



Under the Cover

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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 observers, and launched a new website.

The *Terrorism and Cyclone Insurance Act 2003* (TCI Act) was passed in March 2022 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 also appeared at the Joint Select Committee on Northern Australia.

ARPC 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.

We hope you like it!

Wishing you a happy, healthy, and safe holiday season.

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 reinsurance 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.

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](#).

Revised premium rates for cyclone pool

ARPC published revised premium rates for the Cyclone Reinsurance Pool (cyclone pool). The cyclone premium rates insurers will pay to the cyclone pool were revised after a consultation period on the initial rates was extended, with new rates effective as of 1 October 2022.

As a result of additional information being provided by insurers, \$776 million in projected annual premiums will now be collected by the cyclone pool, a 10 per cent or \$91 million reduction in projected premiums, from \$867 million.

Lower premiums paid by insurers to the cyclone pool will ultimately result in lower premiums for consumers.

Savings are expected to be higher in Northern Australia than in other areas, consistent with the policy intent behind the cyclone pool and the way the premium rates have been designed. In addition, policyholders currently paying the highest premiums should also see the greatest savings.

Read about cyclone premium rates [here](#)

2022-26 Corporate Plan published

ARPC published its 2022-26 Corporate Plan which has been revised to include the Cyclone Reinsurance Pool (cyclone pool).

ARPC’s new purpose statement reflects its statutory function, which is to protect Australian communities with sustainable and effective reinsurance for terrorism and cyclone events.

ARPC’s vision is to support insurers to deliver affordable terrorism and cyclone insurance in Australia. The vision sets a defined direction for the planning and execution of ARPC’s strategic priorities.

Read the [full update here](#).

Insurer Customer Survey results

ARPC published the results of its second insurer customer survey conducted by ORIMA Research.

Overall, the results from the 2021 survey remain strong. Consistent with the previous survey (2020) most respondents (97 per cent) continue to see ARPC as a trusted expert on terrorism reinsurance and consider it easy to deal with.

Key survey findings:

- > 97 per cent of respondents overall (Australia and overseas) believe ARPC is an effective provider of terrorism risk insurance.
- > Respondents continued to rate ARPC's publications, website, and digital business-to-business communications strongly, particularly Australian respondents, but recorded slightly lower scores for in-person meetings.
- > 75 per cent overall found the ARPC insurer customer review process very or useful, a slight decline on the previous year (80 per cent).

Asked to describe ARPC in two key words, words such as professional, dependable, effective, and accommodating were prominent.

ARPC CEO Dr Christopher Wallace said of the results "ARPC is committed to the annual insurer customer survey so we can seek feedback and continue to make improvements that benefit customers." "This becomes more important as ARPC transitions to operating a cyclone pool and a terrorism pool."

Methodology

In December 2021, a short online survey was sent to ARPC's 235 insurer customers comprising 36 in Australia and 199 internationally. The response rate for the 2021 survey was 22 per cent (28 per cent in 2020). 52 responses were received: 9 from Australian insurers, and 42 from international insurer customers.

The full survey report is [published here](#).

ARPC appoints Chief Operating Officer



Victoria Simpson

Dr Christopher Wallace, ARPC CEO 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, which is 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



Mike 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 further information on the renewal 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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