



Under the Cover

OFFICIAL

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Message from the CEO

Welcome to the Summer edition of our newsletter.

It's a pleasure to present the final *Under the Cover* newsletter for 2022.

It has been a year of significant change for ARPC. We implemented the Cyclone Reinsurance Pool (cyclone pool), welcomed new Board members and observers, and launched a new website.

The *Terrorism and Cyclone Insurance Act 2003* (TCI Act) was passed in March and the Cyclone Reinsurance Pool (cyclone pool) commenced operations on 1 July. The ARPC team worked very hard across multiple workstreams to prepare.

ARPC's 2021-22 Annual Report was tabled in Parliament in October and can be viewed on our website [here](#). The report showcases excellent operational and financial performance throughout the financial year.

In November, ARPC appeared at the Senate Economics Legislation Committee (Budget Estimates) and later that month at the Joint Select Committee on Northern Australia.

We also launched a new website at <https://arpc.gov.au/> which is designed to serve insurer customers and stakeholders of the terrorism and cyclone pools.

And, in December the Bureau of Meteorology notified ARPC of the commencement of a cyclone. ARPC then declared, published, and registered our first Notifiable Instrument for the Cyclone Reinsurance Pool.

Over to terrorism reinsurance, this issue includes an interview with Mike Pennell, ARPC's Chief Underwriting Officer about the 2023 terrorism retrocession program.

Dr Christopher Wallace | Chief Executive Officer



2021-22 Annual Report published

ARPC's 2021-22 Annual Report has been tabled in Parliament and published on the website.

"ARPC's Annual Report shows ARPC delivered on key strategic projects in 2021-22. We continued our important role administering the Terrorism Reinsurance Pool while preparing for the Cyclone Reinsurance Pool which began on 1 July 2022," said Dr Christopher Wallace, ARPC CEO.

There were 233 terrorism insurer customers covered by ARPC for terrorism risk under commercial property and business interruption policies.

The terrorism pool had funding capacity for claims of \$14.2 billion. This capacity was provided through a combination of \$708 million ARPC net assets, \$3.5 billion retrocession reinsurance cover purchased from 67 global reinsurers and the \$10 billion Commonwealth guarantee. ARPC met targets set in the 2021-25 Corporate Plan.

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.

ARPC progressed strategic projects including:

- > preparation for the launch of the cyclone pool
- > launch of a new insurance system
- > research collaboration with the University of Queensland; and
- > a social engagement project with ReachOut, enabling market segmentation research into high-risk youth.

"ARPC is well positioned to deliver to insurer customers of the terrorism and cyclone pools and to respond to a Declared Terrorist Incident or Declared Cyclone Event if required," Dr Wallace said.

Read the [2021-22 Annual Report here](#).

ARPC launches new website

Australian Reinsurance Pool Corporation has launched a new website at <https://arpc.gov.au/>

The new website is designed to support ARPC's new purpose which is: 'protecting Australian communities with sustainable and effective reinsurance from terrorism and cyclone' and its new vision 'to support insurers to deliver affordable terrorism and cyclone insurance in Australia'.

"The new website is a major strategic project for ARPC which will support our insurer customers, and other stakeholders of the terrorism and cyclone reinsurance pools," says Dr Christopher Wallace, ARPC CEO.

This new site provides responsive design across desktop, tablet, and mobile devices.

Broadly, the website is divided into sections which can be accessed by hovering over the top horizontal menu on the homepage (front page):

About us: these are our corporate pages including who we are, our legislative context and our policies.

Reinsurance Pools: this contains separate pages for the terrorism and cyclone pools on coverage, joining information, reinsurance agreements and Frequently Asked Questions (FAQs).

Consumers: this is a new section with basic information on ARPC, FAQs, plus two new fact sheets, one each for the terrorism and cyclone pools.

News and Resources: this contains news updates, corporate plans, annual reports, newsletters, research, and fact sheets.

Tropical Cyclone Darian declared

As notified by the Bureau of Meteorology (Bureau), the ARPC wishes to advise that the following cyclone event has begun as a *declared cyclone event* for the purposes of the *Terrorism and Cyclone Insurance Act 2003*. A copy of the declaration is available

Please refer to the date and time when the Cyclone began, as notified to ARPC by the Bureau. This also acts as the beginning of the claims period date and time. ARPC will advise the cyclone end and the claims period end date and time, once advised by the Bureau.

Event Name	Cyclone Began	ARPC Event Code
Tropical Cyclone Darian	18/12/2022 – 17:00 (AEST)	20221812- Darian

This and other notifications will also be recorded on the Cyclone Declarations section of the website [here](#).

ARPC appears at government committees in Canberra

ARPC CEO, Chris Wallace, and members of the senior executive team appeared at Senate Economics Legislation Committee hearings, known as **Budget Estimates**, in Canberra in November. This was the first time ARPC presented at the hearing as part of the annual Budget cycle. The session was short, but informative, with ARPC fielding questions on the operations of the cyclone pool, as well as anticipated consumer savings.

Later in the month, Chris, along with members of the ARPC senior executive, were called before the **Joint Select Committee on Northern Australia**, to give evidence at the Inquiry into the operation and implementation of the Cyclone Reinsurance Pool (cyclone pool). Below is an excerpt from the ARPC opening statement:

“ARPC welcomed the passing of legislation in late March this year, which established the cyclone pool, which was to be administered by ARPC.

The cyclone pool is designed to cover losses caused by cyclonic winds, cyclone-related flooding, and storm surge. ARPC estimates it will cover 3.3 million households, 220,000 small businesses, and 140,000 residential strata and small commercial strata properties.

