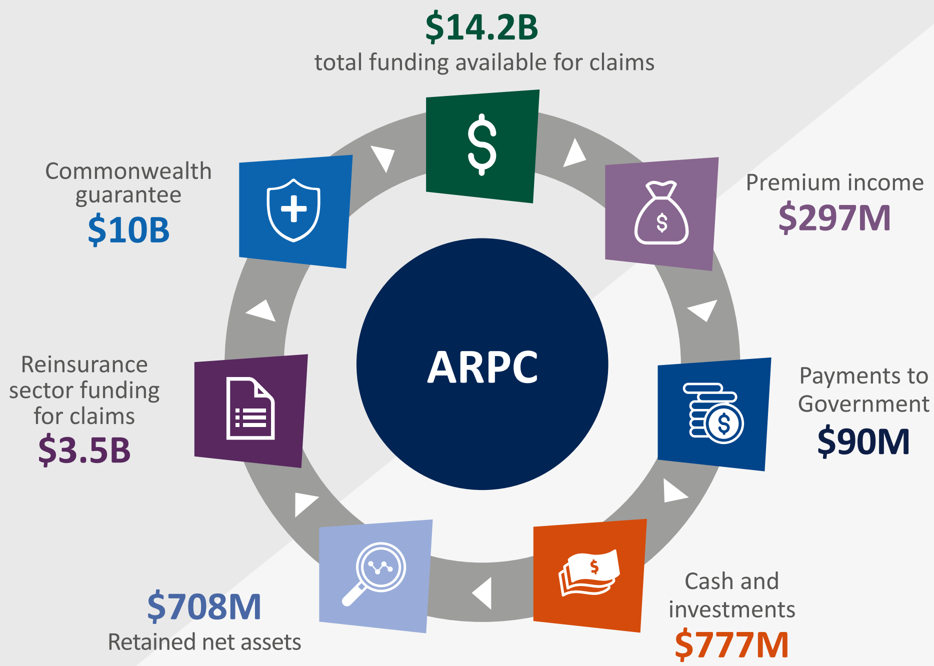
Stakeholders 'we engage with'

- Insurer customers.
- Government and government agencies.
- Industry associations.
- Property owners.
- Global reinsurers.
- Catastrophe modellers.

ABOUT US

ARPC is a public financial corporation established by the *Terrorism Insurance Act 2003* to administer the Terrorism Reinsurance Pool (terrorism pool).

ARPC will also operate a reinsurance pool for cyclones and cyclone related flood damage, known as the Cyclone Reinsurance Pool (cyclone pool), under the *Terrorism and Cyclone Insurance Act 2003* (TCI Act). The pool opens to insurers on 1 July 2022.



35 employees
ARPC grew from 25 to 35 employees as it prepared to administer the cyclone pool.

STRATEGIC PROJECTS

Social engagement project

Funding provided to ReachOut, enabling market segmentation research into high-risk youth

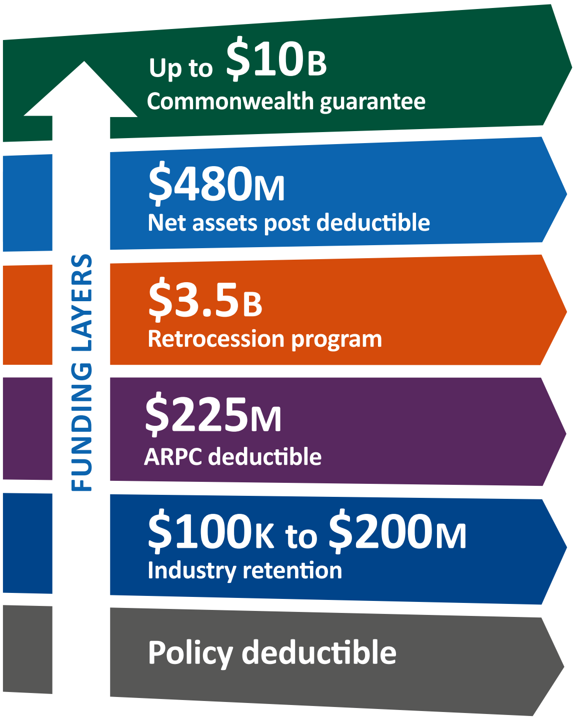
University research

Research paper published on forward-looking terrorism issue

New insurance system

System implemented and ready to onboard insurer customers on 1 July.

2021 TERRORISM REINSURANCE POOL STRUCTURE



Commonwealth guarantee: This is a solvency guarantee for ARPC, which is limited to $10B as per the TCI Act 2003.

Net assets post deductible: The net asset position available for claims after the $225M deductible is paid.

Retrocession program: This layer of funding is sourced from the commercial reinsurance market. It is mostly placed as multi-year covers.

ARPC deductible: This is funded from ARPC net assets.

Industry retention: This is the aggregate of the treaty retentions of all insurers involved in a calendar year.

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

PERFORMANCE SUMMARY

ARPC met or exceeded all targets set in the 2021-2025 Corporate Plan.

Measure 1	Gross written premium – **Exceeded**	✔ ✔
Measure 2	Terrorism pool capacity – **Exceeded**	✔ ✔
Measure 3	Private sector participation – **Exceeded**	✔ ✔
Measure 4	Payments to Government – **Met**	✔
Measure 5	Net assets – **Exceeded**	✔ ✔
Measure 6	Strategic Projects – **Met**	✔
Measure 7	Stakeholder activity – **Met**	✔
Measure 8	Insurer Customer Survey – **Met**	✔

OUR STORY

ARPC

- **2022** — *Terrorism and Cyclone Insurance Act 2003* (TCI Act) passed. Cyclone pool commences.
- **2021** — Government announces intention to establish a Cyclone Reinsurance Pool (cyclone 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 Terrorism Reinsurance Pool (terrorism 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

Ian Carson AM | Chair

FROM THE **CHAIR**

I am pleased to present the 2021-22 Chair Report for Australian Reinsurance Pool Corporation (ARPC).

The twin challenges of preparing to operate the Cyclone Reinsurance Pool (cyclone pool) while administering the Terrorism Reinsurance Pool (terrorism pool) has made for an intense, but satisfying year.

We also welcomed three new Board Members:

- Jan van der Schalk — July 2021
- Julie-Anne Schafer — September 2021
- David Foster — December 2021.

All three bring a vast array of finance and insurance industry skills and expertise to meet ARPC's current and future needs. Meanwhile, Robin Low continued to chair ARPC's Audit, Risk and Compliance Committee, while contributing her investment, accounting, and governance expertise. Members Elaine Collins and Maria Fernandez continue to make very strong contributions.

2021 Triennial Review

The previous *Terrorism Insurance Act 2003* (TI Act) called for at least one review every three years to test whether terrorism insurance market failure exists, and therefore, whether both the Act and ARPC should continue. Previous reviews have also been used as an opportunity to improve and refine the terrorism pool. Treasury's 2021 Triennial Review was published in December 2021 and produced the following findings:

- **The Act should continue:** The review found that in ARPC's absence, a market failure in terrorism insurance markets covering physical property would likely re-emerge and recommended that the Act remain.
- **Cyber terrorism is an evolving market and yet to show market failure in relation to physical property damage:** The review recommended the Act maintain its 'computer crime' exclusion in the regulations.
- **Interactions between the cyclone and terrorism pools:** The review found ARPC's Board arrangements and size are appropriate but will need additional resourcing to oversee the cyclone pool. It was recommended that the Government:
  - » expand the Board's size and/or increase existing Board Members' time commitments
  - » appoint new Board Members with experience in the insurance pressures of residents in cyclone prone areas
  - » appoint two Board Observers, one from the Australian Prudential Regulatory Authority (APRA) and one from the Commonwealth (i.e. the Australian Government Actuary), to help ensure a smooth implementation of the cyclone pool.
- **ARPC's resourcing:** ARPC's substantial change in functions call for a review of its governance arrangements after the cyclone pool commences.
- **More time between reviews:** ARPC should be reviewed every five years, not the current three.

ARPC will continue working closely with Treasury on successfully implementing the cyclone pool.

... we welcomed three new Board Members.

2021-22 Board meetings

The Board met nine times comprising four meetings for general business, four out-of-session meetings, and one strategic planning workshop. ARPC's Board was joined by the senior executive team at the annual strategic planning workshop to review ARPC's 2022-26 strategic plan. The workshop also considered ARPC's Purpose and Vision and the Board's continuing engagement with key government and insurance sector stakeholders. The Audit, Risk and Compliance Committee met five times.

ARPC wins Gold in annual report awards

ARPC received its second successive Gold Australasian Reporting Award (ARA) for its 2020-21 Annual Report. According to the ARA, 'to receive a Gold Award, a report must demonstrate overall excellence in annual reporting. It should provide high quality coverage of most aspects of the ARA criteria and full disclosure of key aspects of the organisation's core business. A Gold Award report is a model report for similar organisations to follow'. ARPC will continue to participate in the awards and use feedback for continuous improvement.

Ian Carson AM
BEc PGDip Professional Accounting FAICD
Chair

20 September 2022

Cyclone pool

In October 2021, the previous Government amended the *Terrorism Insurance Regulations 2003* to provide an additional function for ARPC to prepare for the operation of a cyclone and related flood damage reinsurance pool. In March 2022, updated legislation was passed and assented to bring into effect the *Terrorism and Cyclone Insurance Act 2003* (TCI Act), with the cyclone pool commencing operations from 1 July 2022.

New purpose

In March 2022, ARPC Board approved a new strategy to help meet ARPC's extended functions under the TCI Act. ARPC is strongly positioned to deliver on ARPC's new purpose which is protecting Australian communities with sustainable and effective reinsurance for terrorism and cyclone events and its new vision that is 'to support insurers to deliver affordable terrorism and cyclone insurance in Australia'.

FROM THE **CEO**

Dr Christopher Wallace | CEO

ARPC delivered on key strategic projects in 2021-22. We continued our important role of administering the Terrorism Reinsurance Pool (terrorism pool) while undertaking a program of work to prepare for the Cyclone Reinsurance Pool (cyclone pool) which began on 1 July 2022.

In March 2022, ARPC welcomed the passing of the *Terrorism and Cyclone Insurance Act 2003* (TCI Act), which extended ARPC's responsibilities from terrorism to also cover cyclones and cyclone-related flood damage. The cyclone pool commenced operations on 1 July 2022.

ARPC continued to report excellent financial and operational results in 2021-22.

Our 'office first' hybrid working model saw employees on-site two days a week. Our goal is to return to three days in the office on an ongoing basis. Employees have been able to get to know new colleagues and collaborate face-to-face while also working remotely. ARPC's Pandemic Response Team met regularly to monitor relevant announcements and provide team information and guidance.

We also engaged regularly with the Treasury to provide insurance and reinsurance expertise as required.

In 2021-22, ARPC had 233 insurer customers for terrorism, which, in turn, have sums insured of approximately $4 trillion nation-wide for commercial property and business interruption. The terrorism pool had $14.2 billion available for claims arising from a Declared Terrorism Incident (DTI). Funding includes:

- a $10 billion Commonwealth guarantee
- $3.5 billion retrocession reinsurance program purchased from 67 private sector reinsurers
- over $700 million in ARPC's holding of net assets.

During this financial 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 stakeholder events were a mix of both online and hybrid in-person and online events. In November 2021, our annual terrorism seminar was a webinar covering themes across the local and global terrorism landscape. In May, we hosted our first hybrid annual Terrorism Risk and Insurance Seminar at NSW Parliament House. Many attended in person and the event, was livestreamed. During this event ARPC launched *Terrorism and violent protests: Where do these disruptive events meet?'*, a commissioned research paper by the University of Queensland (UQ). The paper explores the social trends and disruption of the pandemic including whether the pandemic's social and economic disruption has shifted definitions of terrorism. The lead author was Paula Jarzabkowski, UQ Professor of Strategic Management, with Dr Corinne Unger and Dr Katie Meissner.

Hybrid in-office and remote work did not stop us holding two DTI exercises.

> ... we welcomed the passing of legislation which extended ARPC's responsibilities to cover cyclones and cyclone-related flood damage.

Cyclone pool

This year we welcomed the passing of legislation enacting the cyclone pool covering cyclones and cyclone-related flood damage commencing on 1 July 2022.

ARPC's extensive preparations included:

- working with insurance industry stakeholders to develop a new cyclone pool Reinsurance Agreement
- drafting, testing, and finalising processes to support its operation
- bilateral consultations with insurers, Treasury, and the Australian Government Actuary, and incorporating feedback into the cyclone pool design
- detailed work on the development of premium rates, with input from our consulting actuaries, key industry stakeholders, and Treasury, with the initial premium rates and summary of actuarial modelling published on 28 June 2022.

Terrorism security threat remains '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'.

The Department of Home Affairs reported the following incidents between September 2014 and 5 April 2022:

- 150 people have been charged as a result of 77 counter-terrorism related operations around Australia.
- There have been 11 attacks and 21 major counter-terrorism disruption operations in response to potential or imminent attack planning. Two were by extreme right-wing ideologists.

In his 2022 Annual Threat Assessment, Australian Security Intelligence Organisation (ASIO) Director General Mike Burgess said, 'Australia's security outlook remains complex, challenging and changing. COVID-19 and its associated lockdowns added considerable volatility to the mix.'

Of the rise of extreme behaviour due to the global pandemic he said, 'behaviours we are seeing in response to COVID lockdowns and vaccinations are not specifically left or right wing. They are a cocktail of views, fears, frustrations, and conspiracies. Individuals who hold these views, and are willing to support violence to further them, are best and most accurately described as ideologically motivated violent extremists.' However, he said, 'Australia's most serious terrorist threats remain religiously motivated extremism, such as that promoted by ISIL'.

Overseas, the past year was marked by both attacks and the persistent threat of terrorism. Many attacks are still by lone perpetrators using knives, guns, or vehicles.

Engaging the private reinsurance market in the terrorism pool

Many major countries have terrorism pools, like ARPC, to provide commercial insurers with efficient, cost-effective terrorism reinsurance. ARPC is highly regarded among international reinsurers due to its expertise in blast and plume catastrophe modelling and strategic use of retrocession in which ARPC purchases reinsurance cover from Australian and global markets.

An objective of the TCI Act is to help ARPC to grow private insurer involvement. During 2021-22, ARPC held virtual meetings to negotiate the 2022 retrocession reinsurance program with over 70 reinsurers in key global markets.

During this year, ARPC worked with our reinsurance broker and advisor AON to simplify the program by converting it to a full multi-year arrangement, renewed at expiring terms. Impressively, ARPC renewed its $3.5 billion retrocession with a $225 million excess, for the same price as 2021.

Treasury's 2021 Triennial Review

The periodic review of the TCI Act tests the need for the Act and for ARPC to continue. Chair Ian Carson AM details the review's outcomes on page 11. Following the legislative update of the TCI Act in March 2022, the next Treasury review of the new TCI Act will be in 2025, and then every five years after that date.

Value for money

The average price of ARPC's terrorism cover for insurers in 2021-22 was 4.9 per cent of the premium, and 4.9 per cent last year. The annual aggregate retentions (the deductible or excess) held by insurers ranges from $100,000 to $12.5 million, which is low compared to their natural catastrophe reinsurance retentions. Insurers covered by ARPC also benefit from liability capping under the *TCI Act*. This limits insurer liability through a legislated reduction percentage for a loss exceeding ARPC's capacity.

Thought leadership on terrorism

ARPC continued to participate in key international forums on terrorism and other systemic risk — managed by the Organisation for Economic Co-Operation and Development (OECD) and the International Forum of Terrorism Risk (Re) Insurance Pools (IFTRIP) respectively.

As IFTRIP President, I was honoured to deliver introductory remarks preceding the showing of 'IFTRIP 9/11 Two Decades of Disruption' docufilm at IFTRIP's 2021 annual conference. The film examined the long-term impact of the 11 September 2001 terrorist attacks 20 years ago.

ARPC also participated in events like the Catastrophe and Reinsurance Symposium, where I presented on insurance and reinsurance pools around the world.

As previously mentioned, ARPC also hosted two annual terrorism risk and insurance seminars in November 2021 as a webinar and in May 2022 as a hybrid in-person and livestreamed event. This annual seminar aims to uplift stakeholder engagement and understanding of the terrorism landscape.

Building solid key stakeholder relationships

ARPC's regular engagements with the Minister, government agencies, insurers, reinsurers, and key industry stakeholders, helps it gain deeper insights into areas of interest and opportunities for the year ahead. According to ARPC's 2021 annual survey of insurer customers by ORIMA Research, ARPC:

- continues delivering on its vision
- is a valued partner
- is a trusted expert
- communicates and engages well with stakeholders.

Chapter 4 – Annual Performance Statement has more detail.

Global connections

During 2021-22 ARPC continued to support and participate in the OECD High Level Advisory Board for the Financial Management of Large-scale Catastrophes and IFTRIP. These engagements strengthen ARPC's links with its global counterparts and reinsurers.

Expanding the team

Over the year ARPC engaged 17 new employees to support the cyclone pool operations. ARPC continues to engage new and existing employees to make sure they are aligned with ARPC's vision and strategic objectives and to drive team-wide connections and engagement. All employees actively contributed to organisational goals, through development and implementation of actions and activities aimed at lifting organisational performance and culture.

ARPC's Wellness Committee ran various team activities and held regular video meetings for all employees and smaller groups. We continue to keep employees focused on the objectives, projects and initiatives outlined in our Corporate Plan.

We have exercised discretion on wage increases in support of the Government's direction on public sector wage restraint. This year, no discretionary performance bonuses were paid to employees or senior executives, discretionary wage increments were frozen for all employees and senior executives saw no wage increases.

I am grateful for our employees support during a period of such significant change for ARPC.

Stakeholder support

ARPC continued contributing to the insurance/ reinsurance and broader community by supporting employment and economic recovery by:

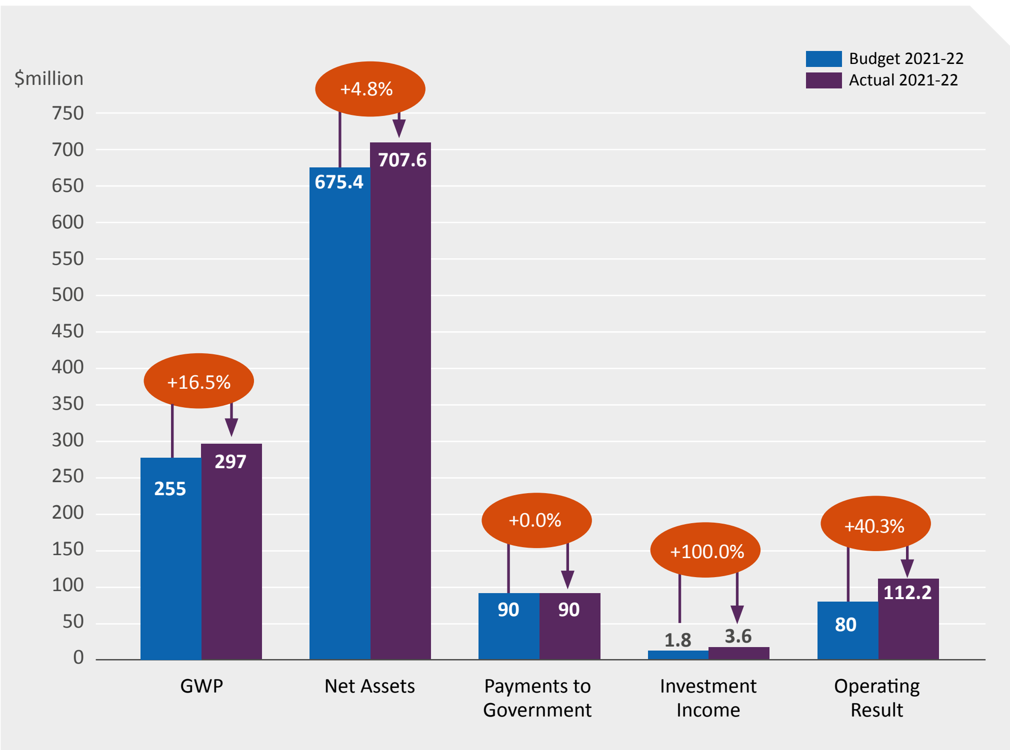
- supporting insurer customers deferring business customer premiums
- continuing our projects with partners
- continuing our office lease
- offering ARPC employees to public sector secondments
- supporting Treasury projects and policy development related to insurance and reinsurance markets to help address market failure.

Better financial performance than forecast

This year's better than expected financial performance was largely due to premium rate rises in underlying commercial insurance premiums. The operating result for the year ended 30 June 2022 was $112.2 million, $32.2 million better than budget.

Figure 1 presents a summary of key financial metrics. *Chapter 4 – Annual Performance Statement* has more detail.

Figure 1: Summary of key financial metrics 2021-22

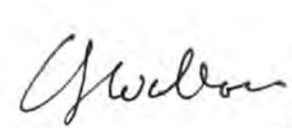


This year ARPC's operational and financial performance was excellent, with good progress on strategic projects including:

- the Standards Australia *Base Building Physical Security Handbook – Terrorism and Extreme Violence'* which was finalised and released in December 2021
- publication of the UQ research paper titled *Terrorism and violent protests: Where do these disruptive events meet?*
- getting operationally ready for the cyclone pool, including launching our new reinsurance system PACE for the cyclone pool and and developing the Reinsurance Agreement, premium rates, and operational processes.

These projects position ARPC well to deliver on our commitment to customers and stakeholders and to respond to DTI and Declared Cyclone Events (DCE).

Lastly, I wish to thank all ARPC's employees and the Board for their contributions and support this year. Additional efforts were required by many of the team, and our Board held additional meetings to review and approve key decisions to implement the cyclone pool and work on the terrorism pool. There is still much work to do, and I look forward to beginning to transition insurer customers into the cyclone pool.



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

This year ARPC's operational and financial performance was excellent with good progress on strategic projects.

REPORT OF OPERATIONS DECLARATION

The Board Members of ARPC are pleased to present their Annual Report on the operations of the Corporation for the financial year ended 30 June 2022. 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

20 September 2022

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

20 September 2022

Australian Government
Australian Reinsurance Pool Corporation

1 ARPC's Strategy

Sunrise from Kings Park, Perth

BACKGROUND

ARPC is a public financial corporation, originally established under the *Terrorism Insurance Act 2003* (TI Act) on 1 July 2003 to administer the Terrorism Reinsurance Pool (terrorism pool) following the 11 September 2001 attacks in the US. This event saw global withdrawal of terrorism insurance cover, leaving Australia's commercial property uninsured against terrorist attacks and reduced access to project funding and commercial refinancing, financially threatening 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 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.

On 5 May 2021, the Australian Government announced the intention to establish a reinsurance pool to cover cyclone and cyclone-related flood damage. The *Terrorism and Cyclone Insurance Act 2003* (TCI Act) was subsequently passed on 30 March 2022 with ARPC operating the Cyclone Reinsurance Pool (cyclone pool) from 1 July 2022.

ARPC is a corporate Commonwealth entity established under the *Public Governance, Performance and Accountability Act* 2013 (PGPA Act) and is subject to the PGPA Act's financial and non-financial reporting requirements.

Vision, Mission, and Values

Since 2018, ARPC has expressed its purpose through the following Vision and Mission. This annual report reports on ARPC's activities and deliverables against the 2021-25 Corporate Plan.

During this reporting period, the Board commenced a review of ARPC's strategy, following the announcement of the cyclone pool including a refresh of the Purpose and Vision statements. ARPC's 2022-26 Corporate Plan has been published on ARPC's website.

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 terrorism pool's original policy objectives, new policy objectives for the cyclone pool and creating greater value for stakeholders.

To deliver on the Vision and Mission, ARPC strives to create a collaborative and high-achieving culture underpinned by integrity, personal leadership, and professional development. These values support ARPC's strategy and Code of Conduct and are fundamental to its success. Refer to Figure 1.1.

Figure 1.1: ARPC's values

STRATEGIC CONTEXT

Addressing terrorism insurance market failure

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

Despite the terrorism pool and ARPC now being 19 years' old, there is still no whole-of-market, sustainable, alternative terrorism reinsurer in the world, hence a partial market failure still exists. The global reinsurance market has insufficient capacity to offer affordable, uniform terrorism risk insurance to the Australian market, a situation unlikely to change in the near term.

The 2021 Triennial Review[1] agreed that a partial market failure remains and recommended the *Terrorism Insurance Act 2003* (TI Act) and the terrorism pool stay in place. As 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. Furthermore, industry stakeholders, including reinsurers and brokers indicated they would find it difficult to participate in the Australian terrorism insurance market without a mechanism like ARPC'.

The 2021 Triennial Review found reasonably priced terrorism risk reinsurance coverage for Australian insurers sits at around $4 billion – unchanged from the 2018 review and well below the reinsurance cover offered by the terrorism pool in 2021.

International threat environment

The international threat environment for terrorist events continues to evolve. In his February 2022 threat assessment, ASIO Director General Mike Burgess stated that while there were no terrorist attacks in Australia in 2021, 'there were two major disruptions of violent extremist attacks'. He said violent extremist attacks remain constant and that, 'the transnational nature of terrorism means that events in distant places, such as the fall of the government in Afghanistan, can reverberate much closer to home. We are monitoring this carefully'. There is also an increasing tendency for perpetrators of terror who are unstable and susceptible to rapid radicalisation to not to appear on the authorities' radar.

The lockdowns and restricted movement associated with COVID-19 tended to reduce terrorism activity in western economies, but online radicalisation grew which heightens future attacks risks. Also of concern, is that across the globe terrorists jailed for crimes committed earlier this century are now being released.

1 The TCI Act is reviewed every three years by Treasury to assess the level of market failure and the need for ARPC to continue operating. The 2021 Triennial Review stated that further reviews would now take place every five years.

