Australian Government

Australian Reinsurance Pool Corporation

ARPC
Corporate Plan
2022-2026

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Australian Government

Australian Reinsurance Pool Corporation

1. CHAIR'S INTRODUCTION

As Chair of Australian Reinsurance Pool Corporation (ARPC) and on behalf of the Board as the accountable authority, I am pleased to present our 2022–26 Corporate Plan.

The plan commences 2022-23 and spans the four reporting periods to 2025-26, as required under paragraphs 35(1) and 35(2) of the *Public Governance, Performance and Accountability Act 2013*.

To perform ARPC's functions under the *Terrorism and Cyclone Insurance Act 2003*, the Board and executive team undertake an annual strategic planning process to set the Corporation's purpose, vision, strategic priorities, and values.

The Corporate Plan is the principal planning document for ARPC and outlines the actions required for implementation of ARPC's strategy. The plan also details performance measures.

It is a particularly important time for ARPC, and this plan covers the addition of the new cyclone reinsurance pool, which commenced operations on 1 July 2022.

If you require further information, please do not hesitate to contact me.

Yours sincerely

Ian Carson AM
Chair

2. OUR PURPOSE, VISION, VALUES AND STRATEGIC PRIORITIES

About ARPC

ARPC is a Corporate Commonwealth entity and Treasury portfolio agency established by the *Terrorism and Cyclone Insurance Act 2003* (TCI Act)*.*

The Terrorism Reinsurance Pool (Terrorism Pool) provides insurers with reinsurance for commercial property and associated business interruption losses arising from declared terrorism incidents. The Terrorism Pool has $14.2 billion in funding (excluding insurance industry retentions) available for claims arising from a Declared Terrorism Incident (DTI) and protects more than 814,608 eligible insured property assets valued at more than $3.9 trillion sums insured nationwide. The funding includes a $10 billion Commonwealth guarantee, a $3.5 billion retrocession reinsurance program with private sector reinsurers, and ARPC net assets of over $700 million.
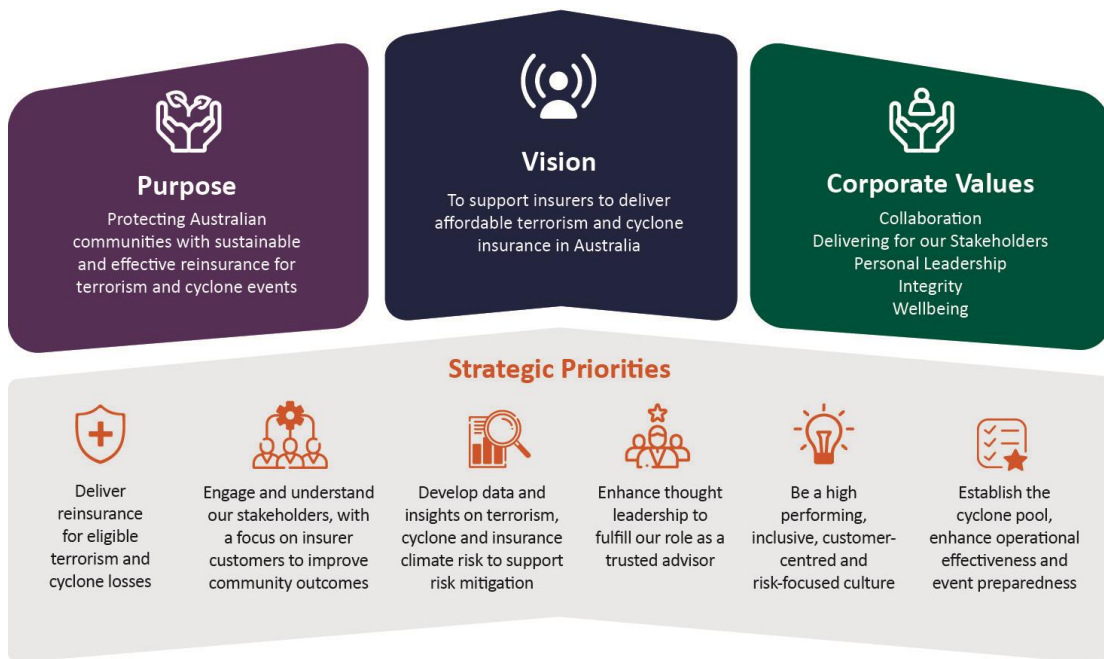
The Cyclone Reinsurance Pool (Cyclone Pool) provides insurers with reinsurance for household, strata and small business property insurance for losses arising from cyclone and cyclone related flooding for declared cyclone events. This includes wind, rain, rainwater, rainwater run-off, storm surge, and riverine flood damage caused by a declared cyclone event. The Cyclone Pool commenced operations on 1 July 2022 and is backed by a separate $10 billion annually reinstated Commonwealth guarantee.

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

- 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.

ARPC's purpose, vision, strategic priorities, and corporate values are displayed below in *Figure 2.1.*

Figure 2.1: Purpose, Vision, Values, and Strategic Priorities

Purpose
Protecting Australian communities with sustainable and effective reinsurance for terrorism and cyclone events

Vision
To support insurers to deliver affordable terrorism and cyclone insurance in Australia

Corporate Values
Collaboration
Delivering for our Stakeholders
Personal Leadership
Integrity
Wellbeing

Strategic Priorities

Deliver reinsurance for eligible terrorism and cyclone losses

Engage and understand our stakeholders, with a focus on insurer customers to improve community outcomes

Develop data and insights on terrorism, cyclone and insurance climate risk to support risk mitigation

Enhance thought leadership to fulfill our role as a trusted advisor

Be a high performing, inclusive, customer-centred and risk-focused culture

Establish the cyclone pool, enhance operational effectiveness and event preparedness

Purpose

ARPC's purpose statement reflects our statutory functions, which is to protect Australian communities with sustainable and effective reinsurance for terrorism and cyclone events.

Vision

ARPC's vision statement describes what we want our future state to be by 2026. Ultimately our vision is to support insurers deliver affordable terrorism and cyclone insurance in Australia.
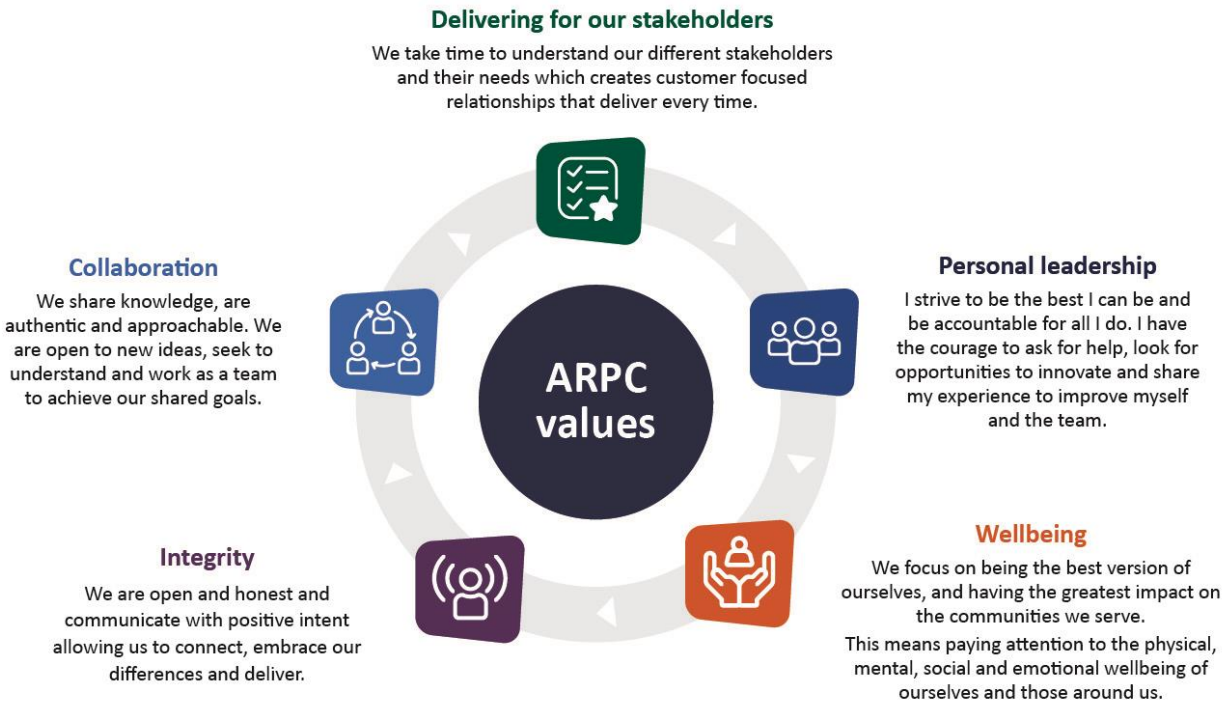
Our vision sets a defined direction for the planning and execution of ARPC's strategic priorities.