ARPC is working closely with insurer customers to enable their onboarding to the cyclone pool. We are focused on making our support to insurers as efficient and effective as we can.”

For more information, see the ARPC [website here](#).

ARPC appoints Chief Operating Officer



Victoria Simpson

Dr Christopher Wallace, Chief Executive of Australian Reinsurance Pool Corporation (ARPC), has announced the appointment of **Victoria Simpson** (pictured) as Chief Operating Officer.

Victoria is an actuary and leader with extensive

financial services industry experience in strategy, customer experience and marketing, and insurance operations and product management.

Victoria joins ARPC from Avant Law, a commercial law firm and subsidiary of Avant Mutual, where she has been COO. Previously she was Head of Group Strategy & Portfolio Management Office at Avant Mutual, Australia's largest Medical Defense Organisation providing indemnity insurance, business insurance and legal services to doctors.

Victoria's career also includes 14 years at AMP where she was most recently Head of Insurance Proposition, and earlier as Head of Product, Head of Customer Lifetime Management, Head of Strategic Marketing – Wealth and Insurance and Pricing Actuary. She began her career as an actuary at Canada Life in County Dublin in Ireland.

"Victoria has deep expertise in customer experience and marketing, and a solid background in insurance product management and strategy," says Dr Christopher Wallace, ARPC Chief Executive. "Her actuarial and computer science skillset will also be an asset to ARPC in its current phase of growth as we implement the Cyclone Reinsurance Pool."

Victoria holds a Master of Science (MSc) in Computer Science and Applications from Queen's University in Belfast. She is a Fellow of the Actuaries Institute and a Graduate of the Australian Institute of Company Directors (GAICD). She commences at ARPC in late January 2023.



2023 terrorism retrocession program



Michael Pennell

Last month, ARPC renewed its retrocession program for 2023 following negotiations with reinsurers in America, Europe, and Bermuda.

Under the Cover asked ARPC's Chief Underwriting Officer **Mike Pennell** (pictured) about this year's negotiations.

Is it correct to say that retrocession is 'reinsurance for reinsurers'?

Yes, that's correct. Retrocession is reinsurance for reinsurers. Retrocession is essentially where reinsurers offload their risk to other reinsurers, increasing their capacity to reinsure reinsurance companies by buying retrocession capacity.

What value does retrocession add to ARPC's terrorism coverage?

By purchasing retrocession, ARPC increases the Terrorism Cyclone Pool (terrorism pool) capacity to approximately \$14 Billion. This enables ARPC to cover 2 major events. An example of 2 major events could include one in Sydney and one in Melbourne.

In this example, the probably maximum loss for a major realistic disaster scenario in Sydney is approx. \$8 Billion and in Melbourne is approx. \$6 Billion. The amount estimated for Melbourne is smaller than Sydney, as the streets in Melbourne are wider and building values are less. Each year, ARPC buys approx. \$3.5 billion retrocession capacity.

How many reinsurers did you speak to/meet with?

This year we visited reinsurers in London, Paris, New York, Bermuda, and Sydney. During this trip we were also able to conduct several video conferences for Asian markets. We met with a good number of our major reinsurers; about 35 of the 70 reinsurers on our program.

What insurance market themes were discussed this year? For e.g., natural catastrophes, cyber?

The market is under extreme pressure because of various catastrophic events. The market is waiting for losses from Hurricane Ian to be finalised, the outcome of the war in Ukraine, the aftermath of COVID losses, and the effects of inflation on the industry. These factors have caused retrocession prices to increase markedly, and our discussions with reinsurers were focused on this uncertainty.

Moving onto terrorism, our discussion noted that terrorism risk in Australia has reduced since 2014 and that future attacks are likely to be unsophisticated and by lone actors. The Australian Government lowered the national threat level from probable to possible this month which further justified our messages to the market.

What features was ARPC looking for in the 2023 retrocession program?

We looked for pricing consistency, in line with our exposures and the reduction in terrorism risk. However, the market told us they needed to see strong double-digit increases. On that basis, we were in the fortunate position of being able to roll over our existing terms for up to two (2) more years and the ARPC Board decided to use that option.

What did the reinsurers want to know about ARPC?

They wanted to know about our modelling activities, particularly the probabilistic model we're developing with geoscience Australia. The market also wanted to know if the threat level had been reduced, which it hadn't while we were there, but has now. Then at the end of these discussions, each reinsurer wanted to know more about the Cyclone Reinsurance Pool.

Are there any unique features in the 2023 program you can share?

On 20 November, ARPC contacted the main reinsurers by phone and informed them that we will not cancel and replace the treaties for 2023 therefore, the program for 2023 will be the same structure and price as 2022. We plan to reenter the market in mid-2023 once the pricing uncertainty of the retrocession market has reduced.

When do the final details of ARPC's 2023 retrocession program become public?

A formal letter was issued by ARPC to retrocessionaires this month and will be released shortly.

Premium submissions due

Terrorism Premium submissions are due by **Tuesday, 31 January 2023** for the second quarter (1 October – 31 December) of the 2022-23 Financial Year. All premium submissions, *including zero submissions*, must be lodged.

The premium return template is available in [RISe](#) and must be used to submit all premium returns.

Q&A

Q As a terrorism pool insurer customer (cedant) how can I update my client profile details?

A. Terrorism pool insurer customers can manage their profile on RISE.

Terrorism pool insurer customers can manage their profile and notify ARPC of changes in the 'Manage Profile' section of [RISe](#). When staff leave, or change roles within your organisation, please ensure their RISE system access is disabled or amended accordingly.

Please contact ARPC's underwriting team at enquiries@arpc.gov.au if you have any questions about system access.



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