Australian threat context

Terrorist incidents Australia has prevented include:

- lone-perpetrator actions
- an attempt to load a chemical bomb onto an aircraft departing from Sydney
- a plot to use an improvised explosive device to disrupt an electrical substation on the NSW south coast.

Australia is experiencing an increase in extreme right-wing activity, with 40 per cent of ccounter-terrorism cases now involving right-wing extremism. Such terrorists can target institutions and subsequently the commercial property that ARPC's terrorism pool covers.

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 2021-22 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/national-threat-level/threat-advisory-system

Figure 1.2: National Terrorism Threat Advisory System

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 2021-25 Corporate Plan sets out five strategic priorities:

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 2021-25 strategic priorities

ARPC made progress against all five strategic priorities outlined in the 2021-25 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.

Figure 1.3 shows what ARPC has achieved to progress its strategic priorities in these key performance areas.

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**
Prepared the 2021 Triennial review of the terrorism pool by Treasury.	✔				✔
Continued to review, identify, and inform the market about potential gaps in cover.	✔	✔			✔
Continued to raise awareness of emerging terrorism risks, such as cyber terrorism.	✔			✔	✔
Developed a risk mitigation handbook for business with Standards Australia and promoted it to stakeholders to help property owners to mitigate terrorism risk.		✔			✔
Advised the Australian 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.

2 Strategic Priority
Engage, understand and collaborate with stakeholders

Core activities and achievements	Key Performance Areas One	Two	Three	Four	Five
Enhanced stakeholders' understanding of terrorism reinsurance pooling.	✔				✔
Kept stakeholders informed about ARPC.					✔
Conducted an insurer customer survey for measuring effectiveness.					✔
Delivered the annual Terrorism Risk & Insurance Seminar to share knowledge of global and local terrorism trends.		✔			✔
Participated in further global and local forums on terrorism risk insurance and catastrophe insurance and financing					
Supported and participated in the OECD High Level Advisory Board for the Financial Management of Large-scale Catastrophes.		✔			
Discussed terrorism risk with Australian Government departments.			✔		✔

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

3 Strategic Priority
Provide a world-class response to terrorism incidents

Core activities and achievements	Key Performance Areas One	Two	Three	Four	Five
Continued catastrophe modelling development for blasts and biochemical events throughout Australia.		✔		✔	
Commenced development of a probability matrix to enhance the deterministic models with probabilistic capabilities.		✔		✔	
Purchased retrocession reinsurance to increase ARPC's total funds available for claims following a DTI, while reducing the need to call on the Commonwealth guarantee.		✔			
Continued improving ARPC's DTI response procedure through regular DTI exercises, including an issues log and the engagement of 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.

4 Strategic Priority
Embrace and evolve to a changing market environment

Core activities and achievements	Key Performance Areas One	Two	Three	Four	Five
Continued to raise awareness of cyber terrorism causing physical damage with industry and government to advance understanding and solutions.	✔				✔
Engaged with local universities on research to further knowledge of terrorism risk and development of analytical tools.	✔	✔			✔
Maintained postcode changes and rating tiers for accurate pricing.	✔		✔		
Continued to review and upgrade the information technology (IT) environment for maximum effectiveness.				✔	

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

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

Core activities and achievements	Key Performance Areas One	Two	Three	Four	Five
Made payments to government as per Ministerial Direction.			✔		
Continued employee professional development for employees.				✔	
Updated employee engagement survey and action plans.				✔	
Continued to monitor the Capital Management Policy to support ARPC's Financial Sustainability.				✔	
Continued developing the risk management framework with a focus on risk culture.				✔	

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

WORKING WITH ARPC STAKEHOLDERS

During 2021-22, ARPC remained committed to developing and sustaining key stakeholder relationships through timely, open communication, understanding their needs and expectations, and delivering value. ARPC held regular meetings with insurers, major commercial property owners, relevant state and Australian Government agencies, and industry associations and advised insurer customers on Reinsurance Agreements and insurer premium submissions.

Activity-based metrics

This year ARPC held face-to-face meetings with the following stakeholders:

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

Other stakeholder activities included:

- an insurance market briefing on the 2022 terrorism retrocession program
- our annual Terrorism Risk & Insurance Seminar attended both in person and livestreamed
- a stakeholder networking function in Sydney
- an insurer customer review program
- electronic direct mail (eDMs) distribution of ARPC's quarterly newsletter, *Under the Cover*
- LinkedIn posts
- website updates
- articles in industry publications.

Outcomes-based metrics

ARPC's second annual insurer customer survey follows on from the first conducted in 2021, which was designed to answer the following four '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?

Chapter 4 – Annual Performance statement for more information, including the results of activity and outcome-based metrics on stakeholder engagement.

Knowledge sharing

ARPC believes that sharing knowledge with stakeholders enhances existing relationships and helps to develop a better understanding of ARPC, the TCI Act, and the environment in which ARPC operates.

During 2021-22, ARPC's representatives shared information and ideas at various industry forums both as delegates and presenters.

Various retrocession renewal discussions allowed ARPC to present the latest information on Australia's terrorism risk and results from the portfolio risk analysis, including outcomes from blast and plume catastrophe modelling.

ARPC's insurer customer review program is integral to its stakeholder engagement efforts. ARPC collaborates and educates insurer customers about the terrorism pool's requirements and function, and seeks to drive compliance. ARPC also shared insights into the contemporary terrorism landscape and strategic projects updates.

During 2021-22, the team combined remote and on-site reviews as permitted by the COVID-19 pandemic.

Communications and publications

ARPC's quarterly digital newsletter, *Under the Cover*, for insurer customers and other subscribers provides information relating to reinsurance cover with ARPC. This newsletter includes postcode updates for reporting exposures and other information regarding Reinsurance Agreement obligations.

ARPC's eDMs inform insurer customers about changes to the terrorism pool, deadlines for returns or submissions and any other relevant information.

ARPC's LinkedIn page shares announcements, event coverage and other news.

The website is a repository for information about the terrorism pool and how it operates, and annual publications, quarterly newsletters, research papers, media releases, events, and Q&As.

Industry involvement

ARPC engages with both the Australian and international reinsurance industries through industry events to raise stakeholder awareness of the terrorism pool and keep stakeholders informed on global developments in terrorism risk and insurance. During 2021-22, ARPC attended industry conferences and events including, but not restricted to:

- OECD-ADBI Roundtable on Insurance and Retirement Saving in Asia
- 2021 APS 200 Series
- International Forum of Terrorism Risk (Re) Insurance Pools (IFTRIP) meeting
- Finity Optima Webinar
- Optima General Insurance Insights 2021
- ARPC's Terrorism Risk & Insurance Webinar 2021
- General Insurance Industry Breakfast
- Aon end of year function
- Career Trackers Gala lunch
- Cyber Terror and Cyber War: Strengthening insurability through clarity and partnerships webinar
- APS 200: Leading through an election and beyond
- AICD Governance Summit
- ARPC's stakeholder event
- SwissRe cocktail event
- Aspen Re event
- ARPC's Terrorism Seminar and livestream.

During 2021-22, ARPC's representatives shared information and ideas at various industry forums both as delegates and presenters.

ARPC ENGAGES WITH GLOBAL TERRORISM POOLS

IFTRIP is the key organisation of international terrorism pools which ARPC engages with to share knowledge and experience.

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) and online during the COVID-19 pandemic.

9/11 – Two Decades of Disruption

The 2021 IFTRIP annual conference was again virtual and was titled '9/11 – Two Decades of Disruption'. ARPC CEO and IFTRIP President, Dr Christopher Wallace, welcomed participants and delivered an introductory speech before a Docufilm focused on the 20th anniversary of the September 11, 2001, terrorist attacks in the United States.

The docufilm featured footage, views and perspectives from industry experts, government officials and victim representatives, sharing the stories of real people and their experiences of the attack. Featuring statistics, research, and testimonials, the docufilm focused on the long-term impact of 9/11, and how it continues to shape our responses to the new challenges of terrorism.

2022 Terrorism Risk & Insurance Seminar and livestream

ARPC's annual Terrorism Risk & Insurance Seminar was held on 26 May 2022 in person at NSW Parliament House, Sydney, and live streamed online. This was ARPC's first event held both online and in person and was well received by attendees.

Dr Kevin J Foster of Engineers Australia outlined his role working on ARPC's sponsored handbook by Standards Australia, *HB 188: Base-building physical security handbook – Terrorism and extreme violence.*

The handbook helps owners and operators of commercial buildings to identify and assess risks linked to terrorism and acts of extreme violence and mitigate risks. The handbook supports ARPC's strategic priority to extend thought leadership and expertise on terrorism.

Dr Foster was followed by an insightful presentation by Paula Jarzabkowski, Professor of Strategic Management at the UQ, on ARPC's sponsored research paper *Terrorism and violent protests: Where do these disruptive events meet?* She discussed how COVID-19 related social changes, for example, unemployment, misinformation, vaccination, masks and lockdowns have fostered protests ending in violence and disruption.

Global and local terrorism webinar

This detailed discussion on the local and global terrorism landscape featured Derek Bopping, Director, Sevenspot Risk Consulting, on the Australian terrorism landscape and Cory Davie, Head of Control Risks Asia Pacific on the global terrorism landscape. For an insurance angle Professor Paula Jarzabkowski presented a paper entitled *Protection Gap Entities: Why are they essential to terrorism insurance?*

SURVEY FINDS ARPC IS A 'VALUED PARTNER'

The second annual ORIMA survey of ARPC's insurer customers (2021) reveals ARPC is largely delivering on its vision and is:

- a valued and important partner
- an easy to deal with trusted expert, and
- communicates and engages well with stakeholders.

Figure 1.4: Perception indicators of ARPC

Perception Indicators	Definition	Overall	Aust.	Overseas
To what extent do you feel the following describes ARPC:				
Trusted expert on terrorism reinsurance	Totally + large extent	97% ▬ (98%)	100% ▬ (100%)	86% ▲ (82%)
Easy to deal with	Totally + large extent	97% ▬ (96%)	100% ▬ (100%)	88% ▲ (75%)
Transparent	Totally + large extent	76% ▼ (89%)	78% ▼ (92%)	83% ▲ (75%)

Source: ORIMA Research 2021 (2020 results are shown in brackets)

As with the 2020 results, over four-in-five respondents believe ARPC is delivering on three aspects of the organisation's vision, at least to a moderate extent. Views were largely similar across Australia and overseas as shown in Figure 1.5.

Figure 1.5: Vision indicators of ARPC

Perception Indicators	Definition	Overall	Aust.	Overseas
To what extent do you feel that ARPC is 'an effective provider of terrorism risk insurance'?	Large + Moderate extent	87% ▼ (97%)	89% ▼ (100%)	88% ▲ (80%)
What impact do you think ARPC has on private sector terrorism reinsurance participation?	Substantially + Somewhat facilitates	87% ▼ (97%)	89% ▼ (100%)	79% ▲ (75%)
To what extent do you believe ARPC supports 'national resilience'?	Large + Moderate extent	89% ▼ (97%)	89% ▼ (100%)	95% ▲ (80%)

Source: ORIMA Research 2021 (2020 results are shown in brackets)

Perceptions of engagement and communication are relatively strong, with 87 per cent rating the website very good/good and 84 per cent rating the terrorism risk and insurance material as very or somewhat valuable. Face-to-face meetings were rated relatively less highly, mainly due to respondents feeling unable to comment. ORIMA noted that these results may be related to COVID-19 restrictions limiting engagement in later 2021.

Figure 1.6: Two words used to describe ARPC

Source: ORIMA Research

Some of the other findings include:

- 89 per cent of Australian and 60 per cent of overseas respondents 'valued' the annual Terrorism Risk & Insurance Webinar with positive perceptions of the seminar higher across both groups.
- When asked to describe ARPC in a couple of words, our insurer customers used 'professional', 'reliable', 'effective', 'trustworthy', and 'valuable'.
- 78 per cent of Australian and 83 per cent of overseas respondents respectively saw ARPC as a valued partner.
- ARPC's publications and digital business-to-business communications were strongly rated.
- Insurer customer reviews are well regarded by customers.

Figure 1.7: Perceptions of ARPC's insurer customer review process

How useful has your organisation found ARPC's Insurer Customer review process	Overall	Aust.	Overseas
Very useful	1%	–	10%
Somewhat useful	74%	78%	60%
Very + Somewhat useful	75%	78%	69%
Not very useful	10%	11%	–
Not useful at all	–	–	–
Can't say	15%	11%	31%

Source: ORIMA Research

To the question 'for suggestions on what ARPC could do differently in how it engages with its insurer customers' most respondents indicated ARPC's current approach met their needs.

Context

In the 2020-24 Corporate Plan, ARPC committed to developing and launching an annual insurer customer survey to set a baseline for measuring stakeholder engagement effectiveness and improve stakeholder outcomes. In 2021, ARPC ran its second annual survey.

Methodology

A senior executive workshop identified four 'big questions':

1. Are we delivering on our vision?
2. What do our customers think of us?
3. Does ARPC represent value for money?
4. Does ARPC engage effectively with stakeholders?

The survey was conducted by ORIMA Research in November and December 2021. A short online survey was sent to the primary contact for ARPC's 235 insurer customers, 36 of which are based in Australia and 199 based overseas.

Responses were received from 51 insurer customers overall (22 per cent response rate, compared to 28 per cent last year). Responses were received from 9 out of 36 Australian insurer customers (25 per cent response rate, compared to 33 per cent last year) and 42 out of 199 overseas insurer customers (21 per cent response rate, compared to 27 per cent last year).

ORIMA Research 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 thanks insurer customers for their strong overall support of ARPC in the 2021 survey.

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

The full survey report has been published on ARPC's website.

NEW STRATEGY FOR ARPC FOR 2022 AND INTO THE FUTURE

The TCI Act was passed in March 2022. ARPC's functions under section 10 of the TCI Act are now:

- to provide insurance cover for eligible terrorism losses (whether by entering contracts or by other means)
- to operate a cyclone and related flood damage reinsurance pool by entering contracts of reinsurance as reinsurer in accordance with Part 2A, and
- any other functions that are prescribed by the regulations.

To align with ARPC's extended functions, ARPC's Board approved a new strategy to accommodate the terrorism pool and cyclone pool.

This included a new Purpose, Vision and set of strategic priorities as Figure 1.8 shows.

Figure 1.8: ARPC's strategy for 2022 and into the future

ARPC's 2022-26 Corporate Plan outlines key activities, measures, and targets against ARPC's strategic priorities for 2021-22.

Australian Government
Australian Reinsurance Pool Corporation

2 The Terrorism Reinsurance Pool

HOW ARPC'S TERRORISM REINSURANCE POOL OPERATES

The Terrorism Reinsurance Pool (terrorism 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 and Cyclone Insurance Act* 2003 (TCI Act) and further refined through regulation.

The responsible Minister, in consultation with the Attorney-General, determines whether a terrorist incident has occurred after applying the Australian Government definition of terrorism as used across legislation and drawn from the Criminal Code. On this being done, the responsible Minister must announce a DTI under section 6 of the TCI Act. The provision of the TCI Act in respect of eligible terrorism losses, then comes into effect and exclusion clauses in eligible terrorism insurance contracts are rendered invalid.

The TCI Act then gives insurers three options for terrorism insurance coverage for a DTI:

1. carry the underwritten risk of terrorism losses following a DTI
2. reinsure the risk through the commercial reinsurance market, by entering a reinsurance contract and paying terrorism reinsurance premiums
3. reinsure the risk with ARPC by entering a reinsurance contract and paying terrorism reinsurance premiums.

Insurers deciding to reinsure the risk of claims with ARPC from a DTI must enter a reinsurance contract and pay ARPC's reinsurance premiums. Similar arrangements exist in most major economies, with some government involvement through terrorism reinsurance pools.

If there's a DTI, the terrorism pool covers insurer customers with an eligible reinsurance agreement with ARPC. Insurers must meet policyholder claims as per the terms and conditions of individual policies.

Terrorism pool coverage excludes:

- loss or liability arising from the hazardous properties of nuclear fuel, material, or waste
- residential property not identified as eligible property. However, farms holding business interruption insurance can get cover.

Insurer and industry retentions (deductibles or excesses) apply before claiming against the terrorism pool. Claims against the terrorism pool will be met once an individual insurer's retention is exhausted. In this way, and in line with good risk management practices, the terrorism 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 2022 calendar year). Above this point, an additional $3.5 billion of claims are funded by the retrocession program with global reinsurers.

Once retrocession is exhausted, claims are paid by the Commonwealth guarantee. A reduction percentage may be applied if this layer exceeds the $10 billion limit of the Commonwealth guarantee in the TCI Act. Insurance companies not reinsured with ARPC are liable for the cost of DTI claims on all eligible policies up to their pre-existing policy limits with no reduction percentage.

The terrorism pool funding capacity is the total value of the terrorism pool, which as at 30 June 2022 totalled $14.2 billion. The terrorism pool 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 been gradually transferring risk back to the global reinsurance market in line with incremental increases in global terrorism insurance capacity, thus reducing reliance on the Commonwealth covering DTIs.

In 2021, ARPC reduced the retrocession deductible by a further $25 million to be $225 million and this deductible was maintained for the 2022 year. This provides ARPC with more capital to reinstate the terrorism pool in the event of a DTI.

Terrorism pool background

Significant commercial and financial issues followed on from insurance and reinsurance companies' withdrawing coverage for terrorism risk following the 9/11 attacks. With a large assets pool uninsured for terrorism risk, financiers, and investors faced uncertainty, which had:

- potentially adverse economic impacts
- delayed investment projects
- altered portfolio management decisions.

For these reasons, the Government's response was to create the TCI Act, which attracted bipartisan support.

In July 2003, the then *Terrorism Insurance Act 2003* (TI Act) stipulated a pool providing terrorism cover on eligible insurance contracts (the terrorism pool) to be administered by ARPC.

Section 10 of the updated TCI Act sets out ARPC's functions of corporation:

1. to provide insurance cover for eligible terrorism losses (whether by entering into contracts or by other means)
2. to operate a cyclone and related flood damage reinsurance pool by entering into contracts of reinsurance as reinsurer in accordance with Part 2A
3. any other functions prescribed by the regulations.

ARPC supports the functions of corporation for the terrorism pool by:

- maintaining private sector involvement as far as possible
- appropriately pricing and compensating the Australian Government for any risk transferred to it
- allowing for the re-emergence of commercial markets for terrorism risk cover
- responding to global solutions.

Terrorism pool coverage

As at 30 June 2022, the terrorism pool's total capacity was $14.2 billion, including all sources of funding. Refer to Figure 2.1.

Insurance contracts covered by the terrorism pool cover:

- 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 means property 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 terrorism pool's exclusions are:

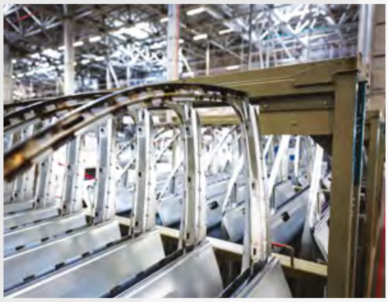
- loss or liability arising from the hazardous properties of nuclear fuel, material, or waste
- residential property or the contents of residential property where the building, or a group of buildings on a single strata policy, has a sum insured of less than $50 million
- farms, unless they hold business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

Property types included in the terrorism pool

Commercial

Construction

High value residential

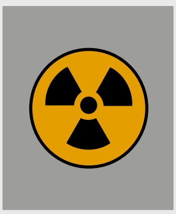


Industrial

Farms with Business Interruption coverage

Exclusions from the Pool

Radiological



Nuclear

Cyber

Government property

Residential property

Marine

Machinery breakdown

Workers' compensation

The funding capacity of the terrorism pool

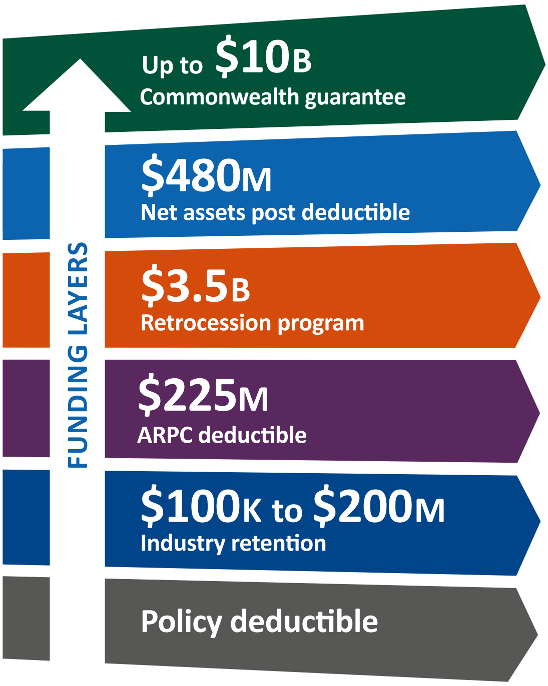
As at 30 June 2022, ARPC provided insurers with an annual claims funding capacity of $14.2 billion in reinsurance, comprising:

- funding of ARPC's retrocession deductible
- the retrocession program
- the Commonwealth guarantee.

In 2021-22, ARPC simplified the retrocession program down from several hundred contracts to 67 covering all layers.

One hundred per cent of the placement was completed on a rolling three-year basis with a three-year cancel and replace structure.

Figure 2.1: ARPC funding layers for terrorism claims from all sources as at 30 June 2022



Commonwealth guarantee: This is a solvency guarantee for ARPC, which is limited to $10B as per the *TCI Act 2003*.

Net assets post deductible: The net asset position available for claims after the $225M deductible is paid.

Retrocession program: This layer of funding is sourced from the commercial reinsurance market. It is mostly placed as multi-year covers.

ARPC deductible: This is funded from ARPC net assets.

Industry retention: This is the aggregate of the treaty retentions of all insurers involved in a calendar year.

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

Terrorism claims against the terrorism pool are funded in a layered order:

1. the policyholder deductible (excess or the underlying policy's retention)
2. the insurer customers retention as stated in ARPC's Reinsurance Agreement up to a maximum industry retention (total retention from all insurer customers involved in one calendar year)
3. $225 million ARPC's retrocession deductible
4. $3.5 billion retrocession program capacity
5. $10 billion maximum Commonwealth guarantee.

Reduction percentage

A reduction percentage must be specified if the responsible Minister considers that without it total amounts paid or payable by the Australian Government under section 35 of the TCI Act (including amounts not related to the act or acts specified in the declaration) are over $10 billion.

By notice in the Australian Government Gazette, the responsible Minister may vary the reduction percentage, but only by making it smaller and the percentage may be varied more than once. Once the reduction percentage is applied, insurers covered by ARPC would have no liability for any costs above their retention (regardless of sums insured) and eligible policyholders would receive a reduced claim payment from their insurer. After the reduction percentage figure announcement, the Australian Government can decide to revise this figure (only to decrease it) which would increase claim payments to policyholders.

If an insurer is not reinsured with ARPC, that insurer is liable for the full costs of a DTI claim. They will not be protected by the reduction percentage and must pay claims to the limit of the policy sum insured, subject to the policy terms and conditions.

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

HOW THE TERRORISM 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. Figure 2.2 outlines ARPC's tier rates.

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

Premium tiers are set by a postcode's population density.

Figure 2.3 illustrates the breakdown of three premium tiers and the broad geographical location they relate to.

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

ARPC's 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 terrorism pool provides for tier rates to be adjusted following a claim, so that ARPC can meet its outstanding claims liabilities and rebuild the claims reserve in a timely way.

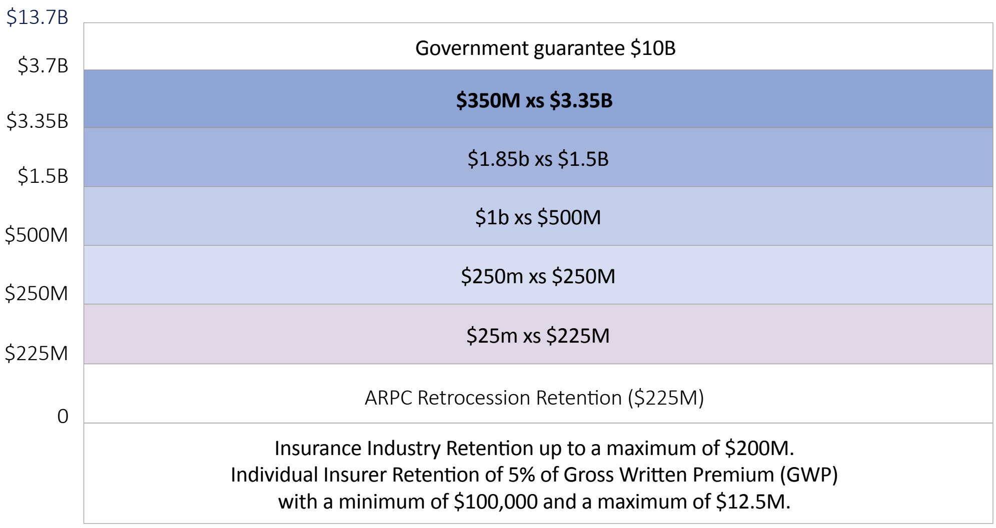
Retrocession placement

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

- increases overall terrorism pool capacity
- positions the Commonwealth further from the risk of terrorism losses under the terrorism 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.

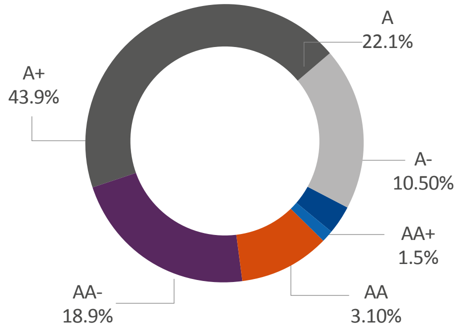
The retrocession program renews on 1 January of each year. The 2022 placement of $3.5 billion includes $2.57 billion of capacity previously written on a multi-year basis was instead placed on a rolling three-year agreement, with a cancel and replace structure, to reduce pricing volatility for ARPC and its retrocessionaires. A best-in-market deficit clause was also drafted and agreed to for the 2022 placement.