Values

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

The organisation promotes a values-based approach to its people and culture, and decision-making. The values, explained in *Figure 2.2*, support ARPC's strategic priorities.

Figure 2.2: ARPC Values

Delivering for our stakeholders

We take time to understand our different stakeholders and their needs which creates customer focused relationships that deliver every time.

Collaboration

We share knowledge, are authentic and approachable. We are open to new ideas, seek to understand and work as a team to achieve our shared goals.

Personal leadership

I strive to be the best I can be and be accountable for all I do. I have the courage to ask for help, look for opportunities to innovate and share my experience to improve myself and the team.

ARPC values

Integrity

We are open and honest and communicate with positive intent allowing us to connect, embrace our differences and deliver.

Wellbeing

We focus on being the best version of ourselves, and having the greatest impact on the communities we serve.

This means paying attention to the physical, mental, social and emotional wellbeing of ourselves and those around us.

3. OUR ACTIVITIES

Over the four-year period of this plan the ARPC Board and Executive Team have agreed on the following activities to support our strategic priorities:

TERRORISM POOL

- Encourage the private market to participate in terrorism risk insurance.

- Build on strong strategic partnerships and relationships with Terrorism Pool stakeholders.

- Provide an effective response to terrorism incidents and support risk mitigation.

- Lead international collaboration on terrorism reinsurance.

- Develop thought leadership content and expertise.

CYCLONE POOL

- Operationalise the Cyclone Pool including event preparedness and implement the plan.

- Support insurance customers to transition into the Cyclone Pool.

- Keep reinsurance premiums as low as possible for communities in medium and high-risk cyclone areas, while maintaining similar premiums in low-risk cyclone areas.

- Develop data and insights on cyclone risk and insurance climate risk to enhance insurance coverage and support risk mitigation.

- Develop and support cyclone impact mitigation incentives.

ORGANISATIONAL

- Enhance our culture, values, collaboration and change management capabilities.

- Evolve our employee value proposition to attract and retain talent.

- Develop our preparedness, capability, and organisational agility to respond to major concurrent events.

- Deliver enabling technology and systems to achieve pool goals.

- Enhance our vigilance on security, including information, personnel, physical and cyber.

- Undertake strong fiscal management to deliver financial sustainability.

4. OUR OPERATING CONTEXT

ENVIRONMENT

ARPC's environment is influenced by several factors in 2022-23 and over the period covered by this report:

Enabling legislation

ARPC was established in 2003 by the Australian Government to provide reinsurance cover for eligible terrorism losses. This followed the September 11, 2001, terrorist attacks in the United States after which terrorism cover was excluded from commercial and industrial property policies around the world and in Australia.

On 31 March 2022, the legislation was amended to become the *Terrorism and Cyclone Insurance Act 2003* (TCI Act). The amended TCI Act established a framework for a cyclone and cyclone-related flood reinsurance pool by extending the operation of the Terrorism Pool administered by ARPC. The new Cyclone Pool is designed to lower insurance premiums for households, small businesses, and strata with medium and high risk for cyclone and related flood by reducing the cost of reinsurance, which is a significant cost component of premiums for these policies. These properties are mainly located in Northern Australia.

ARPC operates in accordance with its enabling legislation and exists in a commercial environment providing services which requires ongoing and close engagement with all stakeholders.

There are also various factors and events outside ARPC's control that can significantly impact the organisation's operations. Please see *Figure 5.1* for more details.

Maintaining the Terrorism Pool

Each year, ARPC places an annual retrocession (private market reinsurance) program to provide a valuable funding source for rebuilding Australian commercial infrastructure in the event of a major terrorist attack. In addition, the program encourages private reinsurance market participation and reduces the risk to Government that ARPC will need to draw on the $10 billion Commonwealth guarantee for the terrorism pool.

In the year ended 30 June 2022, the $3.5 billion retrocession reinsurance program, plus ARPC's net assets and the $10 billion Commonwealth guarantee, provides scheme funding capacity in the event of a declared terrorism incident against eligible property assets, of approximately $14.2 billion.

Insurers who have cover with ARPC, insure approximately $3.9 trillion in Australian-based commercial property sector assets.

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

a) the power to charge premiums in respect of contracts of insurance for which it is the insurer; and

b) the power to charge fees for services that it provides in connection with the performance of its functions.
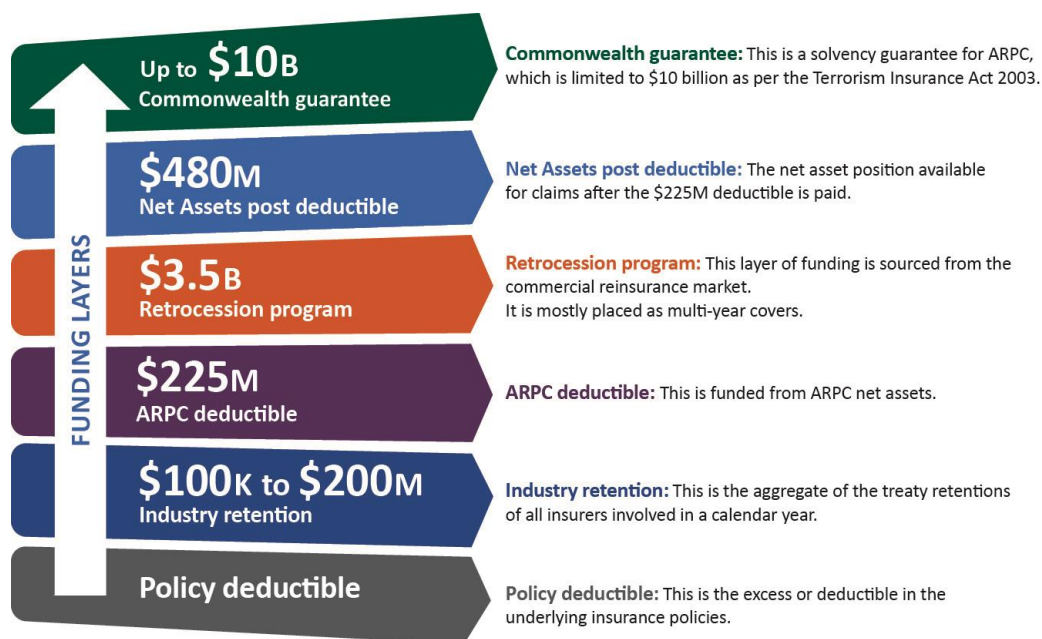
Pricing terrorism insurance is difficult, as it is typically a low frequency, and could be a high severity event. ARPC can model the distribution of such events to provide an estimate of terrorism losses.