Figure 2.4: Retrocession program detail



The retrocession program has 67 participants from the Australian market and from the Lloyds, European, Bermudian, USA, and Asian markets. Figure 2.5 splits retrocessionaires by their Standard & Poor's and/or Best credit rating.

Figure 2.5 Retrocession program counterparty credit rating for the 2022 calendar year



For the 2022 calendar year the $3.5 billion retrocession program (2021: $3.475 billion) was placed in five layers, in excess of $225 million (2021: $225 million). The Commonwealth guarantee covers losses exceeding the retrocession program.

Retrocession is placed on a calendar year basis from 1 January. The net retrocession premium expense incurred for the 12 months to 30 June 2022 totalled a gross amount of $65.6 million (2021: $64.9 million). Except for a 3 per cent increase in the aggregate exposure amount, there was almost no change between the two years.

ARPC MODELLING CAPABILITIES

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

3D blast model

ARPC uses its insurer customers' sum insured aggregate figures and building sum insured surveys in the 3D blast model it has 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 (refer to Figure 2.3).

The blast model includes the most built-up CBD areas of Sydney, Melbourne, Brisbane, Adelaide, Perth, and Hobart. Multi-location analysis was conducted in those cities to review expected losses from different sized explosive charges.

Plume model

GA forms an integral part of ARPC's blast and plume analytical capability. In collaboration with GA, ARPC can 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 and external consultants.

ARPC regularly analyses various plume scenarios including mobile drone delivery systems of selected agents in Sydney and Melbourne.

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 cities.

Geospatial model

ARPC continued to develop the geospatial 2D blast model, incorporating some three-dimensional attributes. It covers all of Australia's mainland locations and can estimate interruption to business from police exclusion zones at attack sites. The geospatial claims catastrophe model was commissioned in 2020 and is based on the original 2D blast model developed by Risk Frontiers in 2007.

Exposure risk management

In the event of a DTI, the Australian Government expects ARPC to advise the responsible Minister of the estimated reinsured claims losses (under the terrorism pool). This estimate will inform the calculation of an appropriate reduction percentage, if required.

To do this, ARPC has developed capability to:

- analyse aggregate sum insured information
- estimate its probable losses in the event of a DTI
- provide evidence-based advice to the responsible Minister on an appropriate reduction percentage.

GLOBAL TERRORISM REINSURANCE POOLS

Many foreign governments and insurance markets have introduced insurance pools with government participation. Some were created following the 9/11 attacks, others in response to specific domestic terrorist or threats of war. Terrorism insurance pools are the global standard approach to providing cost effective reinsurance for terrorism catastrophe, with 23 countries in the world offering similar arrangements. Refer to Figure 2.6 for a list of current terrorism pools.

Figure 2.6 Terrorism reinsurance pools

Country	Terrorism 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: IFTRIP

INSURER CUSTOMER REVIEW PROGRAM

ARPC regularly reviews insurer customers to verify they are meeting their ARPC's Reinsurance Agreement obligations. Figure 2.7 details the past four years of reviews.

Figure 2.7 Number of ARPC insurer customer reviews

Type of review	2021-22	2020-21	2019-20	2018-19
Full review	13	12***	37**	28*
Proportion of GWP covered	29%	62%	24%	75%

* Includes reviews on Lloyd's syndicates

** Includes reviews on Singapore-based captive insurers

***The review of Lloyd's syndicates initially scheduled in May 2021 was deferred due to the ongoing impact of COVID-19 and border restriction

Insurer customer review trends

ARPC found most insurer customers have high compliance levels. However, ARPC has observed and addressed the following types of errors in some of the insurer customer reviews that have been undertaken:

- out-of-date postcode tables
- back-calculation of GWP
- terrorism exclusion clauses that are either ambiguous or which could have unintended consequences
- incorrectly considering insurance contracts that contain a terrorism sub-limit to be ineligible under the TCI Act
- not recognising pollution and contamination exclusions as terrorism exclusion clauses for the purposes of the TCI Act
- incorrect calculation of a premium that contains broker commission which could result in over or under payment of a premium
- incorrect calculation on a premium that contains Withholding Tax (WHT) resulting in over or under payment of a premium and
- staff turnover within the insurer customer, leading to a lack of understanding of ARPC's processes.

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

STATISTICS

Active insurer customers Reinsurance Agreements

ARPC's active Reinsurance Agreements (or treaties) with insurer customers decreased to 233 in 2021-22, compared to 237 in 2020-21.

Figure 2.8 illustrates the percentage split by insurer category.

The Premium Revenue trend reported by insurer customers is measured by:

- Insurer customer type
- Premium by tier
- Premium by state
- Premium by business class

Figure 2.8: Active Client Reinsurance Agreements as at 30 June 2022

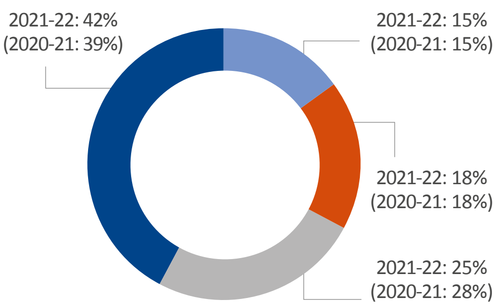
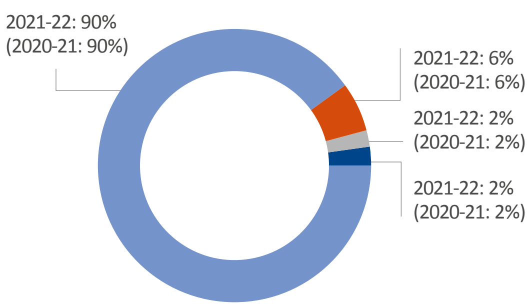


Figure 2.9: ARPC's Premium Revenue by insurer customer type for 2021-22 and 2020-21



Australian Insurer | Captive Insurer | Lloyds Insurer | Overseas Insurer

Insurance premium report (underwriting year premium returns)

The information in this section is based on ARPC's terrorism pool insurer customer (cedant) quarterly premium returns, which show the anticipated premiums that insurers calculate and report as expecting to be paid to ARPC for the underwriting year. The premium results in the financial statements for the financial year reflect actual premiums paid by insurers to ARPC.

Figures 2.10, 2.11 and 2.12 show ARPC's premium revenue breakdown by tier, state, and business class (between 2017 and 2022) was stable when compared to prior years. Most of the premium revenue was generated by Tier B risks across NSW and Victoria.

Figure 2.10: ARPC's premium revenue split by underwriting year and tier as at 30 June 2022 (report date as at 8 August 2022)

Actual	2021-22 %	2020-21 %	2019-20 %	2018-19 %	2017-18 %
Tier A	21%	21%	21%	20%	21%
Tier B	59%	59%	59%	59%	56%
Tier C	20%	20%	20%	21%	23%
Total Premium Revenue $'000	300,035	258,701	233,882	201,879	181,766

Figure 2.11: ARPC's premium revenue split by underwriting year and state as at 30 June 2022 (report date as at 8 August 2022)

Actual	Premium Revenue Split by State & Underwriting Year				
	2021-22 %	2020-21 %	2019-20 %	2018-19 %	2017-18 %
NSW	32%	31%	32%	32%	32%
VIC	25%	25%	25%	25%	25%
QLD	21%	21%	21%	21%	21%
WA	12%	12%	12%	12%	12%
SA	7%	7%	7%	7%	7%
TAS	1%	1%	1%	1%	1%
NT	1%	1%	1%	1%	1%
ACT	1%	2%	1%	1%	1%
Total Premium Revenue $'000	300,035	258,701	233,882	201,879	181,766

Figure 2.12: ARPC's premium revenue split by underwriting year and business class as at June 2022 (report date as at 8 August 2022)

Actual	Premium Revenue Split by Business Class & Underwriting Year				
	2021-22 %	2020-21 %	2019-20 %	2018-19 %	2017-18 %
Fire/Industrial Special Risks/ Business Interruption	88%	88%	88%	86%	85%
Contract works	6%	6%	6%	7%	8%
Burglary	2%	1%	1%	3%	2%
Miscellaneous accident	0%	0%	0%	1%	2%
Mobile plant	3%	4%	4%	2%	2%
Glass	1%	1%	1%	1%	1%
Farm	0%	0%	0%	0%	0%
Total Premium Revenue $'000	300,035	258,701	233,882	201,879	181,766

As Figure 2.13 shows, the annual change in ARPC's premium revenue is directly related to:

- changes to insurer customer premium rates
- aggregate sum insured
- ARPC's premium rates.

The overall growth reflects market change in premiums for commercial risks over time. While premium growth as a percentage of insurer customers premium revenue reflects the change in ARPC's rate in early 2016 as per Ministerial Direction.

Figure 2.13: Premium revenue and insurance risk report by underwriting year (report date as at 8 August 2022)

Underwriting year	ARPC's premium revenue ($ million)	Insurer customer sum insured ($ million)	Insurer customer (cedant) premium revenue ($ million)	ARPC's premium as % of cedant premium
2017-18	181.8	3,464,734	3,764.4	4.8%
2018-19	202.2	3,711,900	4,142.4	4.9%
2019-20	233.9	3,882,379	4,744.8	4.9%
2020-21	258.7	3,981,433	5,230.0	4.9%
2021-22	300.0	n/a**	6,104.9	4.9%

** The 2021-22 Risk reports are submitted into RISe from July 2022 until September 2022. As at 30 June 2022 the information in the system is still being reported and thus incomplete. For this reason, 2021-22 aggregate values have not been reported.

Figure 2.14 shows the breakdown of premium revenue by rating tier, indicating that ARPC's exposure is mostly located within Tier B. 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: Premium revenue by rating tier as at 30 June 2022 (report date as at 8 August 2022)

Rating tier	ARPC's premium revenue ($ million)	Insurer customer premium revenue ($ million)	ARPC's premium as % of insurer premium revenue
A	60.4	377.5	16.0%
B	178.2	3,362.9	5.3%
C	61.4	2,364.6	2.6%
Aggregate	300.0	6,104.9	4.9%

Figure 2.15 shows that most of ARPC's premium income is derived from NSW, followed by Victoria, owing to the higher proportion of Tier B risks in these regions.

Figure 2.15: ARPC premium revenue and customer premium revenue split by state as at 30 June 2022 (report date as at 8 August 2022)

State	ARPC's premium revenue ($ million)	Insurer customer premium revenue ($ million)	ARPC's premium as % of insurer premium revenue
NSW	94.7	1,793.8	5.3%
VIC	74.3	1,373.2	5.4%
QLD	61.8	1,364.8	4.5%
WA	35.7	845.2	4.2%
SA	20.6	394.1	5.2%
NT	3.8	116.5	3.3%
TAS	4.1	117.4	3.5%
ACT	5.0	99.8	5.0%
Aggregate	300.0	6,104.9	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. This report summarises the aggregate sum insured amounts at postcode level for all postcodes, and at street address level for the five CBD Tier A locations as at 30 June. The information is uploaded by insurer customers directly into ARPC's RISe system, so it can analyse Australia's aggregate exposure risk. This analysis includes reporting aggregate sum insured exposures.

Refer to Figures 2.16 and 2.17 for an overview of ARPC's total exposure based on rating tier and location information as at 30 June 2022.

Figure 2.16: Aggregate sum insured amounts split by underwriting year and rating tier for the 2016 – 2021 period.

Tier	2020-21* ($ trillion)	2019-20 ($ trillion)	2018-19 ($ trillion)	2017-18 ($ trillion)	2016-17 ($ trillion)
Tier A	0.5	0.5	0.5	0.4	0.4
Tier B	2.1	2.1	2.0	1.9	2.0
Tier C	1.4	1.3	1.2	1.2	1.3
Aggregate Sum Insured	**4.0**	**3.9**	**3.7**	**3.5**	**3.7**

* The 2021-22 Risk reports are submitted into RISe from July 2022 until September 2022. As at 30 June 2022 the information in the system is still being reported and thus incomplete. For this reason, 2021-22 aggregate values have not been reported.

Figure 2.17 indicates that the vast majority of ARPC's exposure is in New South Wales, Victoria, and Queensland. This supports the information in Figure 2.15 to explain why much of the premium income is derived from NSW, followed by Victoria.

Figure 2.17: Aggregate sum insured amounts split by state and underwriting year for the 2016 – 2021 period.

State	Aggregate Sum Insured (2020-21)* ($ million)	Aggregate Sum Insured (2019-20) ($ million)	Aggregate Sum Insured (2018-19) ($ million)	Aggregate Sum Insured (2017-18) ($ million)	Aggregate Sum Insured (2016-17) ($ million)
NSW	1,284,726	1,285,086	1,229,249	1,132,639	1,149,169
VIC	907,767	877,445	784,913	726,593	812,643
QLD	815,909	766,964	806,702	745,110	812,389
WA	552,182	525,630	502,638	467,586	516,855
SA	226,650	228,616	212,107	216,029	212,707
TAS	53,742	56,461	52,089	47,805	48,934
NT	74,206	79,089	67,453	68,935	73,370
ACT	66,251	63,087	56,749	60,037	55,583
Aggregate	**3,981,433**	**3,882,379**	**3,711,900**	**3,464,734**	**3,681,650**

* The 2021-22 Risk reports are submitted into RISe from July 2022 until September 2022. As at 30 June 2022 the information in the system is still being reported and thus incomplete. For this reason, 2021-22 aggregate values have not been reported.

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

2021 Triennial Review Report

The 2021 triennial review report of the TCI Act by Treasury recommended that ARPC continue to provide terrorism re-insurance covering Australian commercial and high value residential property.

The TCI Act requires a triennial review into whether ARPC's terrorism pool should continue. Just like in 2021, the reviews in 2006, 2009, 2012, 2015 and 2018 found insufficient terrorism insurance available commercially on reasonable terms and so the TCI Act and APRA should continue to remain available.

ARPC noted Treasury's recommendation to exclude cyber terrorism from the terrorism pool for now, as it did in 2018.

The 2021 report also recommended that ARPC review its governance arrangements to accommodate a proposed cyclone pool and expand the Board.

The 2021 report also recommended that Treasury's triennial review move to a five-yearly cycle. Further detail on the report's outcomes can be found on page 13.

Australian Government
Australian Reinsurance Pool Corporation

3 The Cyclone Reinsurance Pool

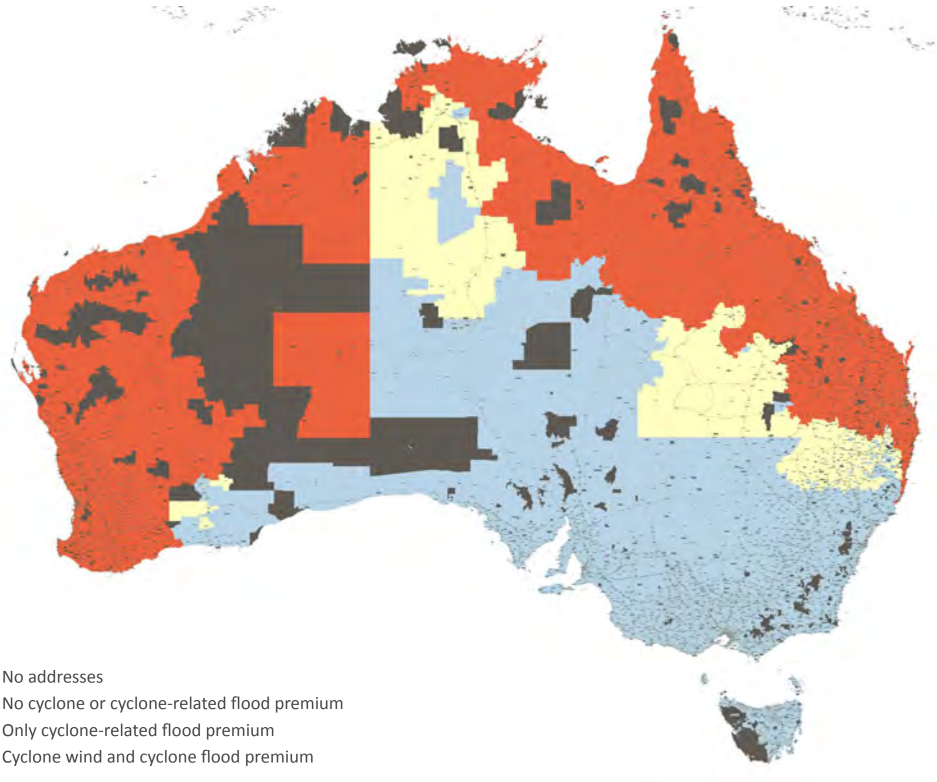
Torrential rain during Cyclone Ita in Townsville

HOW ARPC'S CYCLONE POOL WILL OPERATE

Background

ARPC commenced operating the Cyclone Reinsurance Pool (cyclone pool) from 1 July 2022. The cyclone pool operates Australia wide, but targets premium reductions in cyclone-prone areas. These are mainly in northern Australia.

Figure 3.1: Suburbs with exposure to cyclone risk as covered by the cyclone pool



No addresses
No cyclone or cyclone-related flood premium
Only cyclone-related flood premium
Cyclone wind and cyclone flood premium

Source: 2022 Cyclone Reinsurance Pool: Summary of the Actuarial Premium Rate Assessment – Finity Consulting Pty Ltd

Cyclone pool coverage

The cyclone pool covers the cost of eligible cyclone and cyclone-related flood damage claims, above the policyholder excess, to maximise potential premium reductions to medium and high-risk cyclone prone areas. Figure 3.2 provides more details.

Figure 3.2: Cyclone pool coverage and eligible policies

The cyclone pool will cover losses caused by...

Cyclonic winds

Cyclone-related flooding

Storm surge

All eligible insurance policies Australia wide are covered by the cyclone pool, provided the insurer is in the scheme.

The number of eligible policies in Northern Australia* is estimated as follows:

3,300,000
Residential homes for building and contents

220,000
Small businesses for building, contents and business interruption

140,000
Residential strata and small commercial strata

*Estimated number of policies in CRESTAs 1 to 24, and 47 to 49. CRESTA is a geographic risk zone aggregation.

Source: 2022 Cyclone Reinsurance Pool: Summary of the Actuarial Premium Rate Assessment – Finity Consulting Pty Ltd

Cyclone pool funding capacity

The cyclone pool is supported by an annually reinstated $10 billion Commonwealth guarantee, which covers any shortfalls from ARPC. If the $10 billion guarantee is likely to be exceeded by a single cyclone event, or series of cyclone events within a single year, the Commonwealth will increase the guarantee to meet its obligations.

The cyclone pool is funded by reinsurance premiums paid by insurer customers consistent with the expected claims and operating expenses for the cyclone pool. These reinsurance premiums will be determined by ARPC, who will also set the premiums, which are reviewed by the Australian Government appointed reviewing actuary.

How savings are achieved for consumers

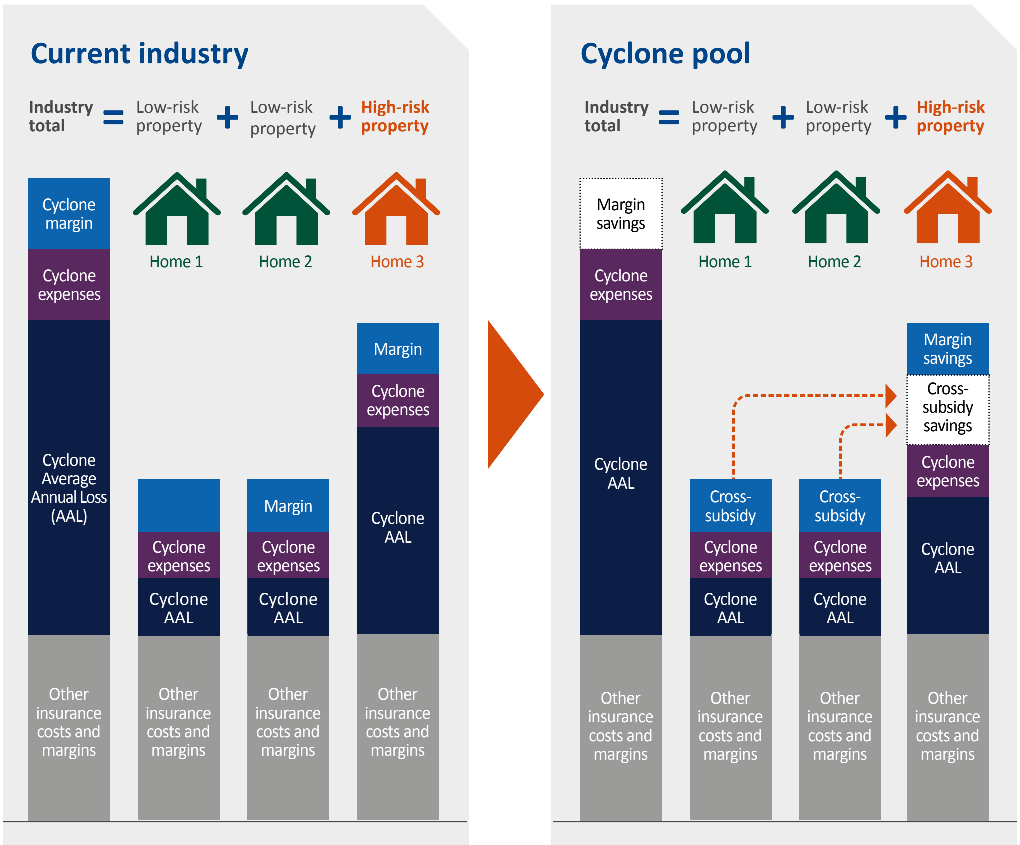
The cyclone pool will replace insurers current approach to financing cyclone losses. This will save consumer policyholders on premiums because:

- it will not charge a margin for the risk it takes on total cyclone insurance costs
- by setting cross-subsidised reinsurance premium rates, medium and high-risk properties pay comparatively lower premiums, while low-risk properties pay comparable cyclone premiums as the legislation intended.

ARPC is not APRA regulated so it is not required to hold the same level of capital as private insurers.

A key advantage of the cyclone pool is that reinsurance premiums will not need to respond to international market cycles and short-term market pressures, so premiums are more stable. Figure 3.3 shows how the cyclone pool reduces premiums for high cyclone risk properties.

Figure 3.3: Intent of the cyclone pool premiums in delivering savings to medium and high-risk policyholders

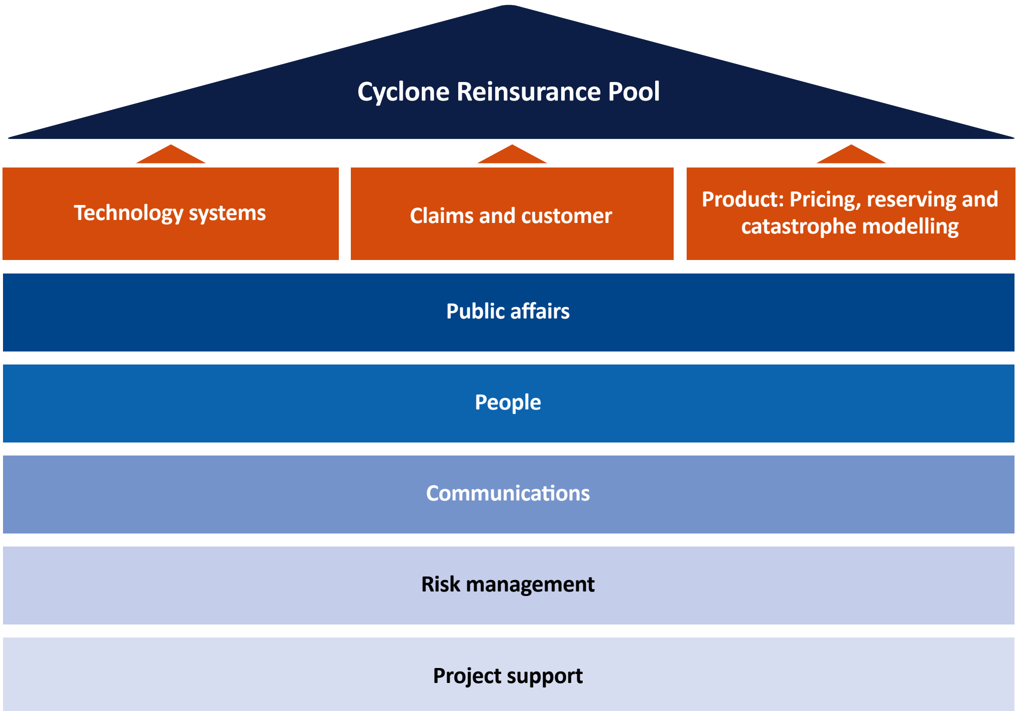


Source: 2022 Cyclone Reinsurance Pool: Summary of the Actuarial Premium Rate Assessment- Finity Consulting Pty Ltd

IMPLEMENTING THE CYCLONE POOL

ARPC established a dedicated project team and work streams, with executive sponsorship, to implement the cyclone pool. The stream was supported by subject matter experts and project managers to make sure deliverables were met. As Figure 3.4 shows, the program of work was managed under three streams with supporting functions.

Figure 3.4: Cyclone pool implementation program work streams



ARPC dedicated specific funding to implement the cyclone pool, with $8.3 million spent this reporting period against a forecast $22.6 million. This differential was mostly driven by timing differences in planned headcount and technology costs. The remaining cyclone pool implementation and operating costs have been carried over into the 2022-23 Financial Plan.

Before the cyclone pool commenced operations on 1 July, ARPC delivered:

- a Reinsurance Agreement
- initial premium rates and formulas
- information on ARPC's website covering onboarding, initial premium rates, Reinsurance Agreements and Frequently Asked Questions (FAQs)
- a secure electronic file sharing portal
- a new reinsurance technology platform (PACE) to onboard customers to collect premiums and manage cyclone events
- the instruments, documentation, and processes it needed to coordinate with the Bureau of Meteorology (BoM) to declare a cyclone event (Declared Cyclone Event (DCE)).

During this reporting period ARPC appointed 17 new staff to deliver and operate the cyclone pool, with more planned as the cyclone pool becomes fully operational. Additional floor space in its current location will accommodate this growth from September 2022.

Government agencies that ARPC has worked closely with to establish the cyclone pool include:

- Treasury's Cyclone Reinsurance Pool Taskforce
- Australian Competition Consumer Commission (ACCC)
- Australian Government Actuary (AGA)
- Australian Government Solicitor (AGS)
- Australian Prudential Regulatory Authority (APRA)
- Bureau of Meteorology (BoM).

In conjunction with the ACCC, APRA, and Treasury, ARPC has also briefed regulators, agencies, and industry and community stakeholders.

ARPC established a dedicated project team and work streams, with executive sponsorship, to implement the cyclone pool.

Wet season, Queensland

HOW THE CYCLONE POOL IS ADMINISTERED

Initial premium rates

ARPC published initial premium rates and the Reinsurance Agreement ahead of the cyclone pool commencing operations on 1 July 2022. ARPC will publish a further update to the initial premium rates by 1 October 2022. ARPC's pricing formula is designed:

- to be cost-neutral to the Australian Government over the longer term
- not to make a profit thus reducing costs to policyholders and insurers
- to lower reinsurance costs for most policies with medium to high-risk exposure
- to maintain risk reduction incentives and offer discounts for properties mitigating risk
- to encourage policyholders to mitigate cyclone and related flooding risks, while the discounts make property insurance more affordable and sustainable.

Other important considerations in the design of the pricing formula include:

- minimal disruption to insurers current pricing practices
- all insurers pay same premium for a consistent coverage
- the model delivers stable long-term rates.

The pricing formula is intended to be applied at the individual risk level for all insurance policies.

ARPC designed the pricing formula to set reinsurance premiums using property-level data like:

- geography
- building characteristics
- mitigation.

Cyclone catastrophe modelling

In the reporting period, ARPC commissioned several catastrophe model vendors to estimate annual average losses for the cyclone pool to help ARPC determine reinsurance premium rates. Figure 3.5 shows the catastrophe models used by ARPC to determine the target premium pool for each peril.

Figure 3.5: Cyclone pool catastrophe modellers

<table>
<tr><th></th><th>Wind</th><th>Storm Surge</th><th>Fluvial Flood</th><th>Pluvial Flood</th></tr>
<tr><td>RMS</td><td>✔[1]</td><td></td><td colspan="2">✔[1]</td></tr>
<tr><td>Risk Frontiers</td><td>✔[1]</td><td></td><td colspan="2"></td></tr>
<tr><td>COMBUS</td><td>✔[1]</td><td>✔[1]</td><td colspan="2">✔[1]</td></tr>
<tr><td>Finity Finperils</td><td></td><td>✔[2]</td><td></td><td></td></tr>
<tr><td>Aon CHIP</td><td></td><td>✔[2]</td><td>✔[2]</td><td></td></tr>
<tr><td>JBA</td><td></td><td></td><td>✔[2]</td><td></td></tr>
</table>

[1] Probabilistic models
[2] Deterministic models

Insurer transition into the cyclone pool

Insurers are required to enter into reinsurance agreements with ARPC.

Large insurers (with over $300 million in GWP) have until 31 December 2023 to join the cyclone pool and obtain reinsurance for all eligible cyclone risks with ARPC.

Small insurers must reinsure all eligible cyclone risks with ARPC by 31 December 2024.

Small insurers with less than $300 million of gross written household insurance premiums in the last financial year (before 31 December 2022) must reinsure eligible cyclone losses with ARPC by 31 December 2024.

During the transition period, insurers can agree transition arrangements with ARPC.

Role of ACCC

The Government has commissioned the ACCC (under Part VIIA of the *Competition and Consumer Act 2010*) to collect data to evaluate the impact of the cyclone pool, specifically that the savings are being passed on to policyholders.

The ACCC will monitor prices, costs and profits relating to:

- residential homes and contents
- strata title residences
- certain small business premises and contents.

The ACCC will monitor insurers before and after the cyclone pool's introduction and provide at least one report each calendar year, from 2022.

Declaration of a cyclone event

ARPC has partnered with BoM to develop Declared Cyclone Event (DCE) procedures as follows.

- The BoM will notify ARPC within 24 hours of its observation with the relevant date and time of a start, re-intensification, and end of a named cyclone likely to impact Australia.
- On receipt of the BoM notification and within 24 hours, ARPC is required to make a declaration, via notifiable instrument of the start, re-intensification and/or end of a cyclone on its website. The DCE must include:
  - » relevant start and end times
  - » the claims period start and end times for the cyclone, noting the claims period for eligible losses is within 48 hours after the cyclone's declared end.
- Insurers will continue to pay cyclone-related claims as per the terms and conditions of individual insurers' policies. Consumer claims with loss dates outside of the declared cyclone pool claims period will stay covered by insurers as per their underlying Product Disclosure Statements (PDS).

Australian Government

Australian Reinsurance Pool Corporation

4 Annual Performance Statement

Sydney City CBD

ANNUAL PERFORMANCE STATEMENT

This annual performance statement for the 2021-22 reporting period is provided as required under section 39(1)(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and other applicable legislation.

It is based on properly maintained records and so accurately presents ARPC's financial performance in accordance with section 39(2) of the PGPA Act.

Results

Under the PGPA Act, ARPC must remain financially sustainable in pursuing its purpose by efficiently, effective, and ethically managing its public resources.

Performance criteria

ARPC measures its annual performance against the 2021-25 Corporate Plan 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 organisational resilience
Five:	Engaging, understanding, and collaborating with stakeholders.

Performance statement summary

ARPC met or exceeded all performance criteria for the 2021-22 reporting period. Figure 4.2 summarises its achievements against the 2021-25 Corporate Plan.

Financial snapshot

Figure 4.1: ARPC by numbers as at 30 June 2022

Figure 4.2: Achievements against 2021-25 Corporate Plan objectives

Key Performance Area	Measure and source	Result against performance criterion
1 Providing reinsurance for eligible terrorism losses	Measure 1: Income – GWP against target (budget).[1] To improve financial sustainability and achieve at least the target premium in each plan period.	**Exceeded** GWP was $297 million, the budget was $255 million.
	Measure 2: Terrorism Reinsurance Pool (terrorism pool) capacity, total funding available.[2]	**Exceeded** Retrocession capacity of $3.5 billion, the target was $2.5 billion.
2 Encouraging private sector participation through the retrocession program	Measure 3: Private sector participation.[3] To maximise private sector reinsurance participation in the retrocession program.	**Exceeded** 67 reinsurers participated in the 2022 program versus a minimum of 15 high quality participants. 55% of participants are APRA regulated, the target was 50%.
3 Compensating the Government	Measure 4: Payments to Government.[4] To deliver scheduled Government payments in each plan period in accordance with ARPC's obligations.	**Met** $90 million payment by the due date comprising a $55 million guarantee fee and a $35 million capital holding fee.
4 Maintaining financial sustainability and organisational resilience	Measure 5: Net assets against ARPC target and minimum capital.[5] Maintain sufficient assets to support ARPC's Capital Management Policy targets.	**Exceeded** Net assets as at 30 June 2022 were $707.6 million against a capital target of $345-$425 million. ARPC's Management Policy is under review.
	Measure 6: Complete and/or progress major projects according to plan to advance ARPC's strategic priorities.[6] Complete and/or progress major projects according to plan.	**Met** Major projects have been delivered on time and within budget or are substantially on track to be completed on time and within budget.
5 Engage, understand and collaborate with stakeholders	Measure 7: Measure and publish stakeholder engagement activity.[7] Record and report our stakeholder activity.	**Met** Stakeholder engagement activity published.
	Measure 8: Stakeholder-engagement outcome-based metrics.[8] Conduct ARPC's second annual stakeholder survey and use the results to improve stakeholder outcomes.	**Met** Stakeholder survey was conducted by ORIMA (for the second year). ARPC is reviewing the results to determine an action plan.

[1] ARPC's 2021-25 Corporate Plan, page 23
[2] ARPC's 2021-25 Corporate Plan, page 24
[3] ARPC's 2021-25 Corporate Plan, page 25
[4] ARPC's 2021-25 Corporate Plan, page 26
[5] ARPC's 2021-25 Corporate Plan, page 28
[6] ARPC's 2021-25 Corporate Plan, page 29
[7] ARPC's 2021-25 Corporate Plan, page 32
[8] ARPC's 2021-25 Corporate Plan, 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 *Terrorism and Cyclone Insurance Act 2003* (TCI Act). Over the period covered by the Corporate Plan, success for this activity is measured by ARPC's total premium income. The minimum target terrorism premium income for the reporting period was $190 million, the budget was $255 million.

Measure 1

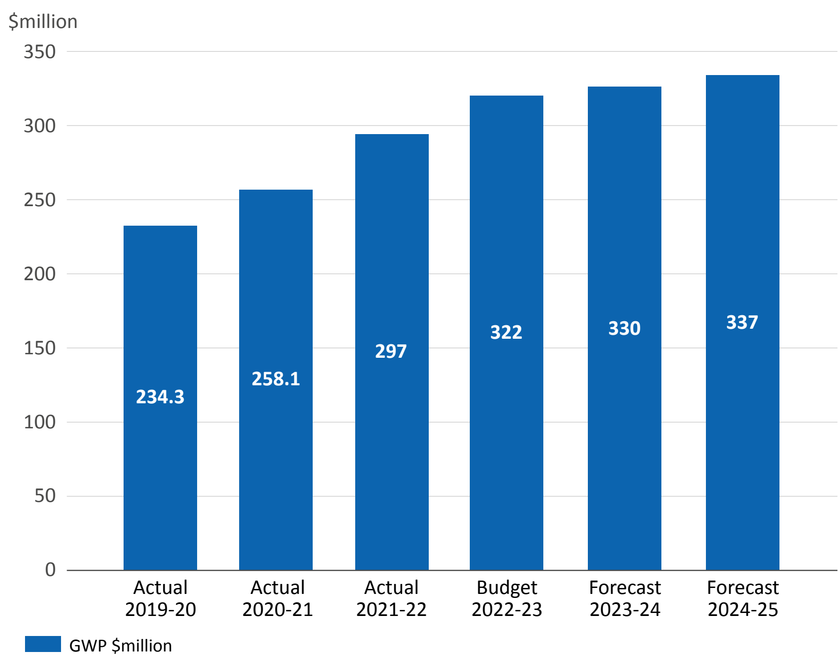
To improve financial sustainability and achieve at least the target premium in each plan period.

Source

Measure 1, Income – Gross Written Premium (GWP), ARPC's 2021-25 Corporate Plan, page 23.

RESULT – EXCEEDED

Figure 4.3: Gross Written Premium



The objective for Measure 1 was to exceed the Corporate Plan's actual premium income greater than the Corporate Plan target of $190 million, with a budget of $255 million.

ARPC receives premium income through reinsurance contracts with insurer customers. The level of premium income demonstrates its performance against this measure. Along with a target premium level, ARPC has a higher-level financial budget for premium income, which reflects its forecast performance.

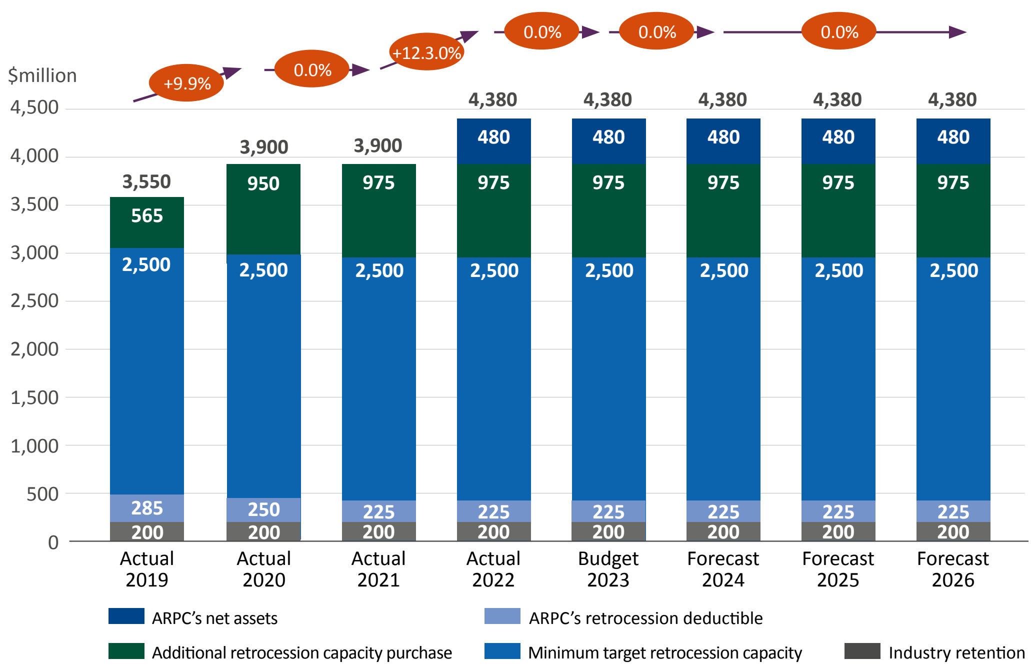
In 2021-22, ARPC's premium income (shown as premium revenue in the financial statements) was $297 million which was $107 million above its Corporate Plan target, and $42 million above its financial budget.

ARPC's GWP income is based on market prices for eligible commercial property insurance premiums after applying the applicable tier rate. Growing underlying commercial property premium rates were the primary driver for the higher result.

Measure 2	**Source**
To protect the Government from losses through the purchase of more than $2.5 billion retrocession in each plan period.	Measure 2, terrorism pool capacity – total funding available, ARPC's 2021-25 Corporate Plan, page 24.

RESULT – EXCEEDED

Figure 4.4: Terrorism pool capacity before the Commonwealth guarantee – calendar year*



*Assumes no change to the current terrorism 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 $3.5 billion (2021: $3.475 billion) retrocession program for the 2022 calendar year.

The target measure supports ARPC's policy objective to provide insurance cover for eligible terrorism losses (whether by entering 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 program 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 within the current environment.

ARPC has a financial budget for the premium it can afford to spend on retrocession program capacity. Its retrocession capacity for the 2022 calendar year was $3.5 billion which was $1 billion 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 pool. The 2006 Triennial Review recommended that once the terrorism pool reached $300 million, ARPC should consider purchasing retrocession hence, ARPC purchased private market reinsurance. ARPC holds $14.2 billion total funding to cover losses arising from a DTI through ARPC's retention, the retrocession market and the Commonwealth guarantee.

Measure 3

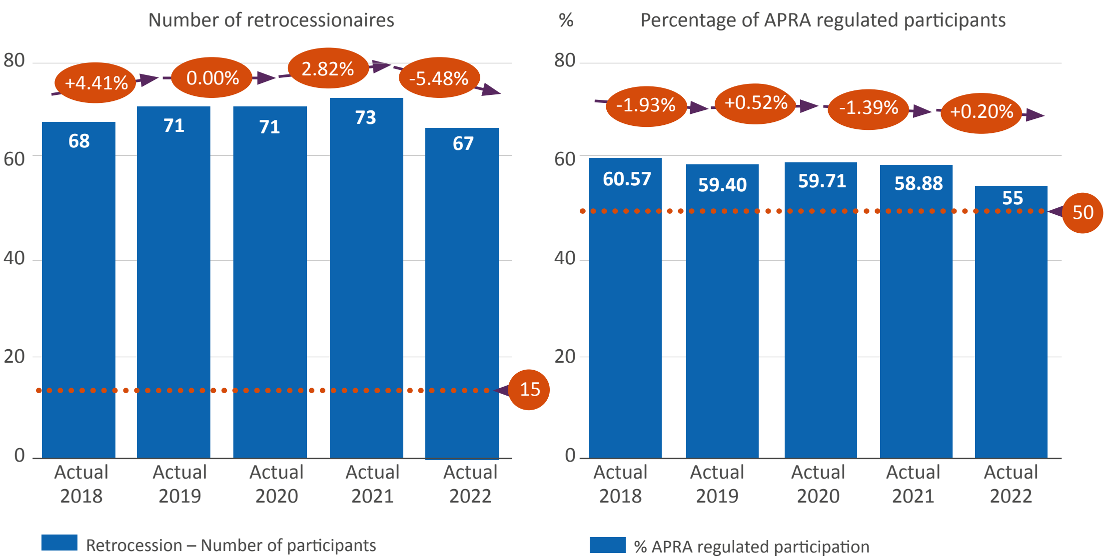
The objective is to maximise private sector reinsurance participation in the retrocession program.

Source

Measure 3, private reinsurance sector participation, ARPC's 2021-25 Corporate Plan, page 25.

RESULT – EXCEEDED

Figure 4.5: Terrorism retrocession program detail**



Horizontal key:

** ARPC seeks to have 15 high credit quality reinsurers participate in the program and at least 50 per cent of the participants be APRA regulated or approved.

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 seeks to include in the program at least 15 high credit quality reinsurers and more than 50 per cent of retrocession 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 2022, ARPC had 67 global reinsurers against a minimum of 15 with 55 per cent APRA-regulated reinsurers against a target of 50 per cent.

3 Compensating the Government

Description

ARPC pays the Australian Government a fee for the use of the Commonwealth guarantee.

In addition, a capital holding fee is paid to recognise the capital ARPC is holding to fund future claim payments. The 2018 Triennial Review recommended an additional annual temporary dividend of $10 million for three years. This requirement ceased last year.

Measure 4

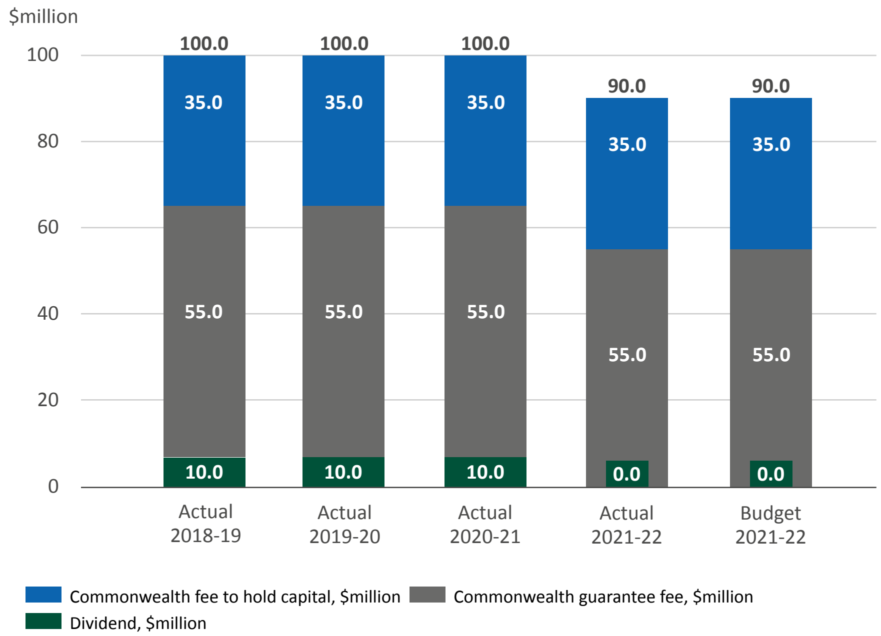
To meet ARPC's obligations the objective is to deliver scheduled Government payments in each plan period.

Source

Measure 4, Payments to Government, ARPC's 2021-25 Corporate Plan, page 26.

RESULT – Met

Figure 4.6: ARPC made payments to the Government totalling $90 million in 2021-22.



4 Maintain financial sustainability and organisational resilience

Description

ARPC maintains operational effectiveness and financial sustainability by having a strong 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 payable to the Australian Government
- the size and cost of the retrocession program, and
- ARPC investment returns.

ARPC measures net assets to evaluate its financial sustainability. This is the final balance after all of the above factors.

Measure 5

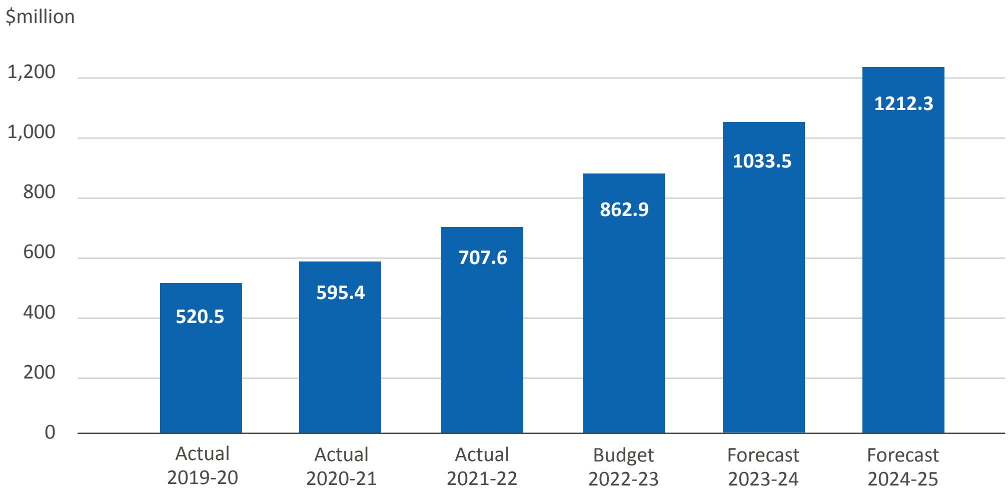
Maintain sufficient net assets to support targets in ARPC's Capital Management Policy.

Source

Measure 5, Net assets against ARPC target and minimum capital, ARPC's 2021-25 Corporate Plan, pages 27-28.

RESULT – Exceeded

Figure 4.7: Terrorism pool – Projected net assets



Projections assume the following:

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

As at 30 June 2022, ARPC's net assets were $708 million, which was higher than target capital and reduces the likelihood of ARPC requiring recapitalisation from the Commonwealth post a declared terrorism incident.

In respect of the terrorism pool, the Board recommends a:

- Minimum capital level 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 range of $345 million to $425 million. This range represents one retrocession retention plus claims handling costs for one DTI claim event and one year's operating costs. This range also includes $100 million for environmental factors like the loss of major customers, and/or increases in global retrocession costs.
- Maximum capital of $660 million. This amount 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's Capital Management Policy is currently being reviewed and updated to incorporate cyclone reinsurance. This assumes premium income will not be significantly impacted by either COVID-19 and any resulting economic recession.

Measure 6	Source
Complete and/or progress major projects according to plan.	Measure 6, strategic projects, ARPC's 2021-25 Corporate Plan, pages 29-31.

RESULT – Met

Figure 4.8: Strategic project delivery 2021-22

Project	Commentary	Outcomes
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. This work culminated in the publishing of *HB 188: 2021 Base-building physical security handbook – Terrorism and extreme violence*. The handbook is now being promoted by ARPC including a presentation at the 2022 ARPC annual Terrorism Risk and Insurance Seminar.	HB:188 handbook published by Standards Australia, providing recommendations to property owners and managers to protect assets against the threat of terrorism or civil commotion. The handbook was promoted at ARPC's annual Terrorism Risk and Insurance seminar.
Geospatial catastrophe modelling	ARPC works with Geoscience Australia and Finity consulting to continually update its geospatial catastrophe model covering mainland Australia. While managing the challenge of COVID-19 through 2021 and 2022, ARPC and its partners have managed to complete physical surveys and update the exposure databases to ensure the maintenance and enhancement of the models have continued.	Updated models available for use in ARPC's response to a Declared Terrorism Incident (DTI), in providing advice to Government of potential losses from blast or plume attack in Australia.
Core insurance system upgrade	Completing a Request for Proposal (RFP) process in 2021, ARPC has selected a supplier to provide a commercial off-the-shelf reinsurance platform. ARPC is currently undertaking the implementation of this system.	RFP process completed with new system and vendor selected to allow ARPC to meet its 1 July deliverables for the Cyclone Reinsurance Pool (cyclone pool) (see below).
Implement a new core insurance system	A new core reinsurance system has been implemented to meet the requirements of the cyclone pool. The functions to enable the basic operation of the new system have been completed and work continues to enhance and build the functionality and usability. Once the cyclone pool implementation is completed the focus will move to the migration of the terrorism pool and provide a single system to our cedants.	System implemented and ready to onboard cedants (insurer customers) and receive premiums on 1 July.
Comprehensive ARPC website re-design	A comprehensive redesign of ARPC's website has been completed with focus on enhancing usability and catering to a diverse set of stakeholders. Extensive content review was a feature of this process with the new site to go live in 2022. During the implementation of the cyclone pool process substantial additional content was also created and published on the existing website. This additional content will be migrated to the new website.	Redesign of website complete that considers a diversified stakeholder group and cyclone pool by 30 June 2022, with comprehensive content available by 30 June 2023.

Project	Commentary	Outcomes
University Research Collaborations	In 2022 ARPC, in conjunction with research partner the University of Queensland (UQ) published a research paper titled *Terrorism and violent protest: Where do these disruptive events meet?* The paper examines the evolving nature of terrorism and violent protests to better understand the different legitimacy society grants to each type of event. The paper was launched at the 2022 ARPC annual Terrorism Risk and Insurance Seminar with a presentation on the topic by UQ's Professor Paula Jarzabkowski to a live and online audience.	Research paper published that identifies strategic forward-looking issue. Paper presented at ARPC annual Terrorism Risk and Insurance Seminar.
2021 Triennial Review	ARPC participated in the 2021 Triennial Review into the *TI Act 2003* (TI Act), providing a detailed submission to Treasury. The resulting recommendation was that ARPC continue to provide terrorism reinsurance to Australian commercial and high value residential property. The 2021 Triennial Review also recommended that Treasury reviews of the pool take place every five years, replacing the current three-year schedule.	Triennial review completed, with report issued by Treasury recommending continuation of the scheme without change and ARPC to continue its administration.
Social Engagement Project to reduce the risk of youth engaging in anti-social behaviours that could result in violent extremism	The sponsorship partnership with ReachOut commenced in July 2021 and is ongoing for two years. This enables ReachOut to undertake research into identifying high-risk youth, and to develop programs and services to connect disengaged youth to the wider community. To increase employee engagement with ARPC's Purpose, ReachOut has also been presented to ARPC employees.	Funding provided to ReachOut, enabling market segmentation research into high-risk youth. Findings provided to ARPC's Board, and overview presentation given to ARPC staff expanding ARPC's knowledge of current and emerging issues which may contribute to social disconnection and increased risk of violent extremism.