Terrorism insurance premium rates are set through Australian Government Ministerial Direction. The premiums are community rated as fixed percentages of the underlying premium charged by insurers based on postcode tiers. ARPC's pricing is based on population density and is split into tiers for city, suburban and other regional areas. Tier rates are based on the applicable postcode of each commercial property.

Terrorism premium income received by ARPC from insurer customers is proportional to property insurance premiums set by insurers, which themselves are affected by commercial property insurance market factors. This leaves ARPC exposed to the volume of policies sold by insurers, and pricing shifts associated with global catastrophes, financial market fluctuations and terrorism incidents both in Australia and abroad, all of which impact the underlying price of commercial property insurance.

Figure 4.1 illustrates the funding layers of the 2022 ARPC Terrorism Pool.

Figure 4.1: 2022 Terrorism Pool Structure

Up to $10B
Commonwealth guarantee

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

$480M
Net Assets post deductible

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

$3.5B
Retrocession program

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

$225M
ARPC deductible

ARPC deductible: This is funded from ARPC net assets.

$100K to $200M
Industry retention

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

Policy deductible

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

FUNDING LAYERS

Establishing and operationalising the Cyclone Pool

The Cyclone Pool commenced operations on 1 July 2022. Participation will be mandatory for general insurers with eligible policies. Insurers can enter into a reinsurance agreement with ARPC from that date.

Large insurers (as defined) will have until 31 December 2023 to join the ARPC Cyclone Pool. Small insurers will have to join by 31 December 2024. This transition period is designed to provide insurers with sufficient time to manage costs and address risks associated with transitioning from existing reinsurance contracts.

The Cyclone Pool will be funded by charging reinsurance premiums to insurers consistent with the expected claims and operating expenses for the pool. The pricing formula uses property-level data such as: geography, building characteristics, and risk mitigation. The Cyclone Pool premium rates are approved by the ARPC Board and must comply with obligations in the TCI Act, which are that premiums will:

- be cost-neutral to Government over the longer term

- lower the reinsurance cost for most policies with medium to high exposure to cyclone risk

- keep those premiums for policies in lower cyclone-risk areas at levels comparable to what would be charged by other reinsurers and

- maintain incentives for risk reduction and offer discounts for properties that undertake mitigation.

In the period covered by this report, ARPC's environment will be influenced by the need to continue developing its workforce, and operational and information technology capabilities to deliver the Cyclone Pool alongside the Terrorism Pool.

Government Reviews

Until 2021, ARPC was subject to a Treasury review of the TCI Act every three years (the Triennial Review) which focused on whether the TCI Act and the Terrorism Pool should continue. The 2021 Triennial Review of the *Terrorism Insurance Act 2003*, completed in December 2021, recommended that the Act remain in force as 'in ARPC's absence, a market failure in terrorism insurance markets covering physical property would likely re-emerge'.

The review also concluded that:

- the Act maintain its current 'computer crime' exclusion as 'cyber insurance is an evolving market and there is yet to be a clear and evident market failure in relation to physical property damage from cyber terrorism'.

- if the proposed Cyclone Pool is implemented, the ARPC Board will require additional resourcing to ensure it can provide sufficient scrutiny. This includes new board member(s) and observers.

Following the 2021 Triennial Review and amendments to the TCI Act, the pools are now subject to a Treasury review as soon as practicable after 1 July 2025 and at least once *every five years* after that day to test the need for the Act to continue in operation.

CAPABILITY

ARPC uses its capability to deliver on its purpose and support the functions of the Corporation under the *Terrorism and Cyclone Insurance Act 2003.*

Financial

Figure 4.2: ARPC Financial capability forecast

Financial capability	Terrorism Pool 2022-23	Cyclone Pool 2022-23
Total funding available for claims	$14.2 billion	$10 billion
Premium income p.a.	$322 million	Nil ongoing per annum. After insurers transition to scheme $867 million
Payments to Government p.a.	$90 million	Nil
Commonwealth guarantee for Terrorism Pool	$10 billion	$10 billion annually reinstated and adjustable
Reinsurance sector funding for claims (retrocession program)	$3.5 billion	Nil
Net assets	$862.9 million	Nil The ongoing Cyclone Pool objective is to break-even in the long term
Operating expenses	$10.2 million	$17.5 million

People

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

ARPC values emphasise understanding and collaborating with a wide range of stakeholders. These stakeholders include the Australian Government, together with the insurance, reinsurance, investment, property sector, and wider community.

Through workforce and succession planning, ARPC employees have suitable capabilities to undertake business as usual functions as well as in the event of a declared terrorism incident (DTI) or declared cyclone event (DCE). The primary technical capabilities within ARPC include:

- DTI and DCE response expertise (communications, operations, claims handling, customer interaction, corporate governance, and security)
- insurance and reinsurance expertise
- actuarial expertise
- insurance market liaison expertise
- regulatory expertise
- financial management expertise
- stakeholder engagement and communications expertise, and
- technology expertise

Other core capabilities which underpin the organisation include leadership, project management and governance, risk, and compliance. ARPC aspires to connect, develop, and empower all employees to undertake meaningful work that delivers against our strategic priorities. The organisation's functional structure has been designed to support this intent.

See *Figure 4.3* to view ARPC's Organisational Chart.