5 Engage, understand, and collaborate with stakeholders

Measure 7

Record and report our stakeholder engagement activity.

Source

Stakeholder engagement activity, ARPC Corporate Plan, 2021-25, page 32.

RESULT – Met ✔

Priority focus stakeholder meetings

There are 31 priority focus stakeholder organisations in the Board approved ARPC Engagement Strategy. In the reporting period, ARPC executives and the Insurer Customer Audit team conducted 35 meetings with priority focus stakeholder organisations. ARPC executives also met with an additional 149 organisations in the reporting period, compared to 125 in the previous period.

In late 2021, PricewaterhouseCoopers (PwC) was engaged to review and bring objectivity to ARPC's stakeholder engagement process, and to capture and analyse feedback from stakeholders. The PwC review noted that ARPC executives conducted 26 meetings from July to October 2021. The focus of these meetings was to provide an update on the pool, answer questions, and seek feedback. The resulting PwC report concluded that ARPC engages appropriately with stakeholders, and as an organisation is recognised as an industry and thought leader on terrorism and cyclone reinsurance.

Events

ARPC hosted a networking dinner in Sydney and the annual Terrorism Risk & Insurance Seminar. Both events were well attended and generated positive feedback.

Figure 4.9: Events

Event	Event date	Number of attendees
Sydney networking dinner	8 March 2022	60
Annual Terrorism Risk and insurance seminar	26 May 2022	37 in person plus 56 online.

Social media

ARPC's followers grew significantly over the reporting period as it prepared for, and then began operating the cyclone pool. Target audience engagement with ARPC grew steadily over the period.

Figure 4.10: Social media engagement

Number of posts	Average impressions per post**	% Increase in followers
28	1,378	60

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

Traditional media

ARPC maintained a solid presence in target insurance trade media over the reporting period including Insurance News, Asia Insurance Review, Insurance Business Australia, and Reinsurance News. This involved coverage of ARPC's announcements and interviews.

Following the release of the draft legislation and the passing of the TCI Act, ARPC attracted much greater coverage from mainstream media including the Australian Financial Review as well as Northern Australian media such as the Townsville Bulletin and Cairns Post.

Figure 4.11: Media references

Trade media	Mainstream media
70	250

Source: Streem.
Please Note: The above data includes syndicated publications. That is, the same article runs in several publications for example, Townsville Bulletin, Cairns Post and The Daily Telegraph.

Electronic Direct Mail (eDM) engagement

This reporting period, ARPC sent 17 eDMs, including quarterly newsletters, event invitations, customer survey results, and insurer customer notices. Target audience engagement with the *Under the Cover* (UTC) Newsletter eDMs was higher than the industry as the average open and click rates indicate in Figure 4.12. The cyclone pool related newsletters drive the significantly higher click rates.

Figure 4.12: eDM engagement

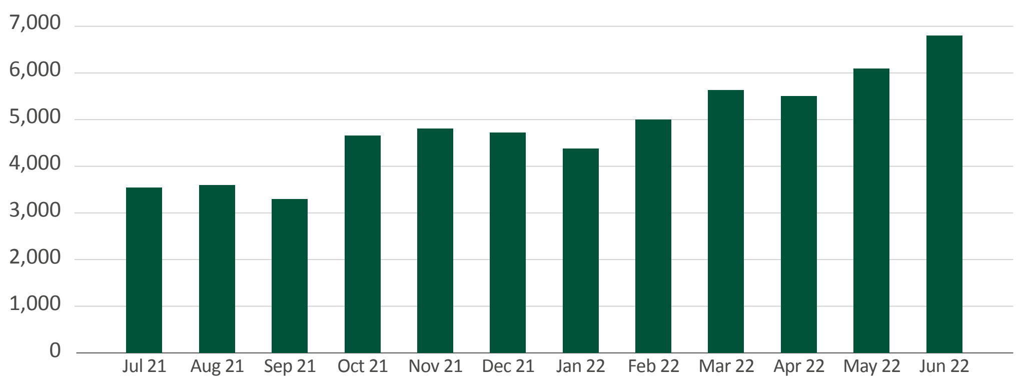
eDMs (total) (1 July 2021 – 30 June 2022)	Open rate average (UTC newsletter)	Click rate average (UTC newsletter)
17	748 opens (37%) Insurance industry average 33%	463 clicks (23%) Insurance industry average 7%

Source: Mailchimp

Website (arpc.gov.au) engagement

New and returning users to ARPC grew in the reporting period, with spikes in users coinciding with ARPC news and publications. Important cyclone pool stakeholders information attracted strong interest leading up to the 1 July 2022 launch.

Figure 4.13: ARPC website users



Source: Google Analytics

Measure 8	Source
Conduct ARPC's second annual stakeholder survey and use the results to improve stakeholder outcomes.	Measure 8, stakeholder survey, ARPC Corporate Plan, 2021-25, page 32.

RESULT – Met

In December 2021, a short online survey was sent to ARPC's 235 insurer customers – 36 in Australia and 199 international. The response rate for the 2021 survey was 22 per cent with 52 responses – 9 from Australian insurers, and 42 international.

Overall, the results from the 2021 survey remain strong. Consistent with last year, most respondents (97 per cent) continue to see ARPC as a trusted expert on terrorism reinsurance and consider it easy to deal with. Relative to these two aspects, perceptions of transparency were less positive, with just over three quarters of respondents (76 per cent) indicating that they would describe ARPC as transparent.

Key respondent findings included:

- 97 per cent (Australia and international) believe ARPC is an effective provider of terrorism risk insurance.
- 97 per cent agree ARPC is a trusted expert on terrorism reinsurance.
- 76 per cent said ARPC was transparent.
- ARPC's publications and digital business-to-business communications rate strongly, particularly with Australian respondents.
- 75 per cent found ARPC's insurer customer review process very or somewhat useful.

When asked to describe ARPC in two key words, 'professional', 'reliable', 'effective', 'accommodating' were the most common.

AREAS FOR IMPROVEMENT

The score for transparency for Australia fell from 92 to 78 per cent and combined with a decline in perception of value (refer to Figures 1.4 and 1.5). ARPC will:

- continue our stakeholder engagement activities, including in-person meetings with key stakeholders here and internationally, and
- expand our multilateral briefings on the cyclone pool to more stakeholders during the transition stage of insurers joining the cyclone pool.

When asked for suggestions on what ARPC could engage differently with its insurer customers, most respondents said the current approach met their needs.

This second annual insurer customer survey continued the process of building a baseline measure to assess and report on the effectiveness of future stakeholder engagement efforts.

Influences on future performance

ARPC's two income sources are reinsurance premiums from insurer customers and investment income on its pool of assets. Terrorism 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. Claims may also have an impact on future performance, however, noting that the terrorism pool fortunately has yet to pay a claim.

Investment assets

As at 30 June 2022, ARPC held $774.2 million in term deposits and $2.5 million in cash (2021: $654.7 million and $2.0 million respectively).

ARPC has determined the following investment return and risk objectives:

- ARPC's return objective is to outperform the Reserve Bank of Australia (RBA) 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 aims to:

- find highly liquid investments to meet the retrocession retention in the event of a DTI
- meet risk and return objectives.
- diversify using all PGPA Act permitted 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.

The ARPC Investment Management Policy is being reviewed with a view to updating it to reflect ARPC's expanded remit.

Figure 4.14: Investments by credit rating as at 30 June each year

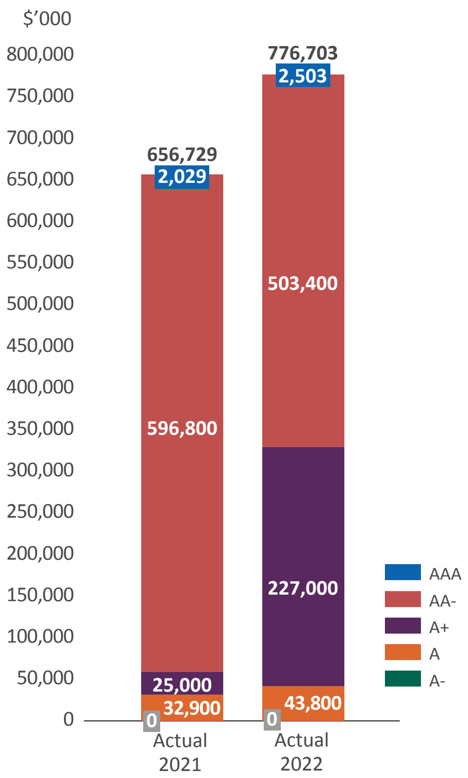
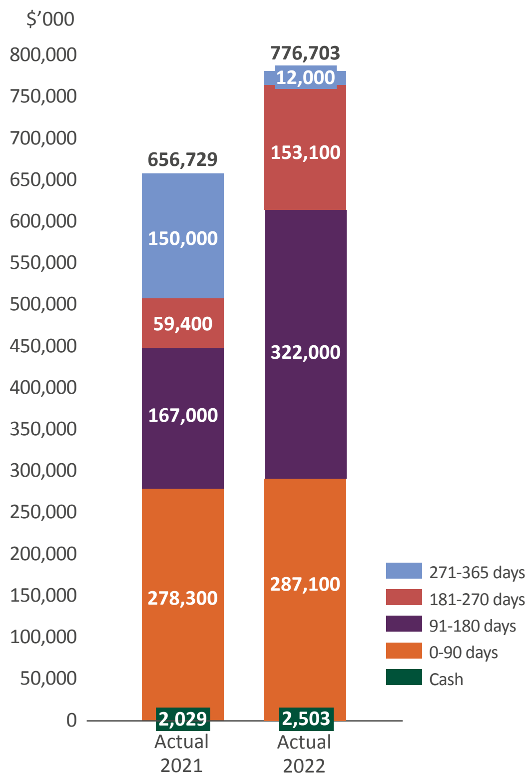


Figure 4.15: Investments by maturity as at 30 June 2022



2021-22 investment income

Investment income was $3.6 million for the current reporting period (2021: $3.9 million). Australian interest rates were at historic lows in the first half of the reporting period before rising in the second half. ARPC expects to achieve higher investment returns next year while still maintaining liquidity to fund retrocession retention within 90 days.

Analysis of performance against purpose

ARPC continued to fulfil its purpose by entering reinsurance contracts and managing its premium income and investments, costs, purchase of retrocession and cost of retrocession, as well as meeting Ministerial Directions to make payments to the Australian Government.

ARPC met all its obligations and achieved better-than-budget performance targets. Figure 4.16 details what impacted ARPC's performance.

Figure 4.16: 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 insurers 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 allocation 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 2021-22 of $90 million.	Limited	Moderate (negative)

Australian Government
Australian Reinsurance Pool Corporation

5 Governance

Brisbane skyline

GOVERNANCE FRAMEWORK

ARPC is governed by the *Terrorism and Cyclone Insurance Act 2003* (TCI Act) and is a corporate Commonwealth entity for the purposes of both the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) Act and the *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule).

ARPC is established as a body corporate under Section 12 of the *Terrorism and Cyclone Insurance Act 2003* (TCI Act) and the Board comprises of a Chair and between six and eight other Members, who are the Accountable Authority and referred to as Board Members. Board Members are appointed on a part-time basis by the responsible Minister. Between 1 July 2021 and 23 May 2022, the responsible Minister was the Hon Michael Sukkar MP.

From 23 May to 30 June 2022, the responsible Ministers were the Hon Dr Jim Chalmers MP, responsible for governance and Board appointments and the Hon Stephen Jones MP, responsible for all other ARPC matters.

2021-22 legislative amendments and reviews

Terrorism Insurance Amendment (Cyclone and Related Flood Damage) Regulations 2021

On 16 October 2021, the *Terrorism Insurance Amendment (Cyclone and Related Flood Damage) Regulations 2021* (the Regulation) became effective. This Regulation conferred the ARPC with a new function to prepare for the operation of the cyclone pool by 1 July 2022.

2021 Triennial Review

The TCI Act required the responsible Minister to undertake a three-yearly review to assess the need for the TCI Act to continue in operation.

This review was completed by Treasury and their December 2021 published report recommended the TCI Act remain in force and that the terrorism pool remain in place.

The review considered whether the scope of the terrorism pool should be expanded to include coverage for cyber terror attacks that result in physical property damage. The review determined there is yet to be a clear and evident market failure in relation to physical property damage from cyber terrorism requiring government provision of reinsurance through the ARPC at this time. The review also determined ARPC's Board governance arrangements remained appropriate for ARPC's existing responsibilities.

The review did however, make recommendations to government about the Board's governance arrangements should the proposed Cyclone Reinsurance Pool (cyclone pool) be implemented that included:

- expanding the Board's size and/or increase the time commitments of existing Board Members
- appointing new Board Member(s) who are experienced with insurance-related pressures facing residents of cyclone prone areas
- appointing two new Board observers, one from ARPC and one from the Commonwealth (such as the Australian Government Actuary), on a temporary basis, to help ensure a smooth implementation of the cyclone pool.

Treasury Laws Amendment (Cyclone and Flood Damage Reinsurance Pool) Act 2022

The *Treasury Laws Amendment (Cyclone and Flood Damage Reinsurance Pool) Act 2022* commenced on 31 March 2022, after being passed by the Parliament. This piece of legislation amended the TCI Act to establish a cyclone pool.

Terrorism and Cyclone Insurance Act 2003

The TCI Act prescribes both the roles and functions of ARPC, to include:

1. providing insurance cover for eligible terrorism losses (whether by entering into contracts or by other means)
2. operating a cyclone and related flood damage reinsurance pool by entering into contracts of reinsurance and
3. any other functions that are prescribed by the Regulations.

As a result of legislative changes to the TCI Act in March 2022, the next Treasury review of the TCI Act will be undertaken as soon as practicable after 1 July 2025 and then once every five years.

As prescribed in the TCI Act, the Board, as the Accountable Authority, appoints the Chief Executive who is then responsible for managing the affairs of ARPC. The Chief Executive (CEO) is subject to the directions, the delegations, and policies determined by the Board.

The responsible Minister has the power to give written directions about ARPC's functions and the exercise of its powers. The Minister gave one written direction during 2021-22. All such Ministerial directions are published on ARPC's website.

The Board is the Accountable Authority for the purposes of the PGPA Act. As required by section 45 of the PGPA Act, ARPC must have an audit committee (the Audit, Risk and Compliance Committee) that consists of at least three Board Members.

Under section 22 of the PGPA Act, the Minister for Finance has the authority to make an order (a Government Policy Order (GPO)) 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 GPOs made that were applicable to ARPC.

In accordance with section 35 of the PGPA Act, ARPC prepares a Corporate Plan on a rolling four-year basis and provides it to both the responsible Minister and the Minister for Finance by 31 August each year, and also publishes the plan on its website. The Corporate Plan details strategic priorities, performance measures, and planned key activities which are then reported against in *Chapter 4 – Annual Report*.

Both the Board and ARPC's executive leadership team are committed to maintaining best practice corporate governance standards that are fit-for-purpose for ARPC's sustainable operations. ARPC continues to monitor governance trends in both the public and private sectors.

Board

During 2021-22, the Board consisted of a Chair and between four and six other (non-executive) Members.

Effective from 1 July 2021, Elaine Collins was appointed for a further three-year term and Jan van der Schalk was appointed as a Board Member. Julie-Anne Schafer was appointed to the Board on 14 September 2021 and David Foster was appointed to the Board on 16 December 2021.

The number of Board Members increased from between six and eight after the passing of the TCI Act. As at 30 June 2022, two Board Members' positions remained vacant.

The Board's role is to govern ARPC and includes setting the strategic direction and financial objectives and monitoring their implementation as per the Corporate Plan. The Board Members bring with them a diverse mix of skills and experience across insurance, finance, investment, actuarial, strategy and risk across the public and private sectors.

Read the names and details of ARPC's 2021-22 Board Members below.

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 currently 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, an organisation that rescues nutritious food destined for landfill. Ian is President of the Victorian Arts Centre Trust and Trustee of The Melbourne Cricket Ground. In 2017, Ian received 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'.

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, Risk and Compliance Committee

Elaine Collins was appointed a Member of the Board on 1 July 2015 and reappointed for two further three year terms. She is a member of the Audit, Risk and Compliance Committee.

Elaine is a non-executive director, actuary and professor, with a career spanning more than 25 years in the insurance industry. Her experience includes carrying out Appointed Actuary roles for more than ten years, as a Director of KPMG, then as a Partner of Deloitte. Elaine has key expertise in strategic risk management, policy formulation and capital efficiency.

She is a non-executive director on the board of four companies: Zurich Insurance Australia Ltd (Chair of Risk, Compliance and Audit Committee), ANZLMI (Chair of Audit Committee), RACT Insurance Pty Ltd (Chair of Risk Committee) and Ivory Insurance Pty Limited.

Elaine also holds an academic role as a Professor of Practice with the Business School at the University of New South Wales. She is a Fellow of the Actuaries Institute, a Fellow of the Australian Institute of Company Directors, and a former member of the Actuaries Institute's Professional Standards Committee.

Robin Low
Member

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

Chair, Audit, Risk and Compliance Committee

Robin Low was appointed a Member of the Board on 5 October 2016 and reappointed on 23 April 2020 for a further three-year term. She became chair of the Audit, Risk and Compliance (ARC) on 1 July 2021.

Robin is a Non-Executive Director on the boards of four ASX listed companies: Appen Limited, AUB Group Limited, IPH Limited and Marley Spoon AG. She is also on the boards of Guide Dogs NSW / ACT and the Sax Institute. Previously she was a partner at PwC, where she specialised in audit and risk. She is a past Deputy Chair of the Australian Auditing and Assurance Standards Board.

Maria Fernandez PSM
Member

PSM GAICD
Term: 23 April 2020 – 22 April 2023

Maria Fernandez has a distinguished career in the public sector and since 2019 has run her own company providing strategy advice and independent assurance services. From 2015 to 2019, she was a Deputy Secretary with the Department of Home Affairs. Prior to that, Maria was the first female head of an Australian intelligence agency as the Director and CEO of the Australian Geospatial Intelligence Organisation.

Maria's experience also includes being Chief of Staff to the federal Ministers for Defence and Education and Deputy Director of the Australian Signals Directorate.

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

Jan van der Schalk
Member

BA MPhil
Term: 1 July 2021 – 20 June 2024

Member, Audit Risk and Compliance Committee

Jan van der Schalk was appointed to the Board on 1 July 2022.

Jan has extensive experience in reinsurance and investment management. He was an environmental and social governance (ESG) investment specialist and has worked as a fund manager for Ausbil and Hong Kong-based investment group CLSA in equities analyst roles.

Earlier in his career, Jan was part of a team which founded and built property catastrophe specialist, ACE Tempest Reinsurance where he was Chief Underwriting Officer (International). He also served as CEO of Asset Management and Reinsurance at Insurance Australia Group (IAG) for seven years.

As an entrepreneur, Jan also founded Just-Ezi, an internet-based car insurance comparison site.

Julie-Anne Schafer
Member

LLB Hons FAICD
Term: 14 September 2021 – 13 September 2024

Julie-Anne Schafer was appointed to the Board as a part-time Member for a three-year term, commencing 14 September 2021.

Julie-Anne is a Brisbane-based director and qualified lawyer with experience in diverse and regulated sectors including insurance, financial services, energy, water, transport, health, and member services. She is currently a Non-Executive Director at Urban Utilities, CS Energy, Icon Water, and ActewAGL. She is a Non-Executive Member of the Office of the National Rail Safety Regulator. She is a part-time President of the National Competition Council.

Her career includes experience in retail consumer insurance and cyclone risk through her past roles as President of Royal Automobile Club of Queensland (RACQ), Chair of RACQ Insurance and as a non-executive Director of the Territory Insurance Office.

Julie-Anne holds a Bachelor of Laws with Honours from UQ and is a Fellow of the Australian Institute of Company Directors. She is a Member of the Australian Institute of Insurance and Finance (ANZIIF), and she also facilitates in Governance, Risk and Strategy for the Australian Institute of Company Directors (AICD).

David Foster
Member

BAppSc MBA FAIM GAICD
Term: 16 December 2021 – 15 December 2024

David Foster is a Brisbane-based Non-Executive Director with a diverse portfolio of directorships and advisory roles. David’s last senior executive role was CEO of Suncorp Bank where he served for five and a half years. He served as Group Executive, Strategy during the acquisition of Promina – one of Australia’s largest financial services transactions. Before Suncorp, David worked at Westpac for 14 years in several senior roles in Sydney and Queensland.

He is currently a Non-Executive Director at Youi Insurance, Bendigo and Adelaide Bank and Chairman of Motorcycle Holdings Ltd and G8 Education Ltd. Previously David was a Director of Genworth Mortgage Insurance Australia Limited.

David holds a Bachelor of Applied Science from the University of Southern Queensland and a Master of Business Administration (MBA) from Southern Cross University. He is a GAICD, a Fellow of the Australian Institute of Management (FAIM) and has attended courses at Wharton, International Institute for Management Development, Massachusetts Institute of Technology (MIT) and Institut Européen d'Administration des Affaires (INSEAD).

Board meetings

The Board convened nine meetings during 2021-22, comprising four meetings for general business, four out-of-session meetings and a strategic planning meeting. Figure 5.1 lists the number of meetings attended by each Member during the reporting period.

Figure 5.1: Number of meetings attended by each Board Member in 2021-22

Name	Number of meetings entitled to attend	Number of meetings attended	Further information
Ian Carson (Chair)	9	9	N/A
Robin Low	9	8	N/A
Elaine Collins	9	9	N/A
Maria Fernandez	9	5	N/A
Jan van der Schalk	9	6	N/A
Julie-Anne Schafer	9	9	Board Member commenced 14 September 2021
David Foster	6	5	Board Member commenced 16 December 2021

Board remuneration

The Australian Government's Remuneration Tribunal, as outlined in the *Remuneration and Allowances for Holders of Part-time Public Office Determination 2020* (the Remuneration Determination) and the *Remuneration Tribunal (Official Travel) Determination 2019*, determines Board Member remuneration.

Members receive an annual base fee and individual meeting fees that cover all activities undertaken by Board Members in performing their duties, including part day meetings of less than five hours, travel, committee work, teleconferences, and representational activities. The Board has been assigned Travel Tier 1.

For the Chair and Members to receive the meeting fee, meetings need to be a minimum of five hours including both the meeting and a Member's travel time.

Figure 5.2: For the reporting period from 1 July 2021 to 30 June 2022, remuneration for each Board member was:

Remuneration basis under Table 6A of the Remuneration Determination	
Chair annual fee	$27,740
Chair meeting fee	$1,166
Member annual fee	$13,870
Member meeting fee	$1,050

Audit, Risk and Compliance Committee

In accordance with section 45 of the PGPA Act, the Board has established an Audit, Risk and Compliance Committee (the ARC Committee). The ARC Committee supports the Board overseeing the administration and governance of ARPC.

In accordance with section 17 of the PGPA Rule, the ARC Committee must consist of at least three appropriately qualified and skilled Members. In the reporting period, the ARC Committee had three members.

The functions of the ARC 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 ARC Committee performs these functions as well as monitoring ARPC's compliance with statutory obligations, overseeing the work of the internal and external auditors, and ARPC's governance framework. The ARC 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 ARC Committee reviewed all reports received from ARPC's internal auditors, Ernst & Young (EY), and external auditors, the Australian National Audit Office (ANAO). The ARC Committee monitored the implementation of internal audit recommendations and also reviewed the financial statements to assist the Board with its statutory declarations pursuant to subsections 41(2) and 42(2) of the PGPA Act that cover ARPC's accounts and records and annual financial statements.

The Board conferred further responsibilities on the ARC Committee to assist with the ongoing monitoring of risk management, including the review of the risk appetite statement and risk policy. The ARC Committee also assisted in the development and approval of the cyclone pool risk register.

During 2021-22, five ARC Committee meetings were held. Figure 5.3 outlines the meetings attended by each Committee Member.

Figure 5.3: Meetings attended by each ARC Committee Member during 2021-22

Name	Number of meetings entitled to attend	Number of meetings attended	Further information
Robin Low (Chair)	5	5	N/A
Elaine Collins	5	5	N/A
Jan van der Schalk	5	5	N/A

Audit, Risk and Compliance Committee remuneration

ARC Committee Members do not receive any additional remuneration or allowances for committee work. Their annual Board Member fee covers all additional activities in performing their committee duties.

For the period 1 July 2021 to 30 June 2022, remuneration for each ARC Committee Member was:

Remuneration basis under Table 6A of Remuneration Determination	
Committee Chair annual allowance	$0
Committee Chair meeting allowance	$0
Committee Member annual allowance	$0
Committee Member meeting allowance	$0

Board observers

The TCI Act enables the Minister to appoint two observers to the Board. The Board observer roles were vacant as at 30 June 2022.

Reviewing Actuary

The Board nominated the Australian Government Actuary as ARPC's Reviewing Actuary from 1 April 2021. The Australian Government Actuary will perform this role for a minimum of three years. The Reviewing Actuary will be providing services on commercial terms under the Government's procurement panel for actuarial advice.

Barangaroo, Sydney

ORGANISATIONAL AND GOVERNANCE STRUCTURES

Figure 5.4 sets out ARPC's organisational framework.

Figure 5.4: Organisational chart

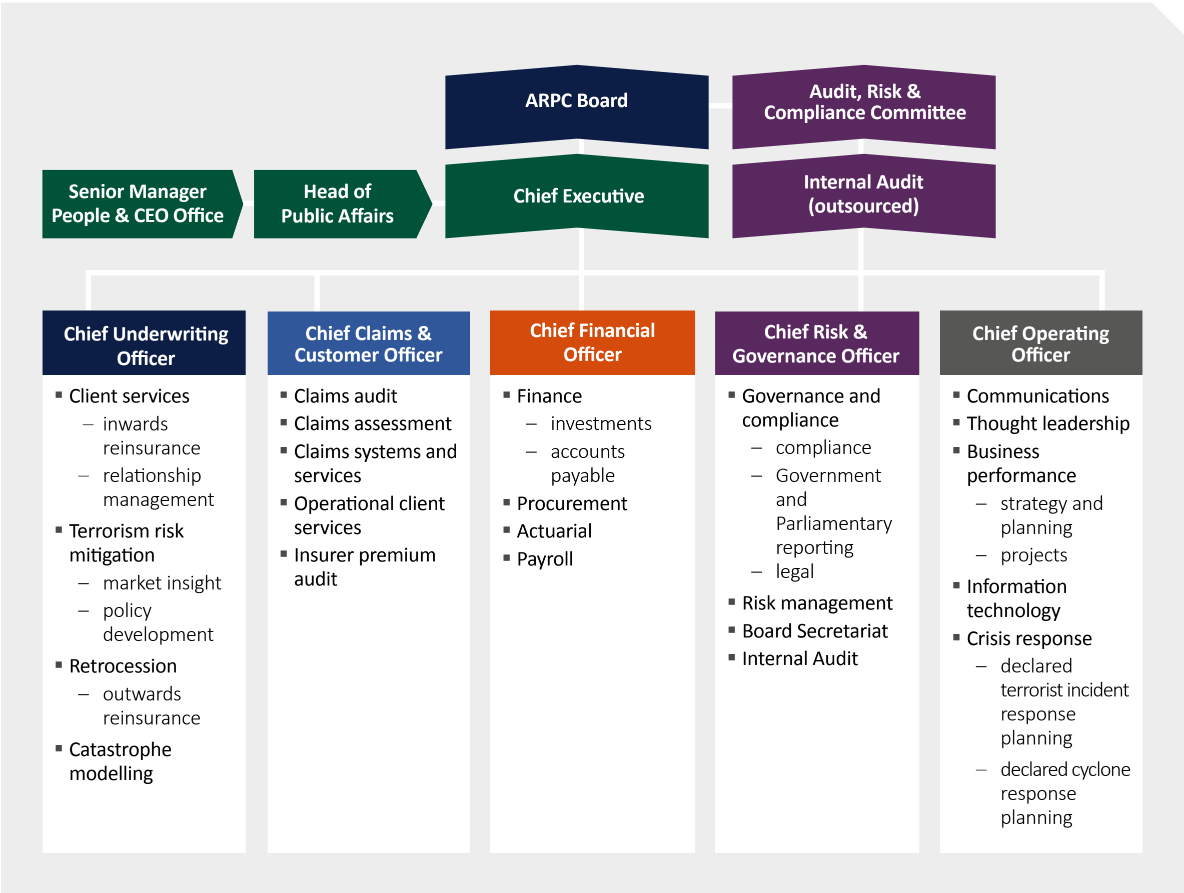
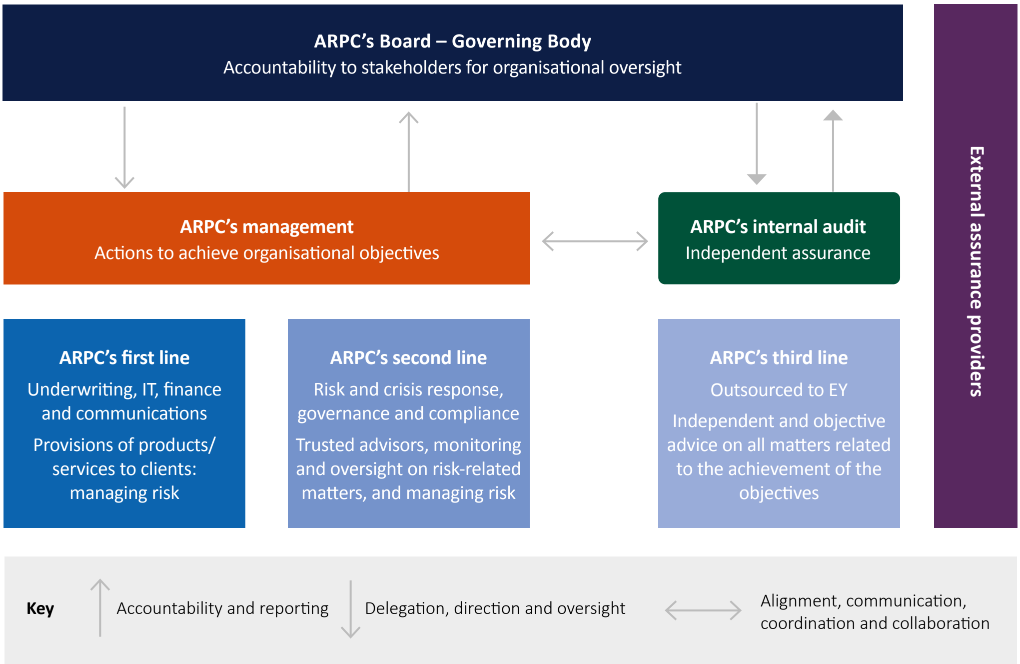


Figure 5.5: The organisation structure supports three lines of accountability



ARPC's corporate governance is structured within a statutory framework and is underpinned by the Board's Charter, the Audit, Risk and Compliance Committee's Charter, and a wide range of policies and procedures that include:

- risk management
- financial management
- privacy
- fraud control
- conflict of interest
- public interest disclosure
- security management
- business continuity planning.

Board oversight of risk

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

Section 16 of the PGPA Act provides that the Board 'has a duty to establish and maintain systems relating to risk and control.' The Board fulfilled this during the reporting period by overseeing ARPC's risk management functions, the Risk Management Policy and delegating risk related responsibilities to the ARC Committee to review:

- ARPC's risk appetite and tolerance levels
- Risk policy
- risk strategies and controls.

The Board holds a strategic workshop each reporting period that includes consideration current and emerging risks and a review the Risk Appetite and Tolerance Statement (RATS).

ARPC uses a risk matrix to estimate the likelihood and severity of its risks. ARPC assesses its risks quarterly and updates as necessary for continued relevance. New emerging risks are also identified, discussed, and evaluated or if any significant change in risk levels occur.

ARPC continues to refine its control environment to address any emerging risks and meet the changing environment. Some of the processes implemented by ARPC to manage risk include:

1. Maintaining a Business Continuity Policy and Procedure. Employees normally access and test an alternative site up to three times per reporting period. Due to COVID-19 pandemic impacts, and the ongoing fit out of the new North Sydney Disaster Recovery site, no alternative site tests conducted during this reporting period. In case of any disruption, 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. Maintaining a deed of indemnity with each Board Member. In 2021-22, ARPC maintained and paid premiums for insurance that covered Members and senior executives against legal costs and other expenses that may be incurred in the performance of their duties. In compliance with section 23 of the PGPA Rule, ARPC does not insure any of its officials against liabilities relating to breach of duty under the PGPA Act. The amount paid for Directors' and Officers' Indemnity Insurance during 2021-22 was $56,932 (2020-21: $46,684).
4. Maintaining confidentiality by requiring all ARPC's employees and Board Members to sign a confidentiality agreement upon commencement, which outlines their obligations relating to confidential information.
5. Establishing the cyclone pool implementation program and steering committee, with regular reporting to the Board who oversees both the program and its associated risks.

Risk culture

A positive risk culture enables ARPC to better administer both its terrorism and cyclone pools.

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 the escalation of concerns to appropriate levels that would support a proportionate response.

Through its risk management practices, ARPC seeks to further enhance its risk culture to act in a way that reflects its values.

ARPC has developed the following statements to continue enhancing its 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.

Figure 5.6 illustrates the relationship of ARPC between leadership and its employees and the development of its risk culture framework.

Figure 5.6: Overview of ARPC's risk culture framework

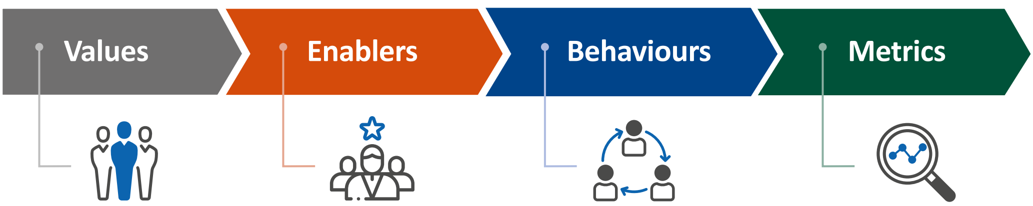
Enabler definitions

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 5.7: Key components and activities of the risk culture enablers

Leadership	Organisational structure	Robust control mechanisms	Environments used to communicate positive behaviour	Recognition
▪ Board ▪ ARC Committee ▪ Chief Executive ▪ Senior executive team ▪ Board Risk Appetite and Tolerance Statement ▪ Board approved policies ▪ ARPC's Values ▪ Code of Conduct ▪ Risk reports to every Board meeting	▪ ARPC's 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, recognition, and rewards

Figure 5.8: 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.

ARPC's inaugural Risk Culture Survey was conducted in early August 2021. There was a 100 per cent completion rate of the survey with overall very positive results. The survey results across ARPC demonstrated a strong understanding of risk and a commitment to develop a risk culture and embed risk management practices throughout the organisation. There was a high sentiment among employees indicating that they clearly understood the behaviours expected while undertaking their roles. The results indicated that employees were comfortable to collaborate both internally and externally to achieve expected outcomes and they were happy to seek assistance and cooperate with the risk management team when making decisions.

Our risk management framework

Figure 5.9 illustrates ARPC's risk management framework including ARPC's vision and strategy. The Board has oversight of ARPC's corporate governance arrangements and is responsible for monitoring ARPC's risk management framework in accordance with the PGPA Act. The Board is responsible for setting ARPC's risk appetite and reviews the RATS annually. The senior executive team are responsible for the administration of the risk framework, including the review of any risks, controls and the identification of emerging risks. Oversight and reporting of risk management is provided by the Risk management team to the ARC Committee and Board each quarter, through a Risk report. From September 2021, the ARC Committee have been delegated risk-related responsibilities, including the ongoing monitoring of risk management, review of the RATS, and risk policy.

Figure 5.10 demonstrates ARPC's approach to enterprise risk management and the five strategic priorities that provide the basis for ARPC's risk framework. Each strategic priority detailed in the RATS has associated risk tolerance statements. Underlying the framework are the risk and control registers, which outline financial and non-financial risks facing ARPC, as well as the controls and strategies in place to mitigate these risks. The KRI Report is used to measure ARPC's risk exposure and outlines 12 KRIs mapped to risks used in the Risk register.

The performance against RATS, the results from the KRIs and the Risk register are each reviewed four times every reporting period. In addition, the risk management framework is supported by risk and control self-assessments and regular risk review meetings held with the senior leadership team, as well as compliance testing performed over key processes and business activities at ARPC.

ARPC has an enterprise incident management procedure that provides a framework for the identification, reporting, investigating and remediation of both incidents of risk and breaches. This procedure was updated and approved by the CEO, including feedback received by the ARC Committee during the reporting period.

ARPC has a risk reporting system which is used to host the register, controls, obligations, perform assessments and manage enterprise incidents end-to-end.

Figure 5.9: Overview of ARPC's risk management framework

1. Vision and strategy
- Risk aligned to operating model

2. Overall governance arrangements
- Oversight arrangements
- Clear three lines of defence in operations

3. Senior executive team
- Strategy and risk appetite aligned
- Consistent polices and procedures

4. Risk identification and assessment
- Covers all types of risk
- Use of scenario analysis and emerging risk analysis

5. Risk reporting and MI
- Single version of the truth
- 'Industrialised' risk analysis
- Communication

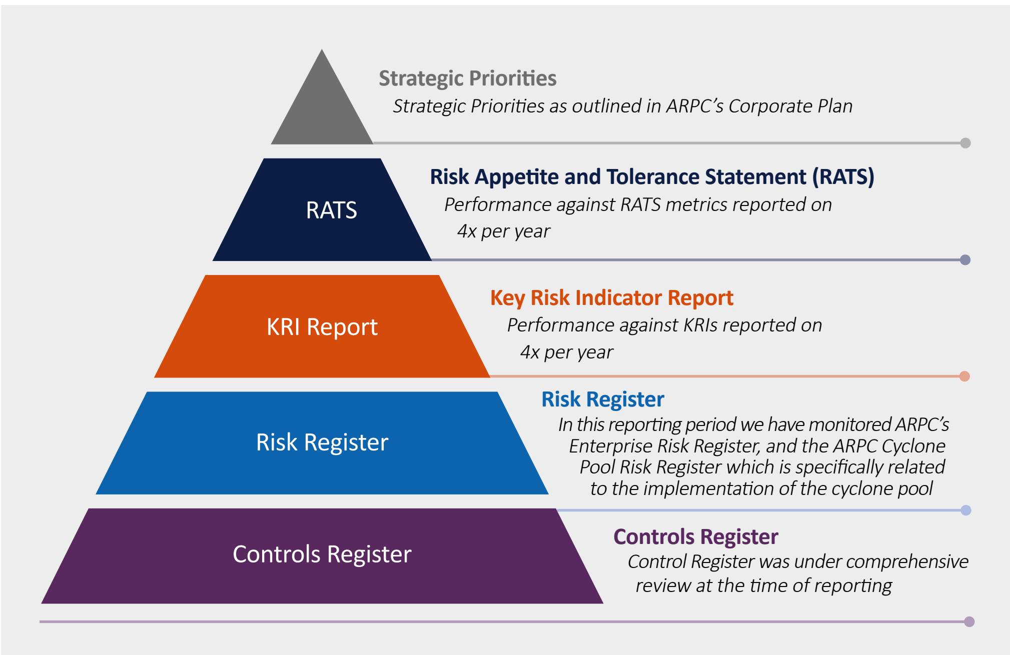
6. Risk and catastrophe modelling
- Catastrophe modelling
- Model validation
- Stress testing

7. People and culture
- Clear ownership of tasks and activities
- Strong risk culture within the organisation

8. Data, IT and infrastructure
- Integration of risk and finance systems
- Data consistent, complete, accurate and auditable

9. Embedding and use test
- Risk management informs key decisions
- Evidence of risk management in day-to-day activities

Figure 5.10: Overview of ARPC's approach to enterprise risk management



Managing risk and uncertainties

Cyclone pool implementation

Under the oversight of the ARC Committee, ARPC identified and assessed risks relating to the implementation of the cyclone pool. The risks were identified by each cyclone pool implementation program workstream. The progress of the workstream activities was monitored by the working group, with the overall program delivery overseen by the program steering committee. A Risk register was created detailing the key risks associated with implementing the cyclone pool. Treasury, Australian Government Actuary, and ARPC's ARC Committee assisted in identifying and reviewing the risks, which were approved by ARPC's Board. Ongoing reviews and assessments of the risks identified by the cyclone pool program steering committee, the project team and work stream owners are being reported to the ARC Committee and the Board.

A privacy impact threshold assessment was undertaken regarding the collection, retention and security of personal information.

The key risks associated with the implementation of the cyclone pool include strategic, reputational, operational, insurance market, pricing and stakeholder risks. Specific risks have been added to ARPC's Risk register and will be monitored and assessed quarterly.

Section 4 of *Chapter 7* of this Annual Report describes the broad risk categories faced by ARPC and explains how these risks are managed.

In summary, ARPC's broad risk categories are:

- Insurance risk
  - » Underwriting risks
  - » Claims risk
- Operational risk
- Capital risk
  - » Market risk
  - » Interest rate risk
  - » Pricing risk
  - » Credit risk
  - » Retrocession counterparty risk
  - » Liquidity risk.

Story Bridge, Brisbane

INTERNAL AUDIT

ARPC's internal audit function is overseen by the ARC Committee. ARPC outsources its internal audit program and EY was the internal auditor for 2021-22. During 2021-22, the five-year rolling Internal Audit Plan (IAP), which is closely aligned to the Risk register and RATS, was approved by both the ARC Committee and the Board, and was included in the 2021-22 Internal Audit work plan. The new plan includes an assurance map that is expected to guide future audit and compliance activities.

EY works closely with the ARC Committee, CEO and the senior leadership team to identify and analyse business risks. The ARC Committee regularly meets with EY, its internal auditor, and works independent of management periodically. Audit findings are reported to the ARC Committee. Any required actions or improvements identified for management to implement resulting from audits must be agreed with the accountable senior executive, approved by the ARC Committee, and tracked to completion on the Internal Audit Issue Register. The internal auditor has routine discussions with the external auditor to avoid any duplication of work and the external auditor has full access to all of the internal auditor's work.

2021-22 IAP

The IAP for 2021-22 was successfully completed, with all management actions or improvement opportunities accepted, recorded, and tracked on the Internal 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 2021-22 in accordance with the IAP (refer to Figure 5.11):

- DTI response review
- IT governance review
- Procurement and accounts payable
- Terrorism retrocession placement.

Figure 5.11: Internal audits during 2021-22

Audit	Audit type	Rating	Number of audit findings	Items still open/closed as at 30 June 2022
DTI response review	Review	Effective	1	Closed
IT governance review	Review	Effective	3	1 open, 2 closed
Procurement and accounts payable	Review	Needs improvement	6	6 open, 0 closed
Terrorism retrocession placement	Review	Effective	2	2 open, 0 closed

Management-initiated reviews

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

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

The two management-initiated reviews related to the cyclone pool vendor procurement targeted review and the core system implementation concurrent review.

Fraud control

Every two years, ARPC reviews and updates its Fraud Control Policy and underlying fraud risk assessments. The Fraud Control Policy allocates responsibilities for fraud risk management and control among the ARC Committee, the CEO, ARPC's senior executives and employees. The Fraud Control 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 outlined in section 10 of the PGPA Rule, which provides the minimum standard for the management of risk and incidents of fraud by the Board. ARPC's employees are provided with training in compliance with both the Fraud Control Policy and the PGPA Rule.

Compliance plan and testing

During the reporting period, ARPC continued to review and improve both 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 critical to their work functions, as well as routine information sessions for employees on topics relevant to their positions and a process of six-monthly attestations by all senior managers covering key legislation including the TCI Act, PGPA Act, PGPA Rule, the *Privacy Act 1998* and the *Public Interest Disclosure Act 2013* (the PID Act).

Under section 40 of the TCI Act, the Board may delegate all or any of its powers or functions to the CEO or any person employed under the TCI Act. Delegations made by the Board are documented and reviewed at least once every three years. A review of ARPC's delegations is currently in progress to capture delegations relevant to administering the cyclone pool.

ARPC's Annual Report is prepared and provided to the responsible Minister by 15 October each year in compliance with section 46 of the PGPA Act.

ARPC's annual financial statements must 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 7* of this Annual Report.

Under section 39 of the PGPA Act, ARPC prepares an Annual Performance Statement to report on its achievement against strategic priorities, as outlined in its Corporate Plan. ARPC's Annual Performance Statement is outlined in *Chapter 4* of this Annual Report.

Project management governance

ARPC's approach to project delivery is enabled by a strong governance structure.

The senior executive team provides project sponsorship to support 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 employees in developing skills in this discipline. Project status reports are presented to each Board meeting and strategic projects for the upcoming reporting period are discussed and agreed upon at the annual Board strategy sessions held in March of each year. The Project Management Office also undertakes improvement activities to ensure that ARPC's program/project methodology remains fit for purpose.

Public Interest Disclosures

The 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 the respective agencies to investigate or take other appropriate actions.

In accordance with the PID Act, ARPC has a Public Interest Disclosure Policy/Procedure which is made available on ARPC's website. 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 both the FOI 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: arpc.gov.au/ips

Judicial and administrative decisions

In 2021-22, there were no judicial decisions or decisions of administrative tribunals known about that could significantly affect ARPC's business operations.

Consultation arrangements

ARPC's employees regularly meet with insurers, industry bodies and other interested parties outside of 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 4* of this Annual Report.

Consultancies

ARPC engages consultants to provide specialist skills to assist with key projects and tasks.

During 2021-22, consultants were engaged (following the appropriate procurement processes outlined in ARPC's Procurement Policy as approved by the Board), to assist in the following areas:

- strategic planning and stakeholder engagement facilitation
- specialist technical projects and maintenance, e.g. catastrophe modelling, actuarial services and cyclone system design
- research projects, e.g. cyber terrorism, financial responses to terrorism risk and systemic risk in Australia
- 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).

Figure 5.12 lists the strategies used by both the building owners and ARPC to assist in reducing its environmental footprint.

Figure 5.12: Environmental footprint strategies

Theme	Sydney office
Energy efficiency	The Sydney office has a NABERS 5-star energy rating. The building also implemented an elevator allocation system to increase energy efficiency. Use of sensor lighting throughout the office. Shutting down computers outside of working hours. Purchasing and use of carbon neutral paper.
Waste	Using double-sided printing or scanning to reduce the volume of paper used. Implementation of best practice recycling stations, as follows: ▪ Organic recycling (for example, food, coffee grounds and tea bags) ▪ Mixed recycling (for example, glass and plastic bottles, cans, and tins) ▪ Paper and cardboard recycling (clean paper, cardboard, newspapers, and brochures) ▪ Simply Cups (takeaway coffee cups only, excluding the lids) ▪ Landfill use (all other rubbish which is not organic or recyclable) ▪ Removal of individual rubbish bins to encourage reduction of waste.
Water	The building has been accredited with a NABERS 4.5-star water rating.
Investments	32.71% of term deposit investments are in 'green deposits' (2020-21: 32.71%).

Circular Quay, Sydney

Australian Government
Australian Reinsurance Pool Corporation

6 ARPC's People

Hyde Park, Sydney

ARPC'S PEOPLE

ARPC's people make it what it is and allow it to deliver for its insurer customers. To support its preparation for administering the Cyclone Reinsurance Pool (cyclone pool). By the end of the reporting period for 2021-22, ARPC had grown from 25 to 35 employees. It continued to invest in the capability of its people and the organisation and remains committed to a safe, diverse, and inclusive workplace where everyone feels enabled, engaged and able to achieve their best. ARPC would like to both acknowledge and thank our people for their ongoing dedication, commitment, effort, and loyalty.

ARPC is a small organisation with an efficient and cost-effective organisational structure and all the functions needed to fulfil its role. To help it administer the cyclone pool, 2021-22 saw ARPC add supporting capabilities including:

- claims and customer support
- project management
- information technology
- actuarial skills
- communications
- public affairs.

ARPC's people manage core functions and sources specialist legal and retrocession reinsurance purchase advice.

Senior executive team

The senior executive team is led by the Chief Executive, who is appointed by ARPC under the provisions of the *Terrorism and Cyclone Insurance Act 2003* (TCI 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 Catastrophes Risks.

Previous professional roles include being General Manager Workers Compensation at GIO, Executive Director at EY, 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.

John Park
Chief Financial Officer

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

John Park is a Chartered Accountant and has more than 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 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.

John oversaw the finance, investments, enterprise risk and crisis response teams. John departed ARPC in April 2022.

Peter Matruglio
Interim Chief Financial Officer

BA (Accounting) FCA, CPA GAICD

Peter (Pete) Matruglio joined ARPC as Interim Chief Financial Officer in April 2022, while ARPC undertook an advertised executive search process. Pete has extensive experience in the insurance sector and worked with a range of insurers and reinsurers locally and internationally during his career as a partner with EY and Deloitte.

He held several leadership positions at these firms including as Deloitte Australia's Insurance Sector Leader, a member of Deloitte's Global Insurance Leadership Team and as EY's Financial Services Risk Markets Leader, EMIEA (Europe, Middle East, India and Africa).

Pete holds a BA in Accounting from the University of Canberra, is a Fellow of Chartered Accountants Australia and New Zealand, a Certified Practicing Accountant (CPA) and a Graduate of the Australian Institute of Company Directors. In addition, he is an Adjunct Professor with the University of Canberra Facility of Business, Government and Law, a member of the Heart Foundation's Risk, Audit and Governance Committee and the NSW Chartered Accountants Advisory Group.

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 Terrorism Reinsurance Pool (terrorism 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 the 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 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 Risk and Governance Officer

BA (Hons) MBA

Samantha Lawrence joined ARPC on 1 March 2021 and 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.

Her role at ARPC includes accountability for the Board, risk management, compliance, and internal audit.

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 Master of Business Administration (MBA) from the University of Southampton in the United Kingdom. She has undertaken the Australian Institute of Company Directors' Course.

Jason Flanagan
Chief Claims and Customer Officer

BCom (Accounting) GAICD

Jason Flanagan commenced in the Chief Claims and Customer Officer (CCCO) role with ARPC on 7 February 2022. He has substantial experience across general insurance claims, transformation and customer functional areas within the insurance and the financial services industry. His previous roles include Head of General Insurance Claims and Head of Customer Care and Regulatory Change at Westpac and an earlier stint with BT Financial Group as Head of Contact Centres and Head of Customer Relations.

His role at ARPC includes ARPC's terrorism pool as well as the cyclone pool, covering cyclones and related flood damage.

Jason has direct experience with natural disaster insurance claims management in Northern Australia, gained through his role as Head of General Insurance Claims with Westpac. He was also on the ground during the Townsville floods in 2019, where he gained firsthand experience about how such events impact local communities and the important role that general insurance plays in the community.

Jason holds a Bachelor of Commerce (Accounting) from UNSW. He is also a Chartered Accountant and a Graduate of the Australian Institute of Company Directors.