Figure 4.3: ARPC Organisational Chart
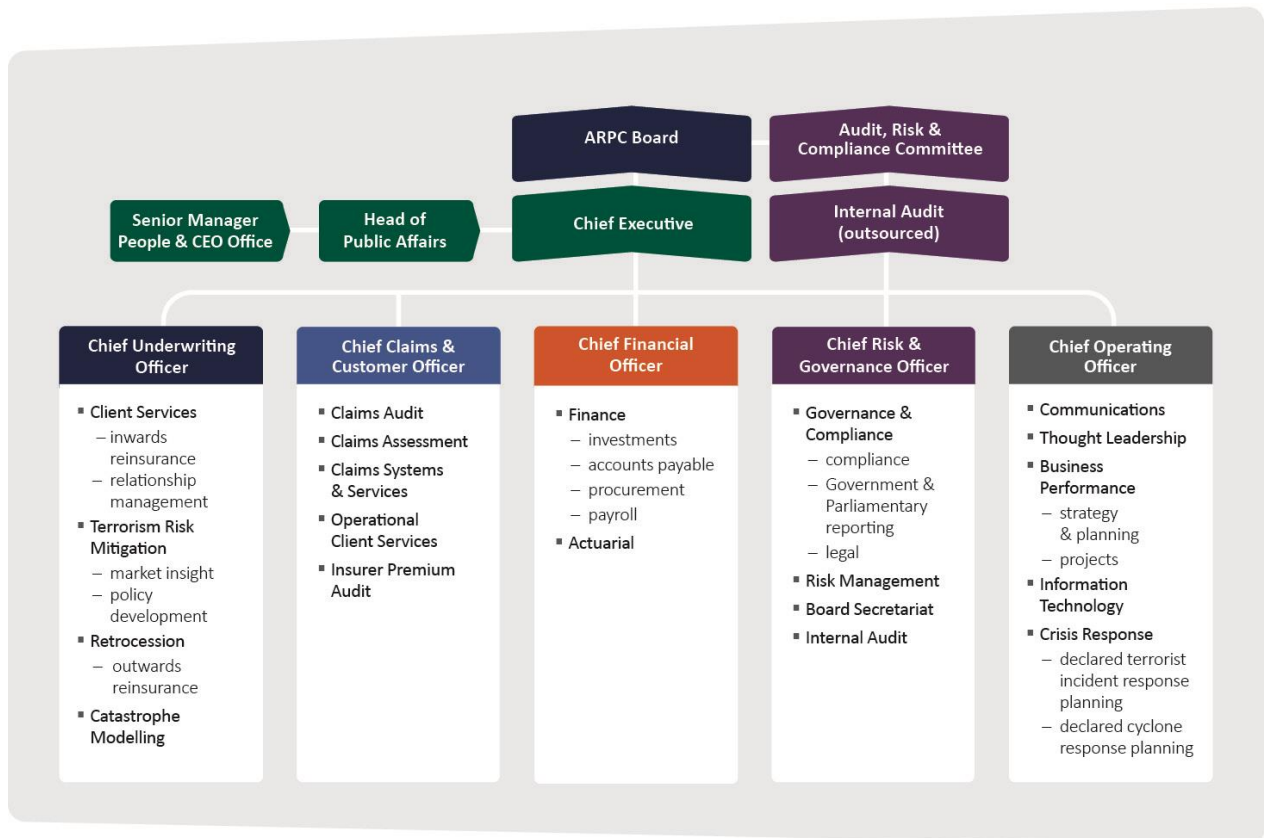
ARPC is experiencing both significant growth in its people as well as transformational change.

Our talent acquisition and development strategies form an important part of our corporate plan. In 2022 - 2023 and over the forward years of the plan to 2025, we will work toward appointing and developing talented individuals who share a passion for the agency's purpose and have the capability to positively contribute toward the achievement of ARPC's strategic program of work.

We will focus on building a diverse and inclusive team, which aligns with our Australian community, and on providing a workplace where highly engaged employees can fulfill their potential every day.

ARPC will develop and run an enterprise change program to manage the transformational change impacting ARPC during this period.

Information technology

ARPC has now become a cloud-first environment with a deep focus on cyber security. The remote capability provided by ARPC's cloud environment affords in-built resilience in the event of degraded operational capability at the primary ARPC location and disaster recovery site.

ARPC is transforming its application environment, mostly notably with the introduction of a new Software as a Service core reinsurance system.

Data management is a key strategic priority, with the enabling information management architecture and data/records management being is an ongoing focus area.

RISK OVERSIGHT AND MANAGEMENT

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

ARPC's approach to risk management involves supporting all employees to recognise and respond to risky events, as well as identify opportunities and appropriately address potential weaknesses. ARPC's risk appetite statement positions the level of risk the organisation is willing to take, while ARPC's risk management policy sets out the principles and accountabilities for how ARPC's risks are managed within the organisation, enabling the delivery of our organisational purpose and strategic priorities. They form an important part of ARPC's risk management framework that seeks to:

- continually improve harnessing resources to more effectively manage risks which may prevent ARPC from achieving its objectives,

- protecting people, and

- managing assets, resources, and the environment in an efficient, effective, economical, and ethical manner.

Risk management policy

Under section 16 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), as a corporate Commonwealth entity, ARPC must establish and maintain appropriate systems of risk oversight, management, and internal control.

The Risk Management Policy assists ARPC in meeting its risk management obligations under the PGPA Act. The Risk Management Policy outlines the commitment of the Board and senior management to promote a supportive and continually improving risk aware culture, set risk objectives, provide training and resources for risk management activities, manage, monitor, review and report risk information. ARPC's risk management principles and policy objectives are consistent with the Commonwealth Risk Management Policy and the international standard for risk management ISO 31000:2018.

A substantive review of both the risk appetite statement and risk management policy and is currently underway and will continue during 2022/23. The aim of this work is to improve risk-based decision-making to meet the evolving needs of the organisation and achieve strategic outcomes, including the administration of the new Cyclone Pool.

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

Accountabilities

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

The Audit, Risk and Compliance Committee was delegated further responsibilities in 2022 to assist the Board with its risk management oversight receiving regular reporting. The ARPC Board has a standing agenda item to examine risk at each Board meeting. Under section 17 of the *Public Governance, Performance and Accountability Rule 2014* (PGA Rule), the ARPC Audit, Risk and Compliance Committee is responsible for reviewing the appropriateness of ARPC's risk management systems and internal controls. ARPC's internal controls are routinely reviewed by ARPC's Internal Auditor, an outsourced function. ARPC's financial statements are audited annually by the Australian National Audit Office and published in the ARPC Annual Report.

Risk appetite and tolerance statement

ARPC recognises that it is not possible to eliminate all inherent risks in its activities and works to identify and implement controls to reduce this risk. ARPC monitors residual risk and accepts that some risk is necessary to run, improve and evolve the organisation. Overall, ARPC has a moderately cautious risk appetite.

The ARPC faces a broad range of risks that reflect its responsibilities as a government reinsurer. Some of the significant risks managed by the organisation are summarised in the table below.

Figure 4.4: Summary of ARPC's key risks

Key Risk	Risk Mitigation
Strategic	
Cyclone Pool pricing model does not deliver the Government's long-term objectives to reduce premiums for consumers. Anticipated market hardening of pricing – increased pricing negatively impacts ARPC's ability to deliver the Government's policy intent	• ARPC has consulted with Government, industry, and professional actuarial firms in the development of the modelling. The models have also been informed by actual insurance data where possible. Legislative mechanisms include appointment of a Reviewing Actuary and ACCC's role in monitoring the pricing over time. ARPC also has an established Terrorism insurance governance framework that has informed the development of Cyclone Pool pricing governance frameworks. • The ACCC has a role to monitor the insurance industry pricing of cyclone risk and the passing through of savings to consumers.
Operational	
Occurrence of a Declared Terrorism Incident (DTI) and Declared Cyclone Event (DCE) Cyber intrusion	• ARPC has plans and processes in place detailing the responsibilities and steps that ARPC will take in response to a DTI/DCE event. These include the assessment and processing of reinsurance claims in a prudent and timely manner. Regular scenario testing is undertaken of these processes. ARPC monitors national security threats and weather events and liaises with relevant agencies. • ARPC uses the Australian Cyber Security Centre Essential 8 framework as a key cyber security reference and approach. All employees take part in regular mandatory cyber security training, such as phishing.
Compliance	
Non-compliance with primary legislation and regulations.	• ARPC has a governance framework that identifies all primary legislative obligations and has policies, procedures, and delegations in place. Regular attestations are undertaken by officials and induction and training is provided to employees. ARPC provides regular reporting to Government regarding legislative

Key Risk	Risk Mitigation
	obligations that are captured on the compliance plan and calendar. All government reporting is reported to the Audit, Risk and Compliance Committee.
Retrocession	
Increased reinsurer counterparty risk and insurer credit risk.	• ARPC monitors the credit ratings of retrocessionaires and has relevant procedures in place. ARPC's appointed reinsurance broker assists in the retrocession placement and monitoring of the reinsurance program. ARPC actively manages relationships with retrocessionaires and insurers (cedants). ARPC undertakes an annual program of insurer (cedant) premium audits.
Earnings	
Loss of Terrorism Pool customer that significantly reduces income. Investment counter-party risk.	• ARPC monitors the terrorism reinsurance market capacity and market participants. This includes reviewing and engaging with retrocessionaires, insurers and stakeholders. • ARPC manages counterparty risk through both its investment policy and capital management policy. Financial management delegations, processes and reporting are in place to administer and monitor investments.
People	
ARPC may not be able to deliver functions and services within set timeframes due to insufficient staff or a shortage of skilled resources. ARPC's culture and its people are adversely impacted due to significant organisational change.	• ARPC has a functional operating structure with resourcing supplemented with contractors and consultants where required. Certain functions are outsourced such as internal audit and legal. Targeted recruitment and resourcing strategies developed. • The organisational values include wellbeing which has been an enterprise focus for the past two years. ARPC has a change management approach in development and has mechanisms to support its staff, which it has implemented during the COVID-19 pandemic. All staff have performance objectives and development plans in place and have regular discussions with managers.

Each year, the ARPC Board reviews the Risk Appetite and Tolerance Statement as part of the annual strategic workshop, together with the Executive Management team. ARPC's risk register is regularly reviewed to capture new or emerging risks and monitor risk target levels and ratings for potential changes.

A risk register was established and monitored for the implementation of the Cyclone Pool with risks reviewed by the program workstream leads and by the Cyclone Pool steering committee on regular basis. This will be incorporated into ARPC's enterprise risk register as the program transitions to business operations.

The ARPC Board and Audit, Risk and Compliance Committee receives a risk report at every meeting that provides an overview of ARPC's risk landscape, performance against the Risk Appetite and Tolerance statement, risks that are outside appetite, status of risk controls, an overview of risk incidents, as well as new and emerging risks.

Risk culture statement

ARPC promotes a positive risk aware culture.

ARPC views a positive risk culture to be a working environment where we consider and manage risks proactively and appropriately as part of our day-to-day work. This type of risk culture enables transparency and open discussion about uncertainties and opportunities, encourages employees to raise issues or concerns, and provides processes to facilitate escalation of concerns to appropriate levels to support a proportionate response.

ARPC's positive risk culture is enabled by visible leadership by the Board and Senior Executives, organisational risk and governance structures, cross-functional communication and collaboration, and the recognition and encouragement of positive risk behaviours.

Legislative compliance

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

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

CO-OPERATION

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

The Treasury	ARPC is an agency within the Treasury portfolio. ARPC works with Treasury to assist ARPC to deliver to the needs of the Government. ARPC meets with Treasury regularly.
Australian Office of Financial Management (AOFM)	AOFM would raise funds in the event of a DTI or DCE that would require a call on the respective $10 billion Commonwealth guarantees.
Bureau of Meteorology (BoM)	The BoM, Australia's weather agency, will observe when a cyclone begins and ends. If the BoM observes that a cyclone exists and is likely to affect any part of Australia, it must notify ARPC regarding the cyclone within 24 hours. If a cyclone re-intensifies and/or ends, a similar process must be followed with the BoM.
Insurer customers	ARPC relies on the infrastructure and handing procedures of its insurer customers to manage claims from consumers and small businesses. ARPC will conduct data validation and most claims audits to confirm that public funds have been used in an efficient and effective manner.
Aon, ARPC's reinsurance broker	ARPC uses Aon, a reinsurance broker, to access global reinsurance markets for its terrorism retrocession program.
Global reinsurers	ARPC currently has 73 reinsurers participating in its $3.5 billion retrocession program, a program which would be called upon before the $10 billion Commonwealth guarantee, in the event of a DTI.
Geoscience Australia Risk Frontiers Defence Science and Technology Group	ARPC works with two organisations, Geoscience Australia, and Risk Frontiers, to build terrorism catastrophe models. These models assist ARPC to estimate the cost of potential attacks and design a Terrorism Pool size that meets the needs of the Australian economy. The models also help to educate and inform global reinsurers about the risk, so they can provide capital to support terrorism reinsurance in Australia. ARPC has also partnered with Risk Frontiers to build a geospatial catastrophe model covering the entire mainland of Australia for commercial property assets. ARPC has partnered with Geoscience Australia to build classified three-dimensional explosive blast and bio-chemical plume catastrophe models that cover the central business districts of each capital city. The biochemical catastrophe model utilises inputs from the Federal Government's Defence Science and Technology Group (DSTG).
Finity Actuarial Consultants	ARPC uses external actuarial consultants Finity for actuarial advice on catastrophe modelling, pricing, capital modelling, and claims

	estimations. ARPC is currently developing and expanding its internal actuarial capability.
Australian Government Actuary	In 2022, as required by the TCI Act, the ARPC Board appointed the Australian Government Actuary (AGA) as ARPC's Reviewing Actuary. The AGA also performs a role as Board Observer appointed by ARPC's Responsible Minister.
Australian Prudential Regulation Authority (APRA)	While ARPC is not regulated by APRA, it has worked closely with APRA during the implementation of the Cyclone Pool. ARPC's Responsible Minister has also appointed a representative of APRA to perform a role as Board Observer.
Australian Cyber Security Centre (ACSC)	ARPC has worked closely and in partnership with ACSC, leveraging their expertise and cyber security frameworks.
Department of Home Affairs	We collaborate with the Department of Home Affairs on related issues.

5. OUR PERFORMANCE

PERFORMANCE MEASURES SUMMARY

ARPC will achieve its purpose by delivering on its strategic priorities summarised in *Figure 2.1* and *Table 5.1*. ARPC describes measures and targets for each strategic priority below together with an indication of the organisation's level of influence.

Figure 5.1: Summary of Performance Measures and targets

Strategic priority	Measure	Assessment criteria	Target	Level of ARPC Influence
Deliver reinsurance for eligible terrorism and cyclone losses.	**Measure 1** Gross Written Premium.	ARPC's total premium income.	**Target** Achieve budget in each plan period.	**Limited**
	Measure 2 Net assets.	ARPC maintains sufficient net assets to support targets in ARPC's Capital Management Policy.	**Target** Maintain sufficient net assets to support targets in ARPC Capital Management Policy.	**Limited**
	Measure 3 Operating expenses to budget.	ARPC measures financial performance of controllable operating expenditure	**Target** Achieve budget in each plan period	**Moderate due to external impacts of Cyclone Pool**
	Measure 4 Delivery of strategic projects.	ARPC delivers projects and initiatives against time, scope, and budget.	**Target** Completion of strategic projects to plan.	**High**