Human resources

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

- strategic workforce planning
- remuneration and benefits
- engagement and enablement
- performance planning, management, and review
- workplace relations
- diversity and inclusion
- learning and development
- safety and wellbeing and
- payroll services.

Composition of ARPC's workforce

As at 30 June 2022, ARPC had 35 employees, an increase of 40 per cent from 25 employees in the previous reporting period. The growth in staffing numbers is attributable to the increased resourcing required to prepare for, and administer, the cyclone pool. All employees are Sydney based – 33 are full time, two are part time. The average age is 43 years, and 54 per cent are women (refer to Figure 6.1). As at 30 June 2022, there were 19 vacant positions, which is the balance of approved positions to administer both the terrorism and cyclone pools.

ARPC's recruitment processes and ongoing operational activities strives to provide a diverse workplace providing equal opportunity employment (EEO). Our 'office-first' hybrid working environment allows employees to work either on site or remotely, and within extended hours.

As at 30 June 2022, ARPC had met the Australian Government's indigenous employment target of three per cent which was set in response to the Forrest Review, this was achieved by recruiting an indigenous intern. This is the fourth consecutive year ARPC has proudly supported the Career Trackers indigenous internship program.

Figure 6.1 shows the workforce composition by organisational level (classification) and gender, as at 30 June 2022.

Figure 6.1: Number of permanent employees by organisational level (classification) and gender, as at 30 June 2022.

	Male			Female			Combined total
	Full time	Part time	Total	Full time	Part time	Total	
ARPC level 2	1	–	1	–	–	–	1
ARPC level 3	–	–	–	–	–	–	–
ARPC level 4	1	–	1	–	1	1	2
ARPC level 5	–	–	–	1	–	1	1
ARPC level 6	1	–	1	4	–	4	5
EL 1	2	–	2	6	–	6	8
EL 2	7	–	7	4	1	5	12
SES*	4	–	4	2	–	2	6
Total	**16**	**–**	**16**	**17**	**2**	**19**	**35**

*SES = Senior Executive Service staff

Strong employee performance

Performance objectives are established by all employees at the start of each performance year in alignment with organisational strategic objectives. Frequent performance conversations are held over the year, with formal discussions midway and at the end of the performance year. The performance framework focuses on performance against objectives and provides timely, meaningful feedback on progress and paths for improvement, development, and growth. The framework places equal weighting on both outcomes and behaviours:

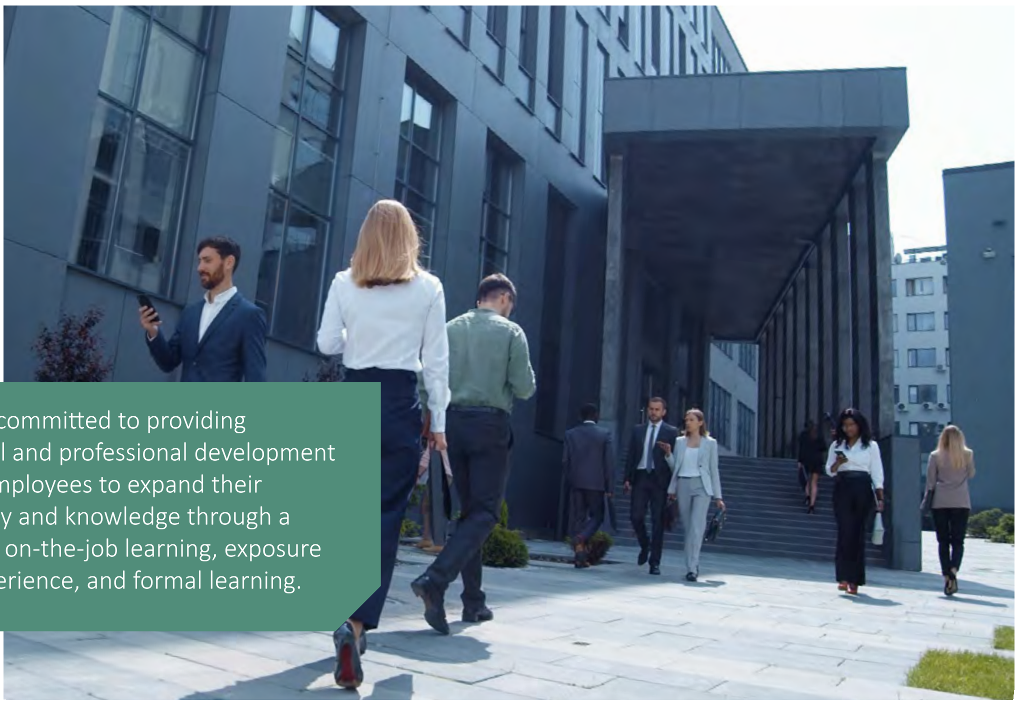
- achieving outcomes against specific role-based objectives
- actions appropriate to organisational level (classification) as per ARPC's Capability Framework (based on the Australian Public Service Integrated Leadership System) and its values.

Supported by HR, year-end performance ratings are finalised during a collaborative leadership team discussion. Performance is evaluated on a rating scale from one, 'not meeting standard', through to five, 'exceeds standard'. Salary advancement requires the minimum achievement of a three.

In 2021-22, all employees met performance expectations with a substantial number achieving either 'high degree' or 'exceeded standard'.

Annual employee engagement

ARPC's overall employee engagement score in 2021-22 was in the 53rd percentile (2020-21: 63rd percentile) of Gallup's overall global database with an overall engagement score of 82 per cent (2021-21: 85 per cent). This was ARPC's fourth year measuring employee engagement using the Gallup survey. This year, 17 new people joined ARPC with no voluntary turnover from new team members.



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.

Key management personnel remuneration

Figure 6.2 shows this year's remuneration for key management (Board Members and senior executives). SES receive company super contributions of 10 per cent of base salary in accordance with the Superannuation Guarantee Contribution (SGC). There was no increase in remuneration SES in 2021-22. No performance bonuses were paid, following the Australian Government's Performance Bonus Guidance published in August 2021.

Figure 6.2: 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		
Carson, Ian	Chair	$28,906	–	$4,664	$2,891	–	–	$36,460
Collins, Elaine	Member	$14,920	–	$4,200	$1,492	–	–	$20,612
Low, Robin	Member	$14,920	–	$3,150	$1,492	–	–	$19,562
Fernandez, Maria	Member	$14,920	–	$4,200	$1,492	–	–	$20,612
Schafer, Julie-Anne*	Member	$10,776	–	$4,550	$1,078	–	–	$16,404
van der Schalk, Jan**	Member	$13,337	–	$4,200	$1,334	–	–	$18,870
Foster, David***	Member	$7,202	–	$3,150	$720	–	–	$11,072
Wallace, Christopher	CEO	$398,149	–	–	$39,354	$29,919	–	$467,422
Pennell, Michael	CUO	$295,086	–	–	$29,515	$6,659	–	$331,261
Park, John	CFO	$276,277	–	–	$27,634	$20,685	–	$324,596
Williams, Helen	COO	$276,413	–	–	$27,648	$6,613	–	$310,673
Lawrence, Samantha	CRGO	$272,394	–	–	$27,239	$1,204	–	$300,838
Flanagan, Jason****	CCCO	$166,181	–	–	$16,618	$15,294	–	$198,093
Matruglio, Peter*****	ICFO	$83,732	–	–	$8,373	–	–	$92,105
		$1,873,212	**–**	**$28,114**	**$186,881**	**$80,374**	**–**	**$2,168,580**

* Commenced 14 Sep 2021
** Commenced 01 Jul 2021
*** Commenced 16 Dec 2021
**** Commenced 22 Nov 2021
***** Commenced 26 April 2022

Non-executive employees

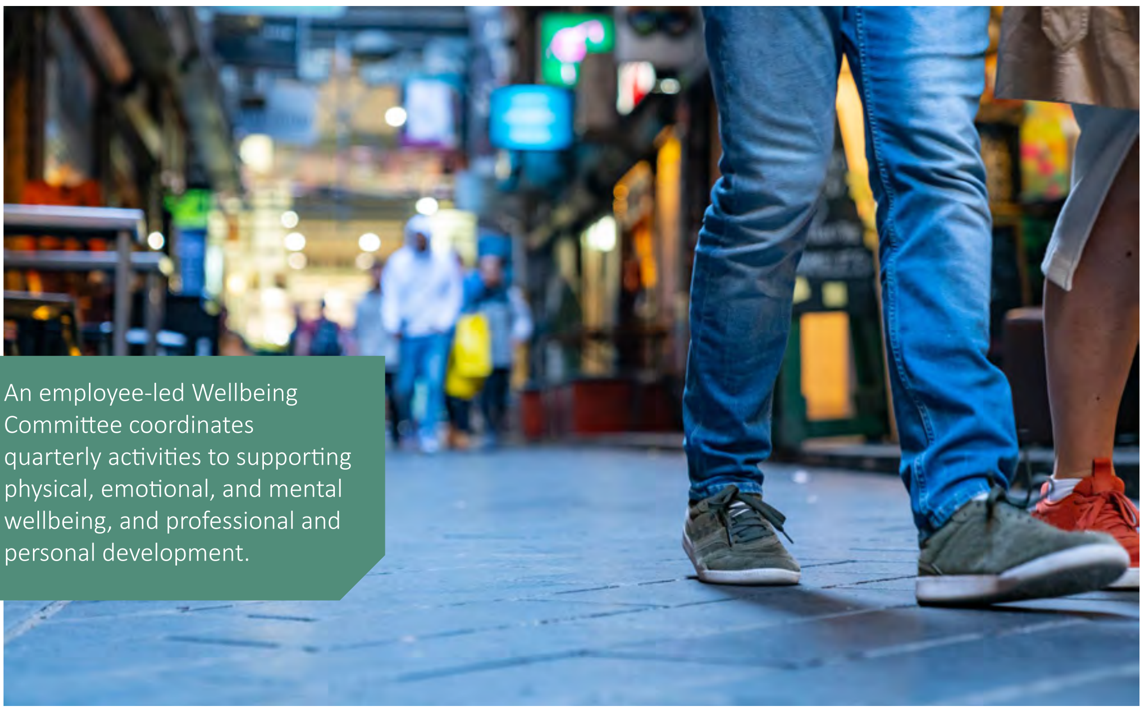
ARPC's Enterprise Agreement 2019-22 (the Agreement) came into effect on 3 May 2019 and sets out terms and conditions for non-executive employees. As well as their base salary, non-executive employees receive a 15.4 per cent super contribution. Read more about the base salary classification framework for non-executive employees.

In accordance with Australian Public Service Commission Performance Bonus Guidance published on 13 August 2021, ARPC is not paying any discretionary performance bonus payments for outstanding performance.

As per Australian Public Service Commission guidance, ARPC paused its agreement renewal while waiting for government approval and further advice.

Figure 6.3: Remuneration for other highly paid non-executive employees ($)

Remuneration Band	Number of Other Highly Paid Staffs	Short Term Benefits			Post-employment benefits	Other Long Term Benefits		Termination benefits	Total Remuneration
		Average Base Salary	Average Bonuses	Average other benefits and allowances	Average Superannuation Contributions	Average Long service leave	Average Other long-term benefits	Average Termination benefits	Average Total Remuneration
$230,001 – $245,000	1	$211,744	–	$600	$28,014	$6,497	–	–	$246,854



An employee-led Wellbeing Committee coordinates quarterly activities to supporting physical, emotional, and mental wellbeing, and professional and personal development.

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's policy awareness sessions
- Introduction to Reinsurance Workshop
- Reinsurance discussion group seminars and events
- International Forum for Terrorism Risk (Re) Insurance Pools (IFTRIP) Conference
- Modern Governance Summit (Diligent)
- Employment Law Forum (Australian Government Solicitor (AGS))
- CFO Forum, and Audit Committee Chairs Forum (Australian National Audit Office (ANAO))
- Insurance discussions and conventions through the National Insurance Brokers' Association (NIBA)
- OECD-ADBI Roundtable on Insurance and Retirement Saving in Asia (OECD)
- Appearing before Parliamentary Committees course (APS Academy)
- Catastrophe and Reinsurance Symposium (Insurance Industry)
- General Insurance Industry Forum 2021 (Insurance Council of Australia)
- Optima Webinar (Finity)
- Optima: General Insurance Insights 2021 (Financial Services Accountants Association (FSAA))
- Terrorism Risk & Insurance Webinar (ARPC)
- Cyber Terror and Cyber War Webinar: Strengthening insurability through clarity and partnerships (The Geneva Association and IFTRIP)
- Governance Summit (AICD)
- Climate Governance Forum (AICD)
- Claims Tech Australia Summit (Insurance Business Claims Tech)
- Climate Governance Forum (AICD)
- PROSCI training (PROSCI)
- Australian Institute of Company Directors Refresher Course (AICD)
- Modern Governance Summit (Diligent)
- Australian Government Legal Service Conference (Australian Government Legal Service)
- Time Management (Australian Institute of Management)
- ACSC Ransomware Exercise (JCSC Sydney)
- Security & Risk Management Summit (Gartner)
- CIO Summit (Gartner)
- Global InsurTech Summit (FinTech Global).

Study assistance

ARPC's study assistance program, that includes financial assistance and paid study days, is available for ongoing employees undertaking studies that support ARPC's core business. Courses assisted this reporting period included:

- Bachelor of Mathematics
- Bachelor of Social Research and Policy
- Graduate Certificate in Organisational Coaching and Leadership.

Safety and wellbeing

Work, health, and safety (WHS) incidents and identified hazards are provided weekly to the SES and regularly to the Board. No significant incidents occurred in 2021-22. ARPC appoints, and formally trains, First Aid Representatives and Emergency Wardens. 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
- annual office inspection by employee representatives, and
- annual harassment, bullying, and discrimination training.

In addition to trained First Aid Officers, ARPC introduced Mental Health First Aid Training in 2021-22 to support the broader ARPC team. ARPC intends to integrate this into the Safety and Wellbeing framework for all employees as a standard optional, annual training offer.

Wellbeing Committee

An employee-led Wellbeing Committee coordinates quarterly activities to supporting physical, emotional, and mental wellbeing, and professional and personal development. During the COVID-19 pandemic, the Wellbeing Committee focused on supporting the physical and mental wellbeing of employees. With ARPC's expanded remit, the Wellbeing Committee has focused on supporting employees to build internal relationships and fostering a sense of belonging. Committee-led activities to support ARPC team's individual and collective wellbeing included:

- 'Sharing is caring' posts – team members post photos on Microsoft Teams on what they are doing, as well as memes and other things for their colleague's interest
- trivia and riddles
- team activity to recognise and celebrate the history, culture, and achievements of Aboriginal and Torres Strait Islander people
- recognising and celebrating special days, including *International Women's Day*, *National Sorry Day* and *Reconciliation Week*, *Wear it Purple Day*, *R U OK? Day* and *Jeans for Genes Day*
- 'fireside chats' to get to know each other better
- 'feet unleashed' – time to go for a walk – team members then post photos on the 'Sharing is caring' channel
- wellbeing information communications (emails/Microsoft Teams messages)
- fun ideas for weekly small group meetings as well as the CEO's hosted weekly team meeting (The Wellbeing Committee has been designing team building activities for each group.)
- virtual team building activities
- training for all employees to nurture their physical, mental, and emotional wellbeing.

Employee assistance program

ARPC's Employee Assistance Program (EAP) offers confidential counselling and support services to all employees and immediate family members.

Lifestyle payment

Through the Agreement, non-executive employees can access an annual payment towards positive lifestyle expenses.
The lifestyle payment has 100 per cent participation and is often used by employees for fitness and wellbeing activities.

Resilience

ARPC focused on personal resilience during 2021-22 in accordance with its strategic priority to 'enhance and strengthen the resilience and preparedness of our people and organisation'.

The following activities support employees to fulfil their personal potential and effectively perform their role if there is a DTI:

- providing and promoting ARPC's EAP
- actively promoting and encouraging general wellbeing
- conducting at least two thorough DTI scenario test scenarios in 2021-22
- conducting employee off-site sessions covering:
  - team building
  - self-actualisation
  - soft skills like self-awareness, emotional intelligence, and communication.

Promoting an ethical working environment

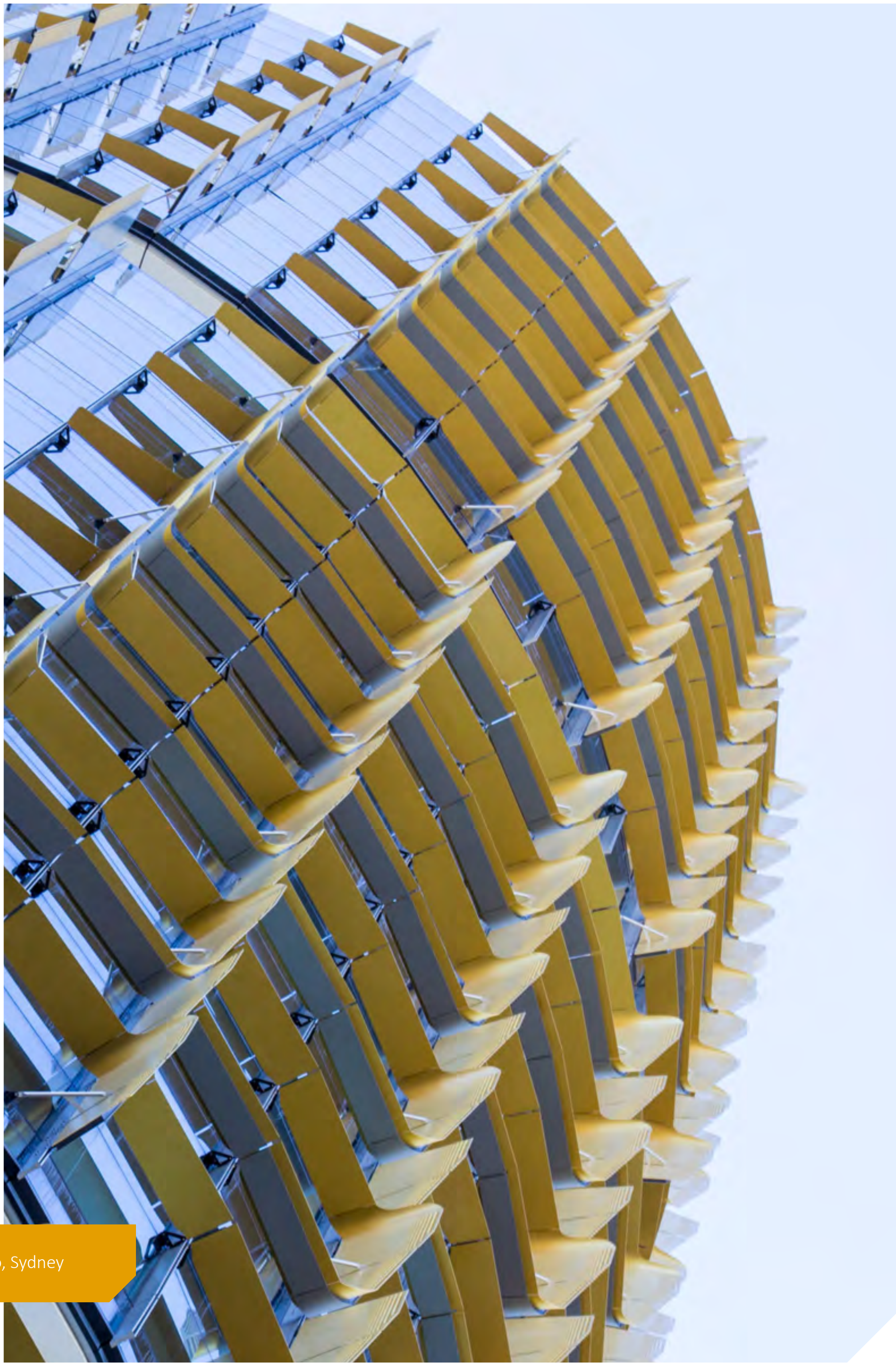
ARPC continues to promote its Values and Code of Conduct.

Remote working

ARPC 's Remote Working Procedure and Extended Working Hours Procedure provides an 'office-first' hybrid working arrangement. During the COVID-19 pandemic, employees have worked remotely, when required, and were supported by ARPC's Microsoft Azure cloud environment and tools like Microsoft Teams. During the reporting period, ARPC did not have any technical issues that negatively impacted an efficient working environment.

Australian Government
Australian Reinsurance Pool Corporation

7 Financial Statements



Barangaroo, Sydney

CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Assistant Treasurer and Minister for Financial Services

Opinion

In my opinion, the financial statements of the Australian Reinsurance Pool Corporation (the Entity) for the year ended 30 June 2022:

(a) comply with Australian Accounting Standards – Simplified Disclosures 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 2022 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 2022 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 – Simplified Disclosures 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
Executive Director

Delegate of the Auditor-General

Canberra

20 September 2022

View of city from
Kings Park, Perth

STATEMENT BY THE ACCOUNTABLE AUTHORITY, CHIEF EXECUTIVE AND CHIEF FINANCIAL OFFICER

In our opinion, the attached financial statements for the year ended 30 June 2022 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
20 September 2022

Dr Christopher Wallace
Chief Executive
20 September 2022

Mr Peter Matruglio
Interim Chief Financial Officer
20 September 2022

Statement of Comprehensive Income

for the period ended 30 June 2022

	Notes	2022 $'000	2021 $'000
Premium revenue	1.1A	281,015	245,722
Outwards retrocession premium expense	1.1A	(65,617)	(65,866)
Commonwealth guarantee fee	1.1A	(55,000)	(55,000)
Net premium revenue		160,398	124,856
Claims expense		–	–
Retrocession and other recoveries revenue		–	–
Net claims incurred		–	–
Retrocession commission income	1.1B	–	936
Acquisition costs	1.2G	(2,024)	(1,942)
Other operating expenses	1.2G	(14,767)	(7,812)
Underwriting result		143,607	116,038
Investment income	1.1C	3,618	3,877
Finance charges	1.2E	(9)	(12)
Operating result before capital holding fee		147,216	119,903
Capital holding fee	1.2D	(35,000)	(35,000)
Operating result		112,216	84,903

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

Statement of Financial Position

as at 30 June 2022

	Notes	2022 $'000	2021 $'000
ASSETS			
Financial assets			
Cash and cash equivalents	2.1A	**2,503**	2,029
Trade and other receivables	2.1B	**72,876**	64,707
Investments	2.1C	**774,200**	654,700
Deferred insurance assets	2.1D	**34,021**	34,052
Total financial assets		883,600	755,488
Non-financial assets			
Leasehold improvements	2.2A	**1,403**	1,310
Plant and equipment	2.2A	**220**	122
Intangibles	2.2A	**132**	175
Work in progress	2.2A	**–**	20
Other non-financial assets	2.2B	**299**	211
Total non-financial assets		2,054	1,838
Total assets		885,654	757,326
LIABILITIES			
Unearned liabilities			
Unearned premium liability	2.3A	**140,661**	124,675
Unearned commission liability	2.3A	**–**	–
Total unearned liabilities		140,661	124,675
Payables			
Suppliers	2.4A	**34,011**	34,108
Other payables	2.4B	**157**	77
Total payables		34,168	34,185
Provisions			
Employee provisions	3.1A	**781**	646
Other provisions	2.5A	**1,132**	1,390
Total provisions		1,913	2,036
Interest bearing liabilities			
Leases	2.6A	**1,266**	1,000
Total interest bearing liabilities		1,266	1,000
Total liabilities		178,008	161,896
Net assets		707,646	595,430
EQUITY			
Accumulated reserves		**–**	–
Asset revaluation reserve		**60**	60
Claims handling reserve		**39,064**	34,648
Reserve for claims		**668,522**	560,722
Total equity		707,646	595,430

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

Statement of Changes in Equity

for the period ended 30 June 2022

	Accumulated reserves		Asset revaluation reserve		Claims handling reserve		Reserve for claims		Total equity	
	2022 $'000	2021 $'000	**2022 $'000**	2021 $'000	**2022 $'000**	2021 $'000	**2022 $'000**	2021 $'000	**2022 $'000**	2021 $'000
Opening balance at 1 July	**–**	–	**60**	60	**34,648**	37,252	**560,722**	483,215	**595,430**	520,527
Income and expenses										
Net operating result	**112,216**	84,903	**–**	–	**–**	–	**–**	–	**112,216**	84,903
Total income and expenses	**112,216**	84,903	**–**	–	**–**	–	**–**	–	**112,216**	84,903
Asset revaluation reserve	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Transfers between equity components										
Transfer to reserves	**(112,216)**	(84,903)	**–**	–	**4,416**	(2,604)	**107,800**	87,507	**–**	–
Transactions with owners										
Distributions to owners	**–**	–	**–**	–	**–**	–	**–**	(10,000)	**–**	(10,000)
Closing balance at 30 June	**–**	–	**60**	60	**39,064**	34,648	**668,522**	560,722	**707,646**	595,430

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

Accounting Policy

Transactions with Government as owners

Pursuant to section 38(3)(a) of the *Terrorism and Cyclone Insurance Act 2003* (TCI 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 TCI 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 10 March 2022, 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)). ARPC made these payments to the Commonwealth during 2022 totalling $90 million (2021: $100 million including a $10m dividend).