Strategic priority	Measure	Assessment criteria	Target	Level of ARPC Influence
Engage and understand our stakeholders with a focus on insurer customers to improve community outcomes.	**Measure 5** Complete annual insurer customer survey.	ARPC commits to running an independent annual survey of its insurer customers to inform future engagement.	**Target** Publish outcome of 2022 Insurer Customer Survey.	**High**
	Measure 6 Stakeholder performance targets	ARPC will develop meaningful and achievable metrics which are developed on baselined performance metrics. ARPC will review interim performance targets in year 3 to confirm meaningful and achievable metrics.	**Target** Develop interim targets for Terrorism Pool and Cyclone Pool and measure for 24 months. In year 3 set actual measures and targets.	**High**
Develop data insights on insurance risk to support mitigation.	**Measure 7** – Develop relevant and accurate datasets.	ARPC will develop data analytics and insights on insurance risk to support mitigation.	**Target** Collection, collation and cleansing of data.	**Moderate**
Enhance thought leadership to fulfill our role as a trusted advisor.	**Measure 8** – Publication of thought leadership artefacts.	ARPC aims to provide advice to government as a trusted advisor on terrorism risk insurance.	**Target** Publish research and information papers. Hold industry forums.	**High**
Be a high performing, inclusive, customer-centred and risk focused culture.	**Measure 9** Employee engagement	ARPC will measure employee engagement via an employee engagement survey	**Target** Annual employee engagement survey results that are consistent with industry practice in both government and insurance sectors.	**Moderate**

Strategic priority	Measure	Assessment criteria	Target	Level of ARPC Influence
Establish the Cyclone Pool, enhance operational effectiveness, and event preparedness	**Measure 10** – Completion of Cyclone Pool workstreams and transition to business operations.	ARPC will operationalise the Cyclone Pool including event preparedness, and implement the plan	**Target** Complete all Cyclone Pool workstreams.	**Moderate**
	Measure 11 – Event response preparedness.	ARPC will conduct desktop discussions and desktop simulations to rehearse and prepare for DTI and DCE response.	**Target** Conduct one desktop discussion exercise and one full desktop simulation exercise annually for both DTI and DCE.	**High**

PERFORMANCE ASSESSMENT

Measure 1: Income – Gross Written Premium
Target: Achieve budget in each plan period.

ARPC has a limited capacity to influence this performance area. Over the period covered by the Corporate Plan, success for this activity will be measured by ARPC's total premium income for the Terrorism Pool and Cyclone Pool being the financial budget for gross written premium.

Terrorism Pool premiums are impacted by:

- Terrorism reinsurance premiums being a percentage of commercial property premiums, our premium income is subject to commercial insurance premiums market movements.
- It is voluntary for insurers to participate in the Terrorism Pool, but mandatory for insurers to pay terrorism claims in a DTI.

Cyclone Pool premium are impacted by:

- legislative obligations for the ARPC Board in determining cyclone reinsurance premiums.
- Legislation provides a transition period for insurers to join the Cyclone Pool, large insurers are required to join by 31 December 2023 and small insurers by 31 December 2024.
- It is mandatory for insurers to participate by the end of the transition period.

ARPC is seeking for insurers to commence participation in the Cyclone Pool, and we have budgeted for income to commence in the 2023-2024 financial year.

Figure 5.2: Gross written premium
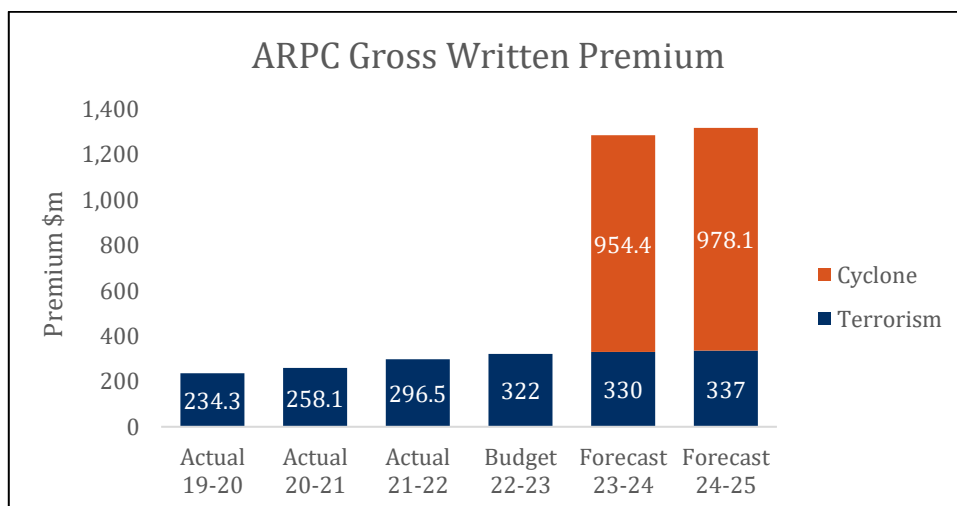
Measure 2: Net assets

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

ARPC has a Capital Management Policy for the Terrorism Pool that establishes capital thresholds after consideration of:

- the financial position of the Terrorism Pool

- ARPC's risk appetite and tolerances for its financial, operational, and strategic risks and

- reducing the probability of drawing upon the Commonwealth guarantee.

The objective of the Terrorism Pool is to provide capacity in response to insurance market failure for providing cover for terrorism.

The capital requirements for the Cyclone Pool are currently in development and will consider the consideration of:

- the financial position of the Cyclone Pool

- legislative obligations in determining premiums

- modelling of expected cyclone catastrophe events

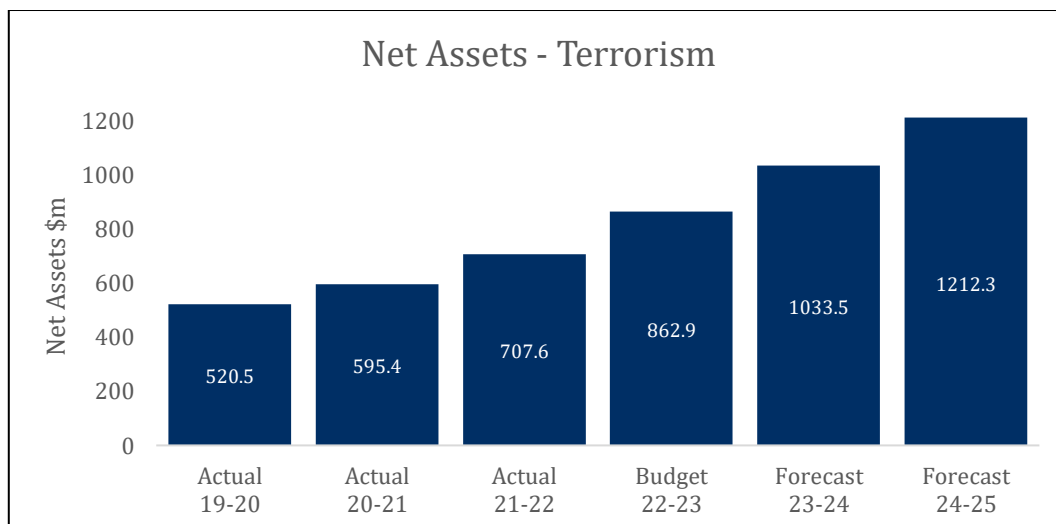- claims experience

- financial outlook and risks

The objective of the Cyclone Pool is to reduce premiums in response to insurance affordability for providing cover for cyclones. The long-term objective is to be cost-neutral to Government.
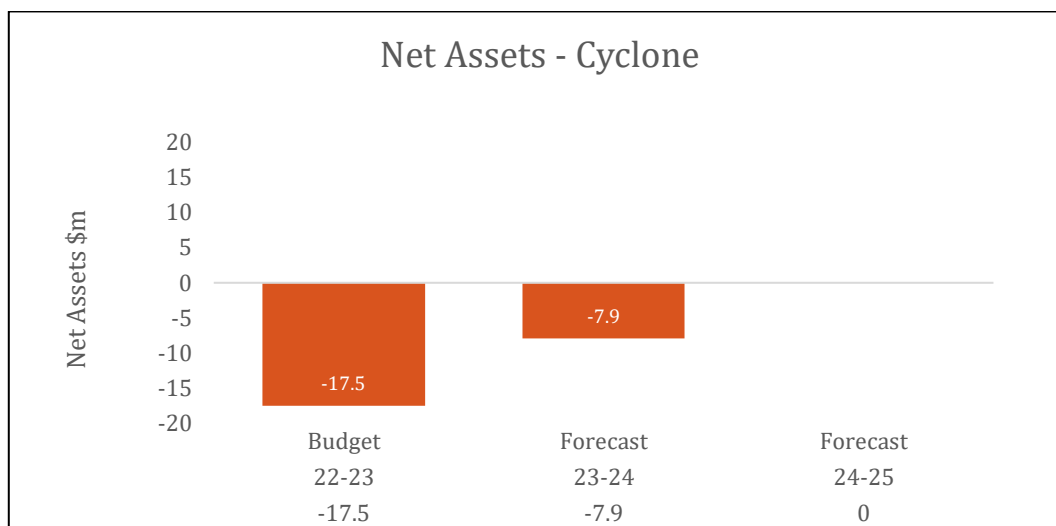
ARPC is currently reviewing its capital management policy for both the Cyclone Pool and Terrorism Pool.

Figure 5.3: Terrorism Pool - Capital Management Zones and Actions Required

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

**Figure 5.4: Projected net assets for Terrorism Pool and Cyclone Pool**

Net Assets - Terrorism

	Actual 19-20	Actual 20-21	Actual 21-22	Budget 22-23	Forecast 23-24	Forecast 24-25
Net Assets $m	520.5	595.4	707.6	862.9	1033.5	1212.3

Net Assets - Cyclone

	Budget 22-23	Forecast 23-24	Forecast 24-25
	-17.5	-7.9	0

<table>
<tr><td colspan="3">**Measure 3: Operating expenditure to budget.**</td></tr>
<tr><td colspan="3">**Target:** Achieve budget in each plan period.</td></tr>
</table>

Operating expenses have increased during the year as necessary for the implementation of the Cyclone Pool which commenced operations from 1 July 2022. ARPC has phased its building of capability for the Cyclone Pool and additional expenses will be marginally incurred as insurers begin transitioning into the Cyclone Pool.

ARPC keeps close operational management of expenses with financial delegations and financial policies and procedures to maintain strong financial management of the two pools.

Figure 5.3: General operating expenses

ARPC Operating Expenses
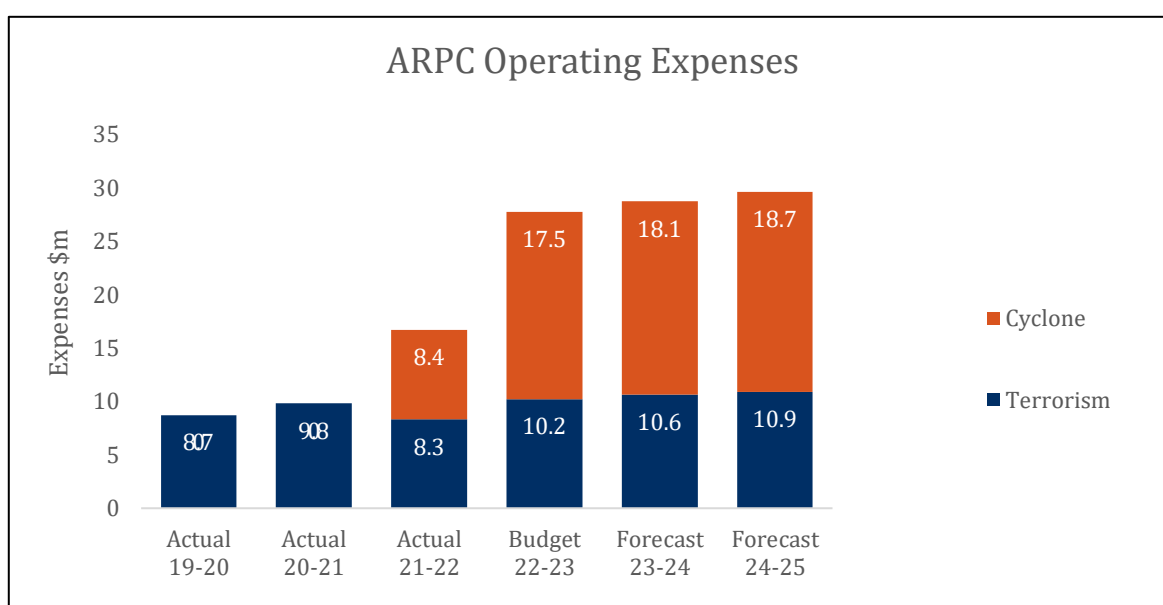
Measure 4: Delivery of strategic projects.

Target: Completion of strategic projects to plan.

ARPC undertakes projects and initiatives to deliver on its strategic priorities and business objectives. The management of these projects is undertaken using a fit for purpose project governance framework to deliver effective and efficient use of ARPC resources.

For 2021/2022, ARPC's major strategic program has been the design and build of the Cyclone Pool. This enterprise strategic program consisted of multiple workstreams managed by dedicated project managers. Due to its size and complexity, it is one of ARPC's strategic priorities with specific performance measures assigned to delivery. Refer to Performance Measure 10 for more details.

ARPC project activities span fixed term operational activities and multiyear collaborations. Refer to strategic projects in *Figure 5.4.*

Figure 5.4: Performance information on major projects for the 2022-23 period

Project	Performance Criteria	Assessed as	Methodology	Timeline
Geoscience Australia Blast and Plume Catastrophe Model	Maintain and develop ARPC's world class terrorism catastrophe modelling for use in response to a Declared Terrorism Incident (DTI)	Successful collaboration with other government stakeholders including Geoscience Australia, the Bureau of Meteorology, Defence Science and Technology and the Australian Federal Police.	ARPC undertaking collaboration and liaison with key stakeholders and subject matter experts.	Ongoing. Updating models to move from deterministic to probabilistic catastrophe models.
Implement a new core insurance system	Implement an off-the-shelf core insurance system that can facilitate multiple products and classes of business.	Migration of terrorism business to PACE platform.	Work with chosen vendor to implement an off-the-shelf system with minor customisation.	Implementation of cyclone claims modules by December 2022. Transition of the Terrorism Pool from the existing RISe system by 2023.
University Research Collaborations	Expand thought leadership in terrorism insurance risk.	A university collaboration program to benefit the community, stakeholders and identify strategic forward-looking issues.	Initial collaboration commenced with the University of Queensland. Identification of candidate universities ongoing.	Ongoing

Project	Performance Criteria	Assessed as	Methodology	Timeline
Terrorism Risk Insurance Seminar	Expand thought leadership in terrorism insurance risk.	Event held with positive feedback from ARPC stakeholders (survey).	Prepare and run a relevant seminar.	2023.
Social Engagement Project to reduce the risk of youth engaging in anti-social behaviours that could result in violent extremism	Provide sponsorship to ReachOut (RO) to undertake research into identifying high risk youth, and to develop programs and services to connect disengaged youth to the wider community.	ReachOut is developing the next evolution of mental health services to know more about young people at risk. This will be achieved through market segmentation to better identify and target services. Better analysis of their big data, providing greater insights about high-risk groups, and measurement of the social impact from the services provided by ReachOut.