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 2022

	Notes	2022 $'000	2021 $'000
OPERATING ACTIVITIES			
Cash received			
Premiums		315,698	275,594
Commission		–	1,024
Interest		2,423	4,339
Other cash received		–	–
Total cash received		318,121	280,957
Cash used			
Retrocession payments		67,421	68,042
Employees		5,605	4,016
Suppliers		9,617	4,422
Government		91,553	90,329
Net GST paid		23,308	20,212
Interest payments on lease liabilities		6	10
Total cash used		197,510	187,031
Net cash from operating activities		120,611	93,926
INVESTING ACTIVITIES			
Cash received			
Proceeds from maturities of term deposits		1,049,100	1,260,000
Total cash received		1,049,100	1,260,000
Cash used			
Placement of term deposits		1,168,600	1,343,200
Purchase of property, plant and equipment		195	96
Total cash used		1,168,795	1,343,296
Net cash from/(used by) investing activities		(119,695)	(83,296)
FINANCING ACTIVITIES			
Cash used			
Principal payments of lease liabilities		442	376
Distributions to owners		–	10,000
Total cash used		442	10,376
Net cash used by financing activities		(442)	(10,376)
Net increase/(decrease) in cash held		474	254
Cash and cash equivalents at the beginning of the reporting period		2,029	1,775
Cash and cash equivalents at the end of the reporting period	2.1A	2,503	2,029

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

Brisbane City CBD

OVERVIEW

Objectives of Australian Reinsurance Pool Corporation

Australian Reinsurance Pool Corporation (ARPC) is a Commonwealth corporate entity established under the *Terrorism and Cyclone Insurance Act 2003* (TCI 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 TCI 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. ARPC will also operate a reinsurance pool for cyclones and cyclone related flood damage under the TCI Act. The pool opens to insurers on 1 July 2022.

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 – including Simplified disclosures for Tier 2 entities under AASB1060, 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.

Melbourne CBD

Sydney city skyline

New accounting standards

Consistent with Government policy, no accounting standard has been adopted earlier than the application date as stated in the standard. All new, revised, amending and/or interpretations that were issued prior to the sign-off date and are applicable to the current reporting period did not have an impact on the entity's financial statements.

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

AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities applies to annual reporting periods on or after 1 July 2021 and replaces the reduced disclosure requirements (RDR) framework. The application of AASB1060 involves some reduction in disclosure compared to the RDR with no impact on the reported financial position, financial performance and cash flows of ARPC.

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

The existing AASB 17 is scheduled to supersede AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts, for annual periods beginning on or after 1 January 2023 in respect of private sector entities. Exposure Draft 319 (ED 319) released in March 2022 proposes that public sector entities (both not-for-profit and for-profit) first apply AASB 17 Insurance Contracts to annual periods beginning on or after 1 July 2025.

For ARPC, AASB 17 Insurance Contracts in the Public Sector is expected to be finalised by the end of 2022 with implementation date 1st July 2025. Comparative information on an AASB 17 Public Sector basis will be required for the reporting year ended 30 June 2025 requiring data from 1st July 2024 onwards. ED 319's recommendations are still subject to potential change and AASB 17, though finalised, as a new standard, remains open to considerable interpretation.

Taxation

ARPC is exempt from income tax by virtue of section 36 of the TCI 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 (2021: $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 actuarial assessment will be made of 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.

Impact of COVID-19

During 2021-22, all team members successfully continued the hybrid working arrangement, which was implemented during the start of the pandemic, in 2020. During ordinary times, employees balanced their work and personal lives by remote working up to three days a week, with the remaining two days in the office to catch up with colleagues and collaborate on projects. 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.

Princes Bridge, Melbourne

NOTES TO THE FINANCIAL STATEMENTS

1. FINANCIAL PERFORMANCE

This section analyses the financial performance of ARPC for the year ended 2022.

1.1 REVENUE

1.1A: Net premium revenue	2022 $'000	2021 $'000
Gross written premium	297,001	258,097
Movement in unearned premium reserve	(15,986)	(12,375)
Total premium revenue	281,015	245,722
Outwards retrocession premium expense	(65,617)	(65,866)
Commonwealth guarantee fee	(55,000)	(55,000)
Net premium revenue	160,398	124,856

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 2022 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 10 March 2022, 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	**2022 $'000**	2021 $'000
Retrocession commission income	**–**	936
Total retrocession commission income	**–**	936

ARPC's current retrocession program does not include a commission component.

1.1C: Investment income	**2022 $'000**	2021 $'000
Cash at bank	**2**	2
Term deposits	**3,616**	3,875
Total investment income	**3,618**	3,877

Accounting Policy

Interest revenue is recognised using the effective interest method.

1.2 EXPENSES

1.2A: Employee benefits	**2022 $'000**	2021 $'000
Wages and salaries	4,685	3,222
Superannuation		
Defined contribution plans	652	441
Defined benefit plans	3	4
Leave and other entitlements	437	324
Separation and redundancies	44	123
Total employee benefits	5,821	4,114

Accounting Policy

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

1.2B: Suppliers	**2022 $'000**	2021 $'000
Goods and services supplied or rendered		
Consultants	6,991	2,814
Reinsurance broker services	326	558
Assurance Services	265	440
Information and Communication Technology Services (ICT Services)	1,031	421
Shared Services	127	130
Legal fees	371	121
Staff Development and Training	38	50
Travel	37	32
Other	945	413
Total goods and services supplied or rendered	10,131	4,979
Goods supplied	221	86
Services rendered	9,910	4,893
Total goods and services supplied or rendered	10,131	4,979
Other supplier expenses		
Workers compensation insurance	18	19
Total other supplier expenses	18	19
Total supplier expenses	10,149	4,998

Supplier costs have increased due to the use of Consultants in the establishment of the Cyclone Reinsurance Pool (cyclone pool)

1.2C: Depreciation and amortisation	**2022 $'000**	2021 $'000
Depreciation		
Leasehold improvements	159	146
Property, plant and equipment	97	63
Total depreciation	256	209
Amortisation		
Intangibles – computer software	43	43
Right-of-use asset – office lease	520	386
Total amortisation	563	429
Total depreciation and amortisation	819	638

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	**2022 $'000**	2021 $'000
Capital holding fee	35,000	35,000
Total capital holding fee paid to the Commonwealth	35,000	35,000

1.2E: Finance charges	**2022 $'000**	2021 $'000
Bank charges	3	2
Interest on lease liabilities	6	10
Total finance charges	9	12

Accounting Policy

All finance charges are expensed as incurred.

1.2F: Losses from asset sales	**2022 $'000**	2021 $'000
Property, plant and equipment		
Carrying value of assets disposed	2	4
Total losses from asset sales	2	4

1.2G: Reconciliation of expenses to the Statement of Comprehensive Income	**2022 $'000**	2021 $'000
Expenses by nature		
Employee benefits	5,821	4,114
Suppliers	10,149	4,998
Depreciation and amortisation	819	638
Capital holding fee paid to the Commonwealth	35,000	35,000
Finance charges	9	12
Losses from asset sales	2	4
Total expenses by nature	51,800	44,766
Expenses by function		
Acquisition costs	2,024	1,942
General and administration expenses	49,776	42,824
Total expenses by function	51,800	44,766
Reconciliation of expenses to the Statement of Comprehensive Income		
General and administration expenses	49,776	42,824
Less: Capital holding fee paid to the Commonwealth	(35,000)	(35,000)
Less: Finance costs	(9)	(12)
Other operating expenses	14,767	7,812

The establishment of the cyclone pool, which became effective 1 July 2022 has resulted in increased permanent staff numbers and the use of external consultants in an advisory capacity.

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	**2022 $'000**	2021 $'000
Cash at bank	2,503	2,029
Total cash and cash equivalents	2,503	2,029

Accounting Policy

Cash and cash equivalents include 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	**2022 $'000**	2021 $'000
Premium receivable	70,576	63,669
Commission receivable	–	–
Interest receivable	2,173	978
GST receivable from the Australian Taxation Office	127	60
Total receivables	72,876	64,707

Credit terms are net 30 days (2021: 30 days). Trade debtors are non-interest bearing.

Interest receivable

Effective interest rates range from 0.27% to 3.50% (2021: 0.21% to 0.63%) 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	**2022 $'000**	2021 $'000
Fixed interest term deposits	774,200	654,700
Total investments	774,200	654,700

Term deposits at balance date are held with local banks regulated by the Australian Prudential Regulation Authority (APRA). These deposits earned an effective rate of interest of 0.48% over the year (2021: 0.37%). Interest is payable on maturity for all term deposits. Terms are between 91 and 365 days (2021: 91 and 365 days).

Accounting Policy

Fixed interest deposits are carried at the face value of the amounts deposited.

2.1D: Deferred insurance assets	Notes	2022 $'000	2021 $'000
(i) Deferred insurance assets			
Deferred retrocession premium	2.1D(ii)	33,091	33,065
Deferred acquisition costs	2.1D(iii)	930	987
Total deferred insurance assets		34,021	34,052
(ii) Deferred retrocession premium			
Deferred retrocession premium as at 1 July		33,065	33,340
Retrocession premium deferred		33,091	33,065
Amortisation charged to expense		(33,065)	(33,340)
Deferred retrocession premium as at 30 June		33,091	33,065
(iii) Deferred acquisition costs			
Deferred acquisition costs as at 1 July		987	886
Acquisition costs deferred		930	987
Amortisation charged to expense		(987)	(886)
Deferred acquisition costs as at 30 June		930	987

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 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 (2021: $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 2022

	Leasehold improvements $'000	Plant and equipment $'000	Intangibles – computer software purchased $'000	Work in progress – software purchased $'000	Total $'000
As at 1 July 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 1 July 2021	**1,310**	**122**	**175**	**20**	**1,627**
Additions – By purchase	772	195	–	–	967
Depreciation and amortisation expense	(159)	(95)	(43)	–	(297)
Amortisation on right-of-use asset	(520)	–	–	–	(520)
Asset disposal	–	–	–	–	–
Accumulated depreciation on asset disposal	–	(2)	–	–	(2)
Other movements – transfer between classes	–	–	–	(20)	(20)
Total as at 30 June 2022	**1,403**	**220**	**132**	–	**1,755**
Total as at 30 June 2022					
Gross book value	3,464	457	2,361	–	6,282
Accumulated depreciation, amortisation and impairment	(2,061)	(237)	(2,229)	–	(4,527)
Total as at 30 June 2022	**1,403**	**220**	**132**	–	**1,755**

Carrying amount of right-of-use asset	**1,145**	–	–	–	**1,145**

No indicators of impairment were found for property, plant and equipment and intangibles (2021: 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.

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:

	2022 $'000	2021 $'000
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 2022. 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 (2021: 4 to 5 years).

All software assets were assessed for indications of impairment as at 30 June 2022.

2.2B: Other non-financial assets	**2022 $'000**	2021 $'000
Prepayments	299	211
Total other non-financial assets	299	211

2.3 UNEARNED LIABILITIES

2.3A: Unearned liability	Notes	2022 $'000	2021 $'000
Unearned premium liability	2.3B	140,661	124,675
Unearned commission liability	2.3C	–	–
Total unearned liability		140,661	124,675

2.3B: Unearned premium liability	2022 $'000	2021 $'000
Unearned premium liability as at 1 July	124,675	112,300
Deferral of premiums on contracts written in the period	140,661	124,675
Earning of premiums written in the previous periods	(124,675)	(112,300)
Unearned premium liability as at 30 June	140,661	124,675

2.3C: Unearned commission liability	2022 $'000	2021 $'000
Unearned commission liability as at 1 July	–	936
Deferral of commissions on contracts written in the period	–	–
Earning of commissions written in the previous periods	–	(936)
Unearned commission liability as at 30 June	–	–

2.4 PAYABLES

2.4A: Supplier payables	2022 $'000	2021 $'000
Retrocession payable	32,820	32,795
Trade creditors	–	17
Accruals	1,191	1,273
GST Payable to the Australian Taxation Office	–	23
Total supplier payables	34,011	34,108

Retrocession payable:

In accordance with ARPC's retrocession treaty expiring 31 December 2022, 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	2022 $'000	2021 $'000
Salaries and wages	138	68
Superannuation	19	9
Total other payables	157	77

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 2021	122	1,268	1,390
Additional provisions made	59	–	59
Amounts used	–	(317)	(317)
Unwinding of discount	–	–	–
Amounts owing at 30 June 2022	**181**	**951**	**1,132**

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

ARPC currently has three (2021: 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 (2021: nil).

2.6 INTEREST BEARING LIABILITIES

2.6A: Leases	**2022 $'000**	2021 $'000
Lease liabilities		
Office lease	**1,266**	1,000
Total leases	**1,266**	1,000
Maturity analysis – contractual undiscounted cash flows		
Within 1 year	**927**	404
Between 1 to 5 years	**343**	603
More than 5 years	**–**	–
Total leases	**1,270**	1,007

Total cash outflows for leases for the year ended 30 June 2022 was $447,375 (2021: $385,462)

The above lease disclosures should be read in conjunction with the accompanying notes 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	**2022 $'000**	2021 $'000
Leave	781	646
Total employee provisions	781	646

Accounting Policy

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 2022 represents the outstanding contributions for the final fortnight of the year.

3.2 KEY MANAGEMENT PERSONNEL REMUNERATIONS

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of ARPC, directly or indirectly, including any director (whether executive or otherwise) of ARPC. ARPC has determined the key management personnel to be the responsible Minister, ARPC's Board Members, the Chief Executive, the Chief Underwriting Officer, the Chief Claims and Customer Officer, the Chief Operating Officer, the Chief Financial Officer, and the Chief Risk and Governance Officer. The Chief Claims and Customer Officer was new position created during the year to manage the implementation of the Cyclone pool.

Key management personnel remuneration is reported in the table below:

	2022 **$**	2021 $
Short-term employee benefits	**1,901,326**	1,613,763
Post-employment benefits	**186,881**	153,656
Other long-term employee benefits	**80,374**	31,938
Termination benefits	**–**	85,230
Total key management personnel remuneration expense	**2,168,581**	1,884,587

The total number of key management personnel that are included in the above table are 14 (2021: 13).

The above key management personnel remuneration excludes the remuneration and other benefits of the responsible Minister. The responsible 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 2022 were:

Mr Ian Carson AM

Ms Robin Low

Ms Elaine Collins

Mr Jan Van Der Schalk

Ms Julie-Anne Schafer

Mr David Foster

Ms Maria Fernandez PSM

Changes in membership during the year:

- Ms Elaine Collins' 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
- Mr David Foster was appointed effective 16 December 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 2022 were:

- Dr Christopher Wallace – Chief Executive
- Mr Michael Pennell PSM – Chief Underwriting Officer
- Mr Jason Flanagan – Chief Claims and Customer Officer
- Ms Helen Williams – Chief Operating Officer
- Mr Peter Matruglio – Interim Chief Financial Officer
- Ms Samantha Lawrence – Chief Risk and Governance Officer.

Related party relations:

ARPC is an Australian Government controlled entity established by section 9 of the TCI Act. ARPC is only authorised to transact business and carry out functions as provided in the TCI Act or as approved or directed by the Minister. ARPC's liabilities are guaranteed by the Commonwealth by virtue of section 35 of the TCI Act. Related parties to ARPC are the Members, Key Management Personnel including the responsible 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 transactions with related parties occurred during the year. The prior year comparative was shown on a cash basis.

3.3 Related Party Disclosures

		2022 **$**	2021 $
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	**143,450**	204,763
Australian Government Solicitor	Provision of legal services	**126,237**	97,787
Comcare	Workers compensation insurance premiums	**18,277**	18,817
Artbank	Hire of artwork	**–**	7,300
Australian Public Service Commission	Subscription Services	**–**	350
Geoscience Australia	Maintenance of loss estimate model	**575,000**	–
Dept of Education, Skills and Employment	Onboarding consulting	**9,755**	–
Dept of Infrastructure Transport & Regional Development	Copyright fees	**1,214**	–
		90,873,933	90,329,017
Total Related Party Transactions		**90,873,933**	90,329,017

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 31000:2018). 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 TCI 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 TCI Act applies to all eligible insurance contracts. The TCI Act wording is designed to facilitate concentration risk diversification both geographically and by type of risk.

Claims risk

Claims submitted to ARPC associated with the 2014 DTI did not exceed the retentions of the reinsured. Therefore, no claims expense has been incurred and no liability has been recognised for the payment of claims. ARPC's mitigation strategies for the claims risks include:

- access to a Commonwealth guarantee for the due payment of money that may become payable by ARPC to any person other than the Commonwealth. If a DTI occurs the Minister must specify a pro rata (percentage) reduction in claims to be paid out by insurers, if, in the absence of such a reduction percentage, the total amounts payable by the Commonwealth might exceed $10 billion;
- the appointment of a claims manager and the development of claims procedures to validate that all claim advices are captured and updated on a timely basis;
- a standing agreement with an actuarial firm to value claims arising from a DTI;
- collecting annual aggregate exposure data from cedants;
- supporting the continued development of blast and plume models estimating terrorism losses to support advice given regarding a reduction percentage and ultimate claim costs;
- the asset mix which ARPC invests in is regulated by section 59 of the PGPA Act. The management of investments is closely monitored to confirm the liquidity of funds to match the cash needs of ARPC; and
- maintaining a claims handling reserve. The purpose of this reserve is to validate that there are sufficient monies set aside to allow ARPC to continue to operate in order to finalise any claims and reinsurance recoveries following the scheme cessation or a significant DTI. The claims handling reserve as at 30 June 2022 is $39.01 million (2021: $34.65 million).

4.1B OPERATIONAL RISK

Operational risk is the risk of loss arising from system failure or inadequacies, human error or external events that do not relate to insurance, capital and financial risks.

ARPC manages these risks within the entity's enterprise wide risk management framework. ARPC's mitigation strategies for operational risk include:

- effective staff recruitment and retention policies;
- segregation of duties including access controls, delegated authorisation levels and accounting reconciliations controls;
- maintenance and use of sophisticated information systems which provide up to date and reliable data to assist in managing the risk to which the business is exposed to at any point in time; and
- ongoing management of ARPC's Business Continuity Plan.

4.1C CAPITAL RISK

ARPC's capital structure to cover claims from declared terrorist incidents is outlined below:

- ARPC has access to its reserve for claims in cash and investments of $708 million (2021 $561 million);
- In the event of a DTI, ARPC would be required to pay $225 million (2021: $225 million) before claiming on its retrocession program;
- ARPC has access to a $3.475 billion retrocession program in excess of the $225 million retention (2021: $3.475 billion retrocession program, in excess of $225 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 (2021: $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.

4.2 FINANCIAL RISK MANAGEMENT

		Floating interest rate	Fixed interest rate maturing in			Total
		1 year or less	1 year or less	1 to 5 years	> 5 years	
	Notes	2022 $'000	2022 $'000	2022 $'000	2022 $'000	2022 $'000
Interest bearing financial assets						
Cash and cash equivalents	2.1A	2,503	–	–	–	2,503
Fixed term deposits	2.1C	–	774,200	–	–	774,200
Total		2,503	774,200	–	–	776,703
Weighted average interest rate		0.00%	1.13%	–	–	1.13%

		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%

The Department of Finance deemed a 79-basis point change to be reasonably possible and ARPC adopted this when reporting interest rate risk (2021: 74-basis point change). ARPC has considered the implied financial impact of the deemed 79 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	
	2022 %	2021 %	2022 $'000	2021 $'000	2022 $'000	2021 $'000
Interest rate movement						
– Interest bearing	+0.79	+0.74	6,136	4,860	6,136	4,860
Financial assets	-0.79	-0.74	(6,136)	(4,860)	(6,136)	(4,860)

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 are 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	2022 $'000	2022 $'000	2022 $'000	2022 $'000	2022 $'000	2022 $'000
ARPC							
Cash and cash equivalents	2.1A	2,503	–	–	–	–	2,503
Receivables	2.1B	–	–	–	–	72,876	72,876
Fixed term deposits	2.1C	–	503,400	227,000	43,800	–	774,200
Total		2,503	503,400	227,000	43,800	72,876	849,579

		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

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	**2022 $'000**	2021 $'000	**2022 $'000**	2021 $'000	**2022 $'000**	2021 $'000
Financial assets							
Premium receivables	2.1B	**70,428**	63,630	**148**	39	**70,576**	63,669
Commission receivables	2.1B	**–**	–	**–**	–	**–**	–
Interest receivable	2.1B	**2,173**	978	**–**	–	**2,173**	978
Net GST receivable	2.1B, 2.4A	**127**	38	**–**	–	**127**	38
Total		**72,728**	64,646	**148**	39	**72,876**	64,685

		Ageing of financial assets past due				
		0 to 30 days	31 to 60 days	61 to 90 days	90+ days	Total
	Notes	**2022 $'000**	**2022 $'000**	**2022 $'000**	**2022 $'000**	**2022 $'000**
Financial assets						
Premium receivables	2.1B	**25**	**–**	**–**	**59**	**84**
Total		**25**	**–**	**–**	**59**	**84**

		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

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	**2022 $'000**	2021 $'000
AAA	**–**	–
AA+	**52,500**	71,800
AA	**108,478**	103,579
AA-	**656,206**	643,916
A+	**1,524,650**	1,391,255
A	**767,428**	801,694
A-	**365,738**	462,756
ARPC Total Exposure	**3,475,000**	3,475,000

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	**2022 $'000**	2021 $'000	**2022 $'000**	2021 $'000	**2022 $'000**	2021 $'000
Financial liabilities							
Payables	2.4A	**34,011**	34,108	**–**	–	**34,011**	34,108
Total		**34,011**	34,108	**–**	–	**34,011**	34,108

4.2 CONTINGENT ASSETS AND LIABILITIES

Quantifiable contingencies

As at 30 June 2022 ARPC had no quantifiable contingencies (2021: Nil).

Unquantifiable contingencies

As at 30 June 2022 ARPC had no unquantifiable contingencies (2021: 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	**2022 $'000**	2021 $'000
Financial assets:		
Financial assets at fair value through profit or loss		
Cash and cash equivalents	**2,503**	2,029
Fixed term deposits	**774,200**	654,700
Total financial assets at fair value through profit or loss	**776,703**	656,729
Financial assets at amortised cost		
Receivables (gross)	**72,877**	64,707
Total financial assets at amortised cost	**72,877**	64,707
Total financial assets	**849,579**	721,436
Financial liabilities:		
Financial liabilities measured at amortised cost		
Suppliers payables	**34,011**	34,108
Other payables	**157**	77
Total financial liabilities measured at amortised cost	**34,168**	34,185
Total financial liabilities	**34,168**	34,185

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	**2022 $’000**	2021 $’000
Financial assets at fair value through profit or loss		
Interest revenue	3,618	3,877
Net gains on financial assets at fair value through profit or loss	3,618	3,877

5. OTHER INFORMATION

This section analyses how ARPC manages risks within its operating environment.

5.1 CURRENT/NON-CURRENT DISTINCTION FOR ASSETS AND LIABILITIES

5.1 Current/non-current distinction for assets and liabilities	**2022 $'000**	2021 $'000
Assets expected to be recovered in:		
No more than 12 months		
Cash and cash equivalents	**2,503**	2,029
Trade and other receivables	**72,877**	64,707
Investments	**774,200**	654,700
Deferred insurance assets	**34,022**	34,052
Other non-financial assets	**299**	211
No more than 12 months	883,901	755,699
More than 12 months		
Property, plant and equipment	**1,623**	1,432
Intangibles	**132**	175
Work in progress	**–**	20
No more than 12 months	1,755	1,627
Total assets	885,656	757,326
Liabilities expected to be settled in:		
No more than 12 months		
Unearned premium liability	**140,661**	124,675
Unearned commission liability	**–**	–
Suppliers	**34,011**	34,108
Other payables	**157**	77
Employee provisions	**566**	404
Other provisions	**951**	1,268
Leases	**1,266**	1,000
No more than 12 months	177,612	161,532
More than 12 months		
Employee provisions	**215**	242
Other provisions	**181**	122
No more than 12 months	396	364
Total liabilities	178,008	161,896

Australian Government
Australian Reinsurance Pool Corporation

8 Index

Darling Harbour, Sydney

ACRONYMS AND ABBREVIATIONS

AASB	Australian Accounting Standards Board
AGA	Australian Government Actuary
ANAO	Australian National Audit Office
ANZIIF	Australian and New Zealand Institute of Insurance and Finance
AMB	A.M. BEST
ACCC	Australian Competition and Consumer Commission
APRA	Australia Prudential Regulation Authority
APSC	Australian Public Service Commission
ARPC	Australian Reinsurance Pool Corporation
ASX	Australian Stock Exchange
ATO	Australian Taxation Office
BoM	Bureau of Meteorology
CBD	Central Business District
CEO	Chief Executive Officer
CCCO	Chief Claims and Customer Officer
CFO	Chief Financial Officer
COO	Chief Operating Officer
CRGO	Chief Risk and Governance Officer
CUO	Chief Underwriting Officer
CY	Calendar year
DCE	Declared Cyclone Event
DTI	Declared Terrorist Incident
FOI Act	*Freedom of Information Act 1982*
GA	Geoscience Australia
GST	Goods and Services Tax
GWP	Gross Written Premium

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 Service
TCI Act	*Terrorism and Cyclone Insurance Act 2003*
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.
Cedant	Insurer customer
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. Also referred to as a cedant.
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/TCI Act to continue to operate. After 2021's review this will take place every 5 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 p25	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 p87	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 p74 Transactions with the Government as owners p153	Directions given to the entity by the Minister under an Act or instrument during the reporting period	If applicable, mandatory
17BE(e)	Governance Framework p87 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 4 p65-84	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 p88-93	Information on the accountable authority or each member of the accountable authority, of the entity during the reporting period	Mandatory
17BE(k)	Organisational Chart p96	Outline of the organisational structure of the entity (Including any subsidiaries of the entity)	Mandatory
17BE(ka)	People Chapter 6 p109-122	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

PGPA Rule Reference	Part of Annual Report	Description	Requirement
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 5 p85-108	Information relating to the main corporate governance practices used by the entity during the reporting period	Mandatory
17BE(n), 17BE(o)	Financial Statements p123-164	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)	The Cyclone Reinsurance Pool Chapter 3 p55-64	Any significant activities and changes that affected the operation and structure of the entity during the reporting period	If applicable, mandatory
17BE(q)	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

PGPA Rule Reference	Part of Annual Report	Description	Requirement
17BE(t)	p98	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 5 p85-108	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)	p117-118	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

Australian Government

Australian Reinsurance Pool Corporation