Increased employee engagement of ARPC employees to ARPC's purpose. | Seek opportunities for ARPC employees to contribute to ReachOut and connect ARPC's employees to ARPC's purpose of protecting the Australian economy from terrorism catastrophes. | Ongoing until 2023. |
| Premises strategy and implementation | Premises strategy and implementation to support larger ARPC organisation needs. | Capital cost and operating costs are minimised, re-using as much current premises infrastructure as is possible, to meet organisation needs. | Conduct value for money procurement of office premises. | Requirements, approach, and space identified for expanded premises to coincide with current lease expiry. |
| Development of government proprietary cyclone catastrophe model by Geoscience Australia | Develop world class modelling for use in response to a Declared Cyclone Event (DCE). | Successful collaboration with other government stakeholders including Geoscience Australia, Bureau of Meteorology, and university institutions. | ARPC undertaking collaboration and liaison with key stakeholders and subject matter experts. | Business case to be considered and ongoing with initial model development starting 2023. |

Project	Performance Criteria	Assessed as	Methodology	Timeline
Cyclone off-the-shelf pre-event and catastrophe model	Establish access to a suite of cyclone catastrophe loss estimation models including pre-event analysis.	Procurement and development of models that meet organisation requirements.	ARPC has capability to predict losses in simplified format for operations	2023
Revision of cyclone premium rates	Revised cyclone premium rates.	Revisions to premium rates for Cyclone Pool.	Initial rates are to be revised as appropriate based on cedant feedback.	2023

Measure 5: Complete annual insurer customer survey.

Target: Publish outcome of 2022 insurer customer survey.

ARPC commits to running an independent annual survey of its insurer customers to inform future engagement and to publish the outcome of the 2022 Insurer Customer Survey.

The Insurer Customer Survey is part of an annual process that seeks to understand how customers perceive ARPC and measure the effectiveness of its stakeholder engagement activities and communications. The survey was first run in November 2020, with the second wave of data collected during November-December 2021. The third survey will be conducted in late 2022.

The following three areas have been measured in the annual survey to date:
- effective provider of terrorism risk insurance
- impact on private sector terrorism reinsurance participation; and
- to what extend ARPC supports national resilience.

For 2022, the survey will be adapted to incorporate Cyclone Pool questions.

Measure 6: Stakeholder performance targets.

Target: Develop interim targets for Terrorism Pool and Cyclone Pool and measure for 24 months. In year 3 set actual measures and targets.

ARPC intends to develop meaningful and achievable metrics, developed upon a baseline of historical performance metrics. This will initially involve using the Insurer customer survey data for the Terrorism Pool as an initial benchmark.

This will set an aspirational interim target for the Cyclone Pool. This interim measure will be adjusted according to survey data measured over three years, as the cyclone survey data is captured, and the actual metrics confirmed.

This interim definition at the start of the Cyclone Pool (and at the early stages of the Terrorism Pool insurer customer survey) also ensures review of performance and service delivery improvement can occur until the final measures are iterated and confirmed.

Measure 7: Development of relevant and accurate datasets.

Target: Collection, collation and cleansing of data.

ARPC will build extensive insurance risk data sets over time. These will provide terrorism and cyclone-related insurance insights that will be shared with the insurance industry and Australian communities. These data sets will inform ARPC's thought leadership agenda and support providing summary information to Government agencies to support risk mitigation.

ARPC will increase the maturity of its data governance and data management processes so there is a consistent approach to working with data. The focus for the next year will be the development of an information governance framework as well as the implementation of a core reinsurance system.

Measure 8: Publication of thought leadership artefacts.

Target: Publish research and information papers. Hold industry forums.

ARPC will continue to participate in discussions on terrorism risk with Australian government departments.

ARPC has several strategic projects (*Figure 5.4*) targeting thought leadership initiatives that will deliver against this measure, including utilising ARPC's university partnerships, the development of catastrophe models and hosting of industry forums.

Measure 9: Employee engagement.

Target: Annual employee engagement survey results that are consistent with industry practice in both government and insurance sectors

ARPC is a small organisation with an efficient organisational structure that is currently experiencing a significant amount of growth. Its people make it what it is, enabling ARPC to deliver to its insurer customers and stakeholders.

For the past three years, ARPC has measured employee engagement annually using the Gallop Q12 survey, benchmarked to Gallup's overall database. Employee engagement refers to how committed an employee is to their organisation, their role, their manager and their co-workers. The survey results in an overall score out of 5. There was 100 per cent participation in 2022, with 29 employees completing the survey. The graph below shows employee engagement has been broadly consistent and stable over the past three years.

The focus for the following 12 months will be on high quality recruitment selection practices, onboarding of new employees and the overall employee experience. ARPC will also revise the survey methodology used to further optimise employee engagement goals and objectives.

Figure 5.5: Employee engagement score
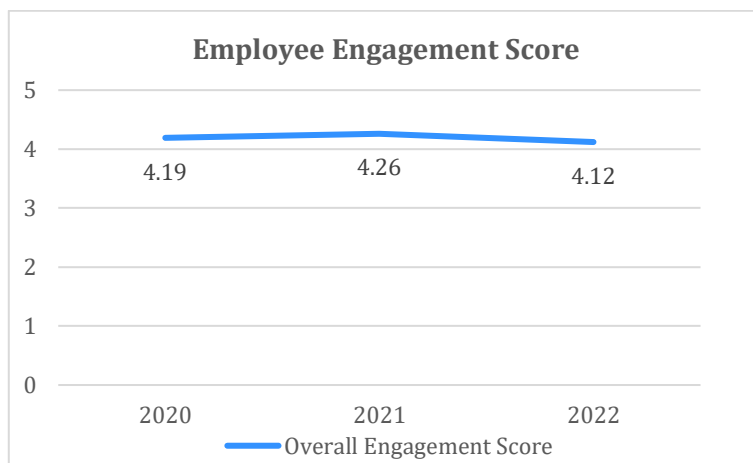
Employee Engagement Score

4.19   4.26   4.12

2020   2021   2022

— Overall Engagement Score

Measure 10: Completion of Cyclone Pool workstreams and transition to business operations.

Target: Complete all Cyclone Pool workstreams.

ARPC originally established a program of work with 10 project workstreams to implement and operationalise the Cyclone Pool. This program of work sought to leverage existing work process where possible, and augment or establish the processes required to deliver new capabilities. On completion, these workstreams will transition to business-as-usual operations and deliver a functional operating model servicing both terrorism and Cyclone Pool customers.

The workstreams either delivered or being operationalised are:

- Reinsurance agreement
- Customer and claims

- IT systems
- People
- Premises
- Communications
- Pricing
- Public affairs
- Risk management
- Change management

Measure 11: Event response preparedness.

Target: Conduct one desktop discussion exercise and one full desktop simulation exercise annually or both DTI and DCE.

ARPC will conduct desktop discussions and desktop simulations to rehearse for DTI and cyclone event response. This will involve conducting one desktop discussion exercise and one full desktop simulation exercise annually for both DTI and DCE.

Desktop discussion involves a basic scenario, walkthrough, and discussion of the process as a group (DTI response team and alternates), focused on preparedness, proficiency, and continuous improvement.

Desktop simulation involves realistic scenarios and event injects. These injects include bespoke videos, role players on screen, social media feeds and other exercise-based realistic instruments. This requires the responsible person(s) to respond accordingly, and performance assessed for feedback. This is focused on process and response capability of individual response team members.

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