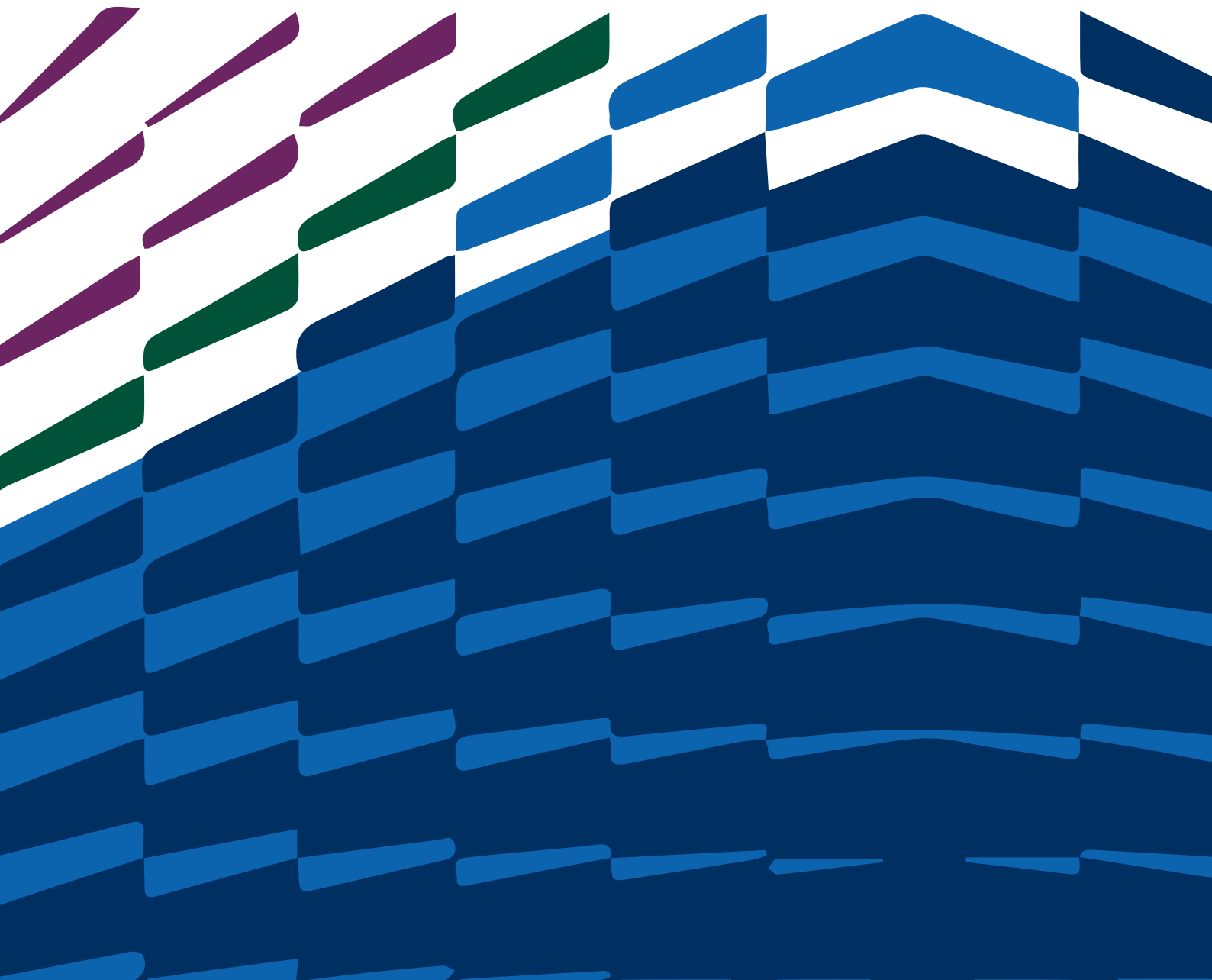




Australian Government

Australian Reinsurance Pool Corporation

# ARPC Corporate Plan 2023–2027





## Acknowledgment of Country

Australian Reinsurance Pool Corporation (ARPC) acknowledges the Traditional Custodians of country throughout Australia and their connections to land, sea, and community.

We pay our respect to their Elders past and present and extend that respect to all Aboriginal and Torres Strait Islander peoples today.



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Australian Government  
Australian Reinsurance Pool Corporation

# 01 CHAIR'S FOREWORD



As Chair of Australian Reinsurance Pool Corporation (ARPC) and on behalf of the Board as the accountable authority, I am pleased to present ARPC's 2023-27 Corporate Plan.

The past year was a pivotal period in ARPC's development prompted by the formal launch of the Cyclone Reinsurance Pool (cyclone pool) commencing operations from 1 July 2022. This remains a key focus for the year ahead and over the next reporting period. ARPC continues to:

- develop and strengthen the terrorism reinsurance pool
- refine the cyclone pool's operations across multiple functions
- welcome new insurer customers to the cyclone pool
- engage stakeholders across the government, insurance industry and cyclone affected communities and
- grow and develop the team to ensure we have the right skills and capabilities to serve insurer customers and stakeholders of the cyclone pool and the Terrorism Reinsurance Pool (terrorism pool).

To perform ARPC's functions under the *Terrorism and Cyclone Insurance Act 2003*, the Board and senior executive team undertake an annual strategic planning process. Our purpose remains 'protecting Australian communities with sustainable and effective reinsurance for terrorism and cyclone events' while our refreshed vision is 'a future where the Australian communities we serve are more resilient to disasters through access to affordable insurance for terrorism and cyclone events'.

This corporate plan is prepared for 2023/24 and spans the four reporting periods to 2026-27, as required under paragraphs 35(1) and 35(2) of the *Public Governance, Performance and Accountability Act 2013*.

The corporate plan is the principal planning document for ARPC. It outlines our purpose, vision, objectives, and key strategic activities we will undertake to achieve these and how we will measure performance. It also discusses our external environment, organisational capabilities and how we manage and oversee risk.

Yours sincerely

**Julie-Anne Schafer**  
Chair





## 02 OUR PURPOSE

ARPC is an Australian Government reinsurer of terrorism and cyclone events and a corporate commonwealth entity within the Treasury portfolio.

ARPC operates under the *Terrorism and Cyclone Insurance Act 2003* (TCI Act). ARPC's statutory 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.

As a financial corporation, ARPC operates in accordance with its

enabling legislation, its duties and obligations under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). ARPC has a general duty to deliver on its legislative obligations in an efficient and effective manner with care and diligence for the proper use and management of public resources. As a reinsurer, ARPC also operates within the commercial reinsurance landscape engaging with reinsurers, insurer customers and other stakeholders.

### Purpose statement

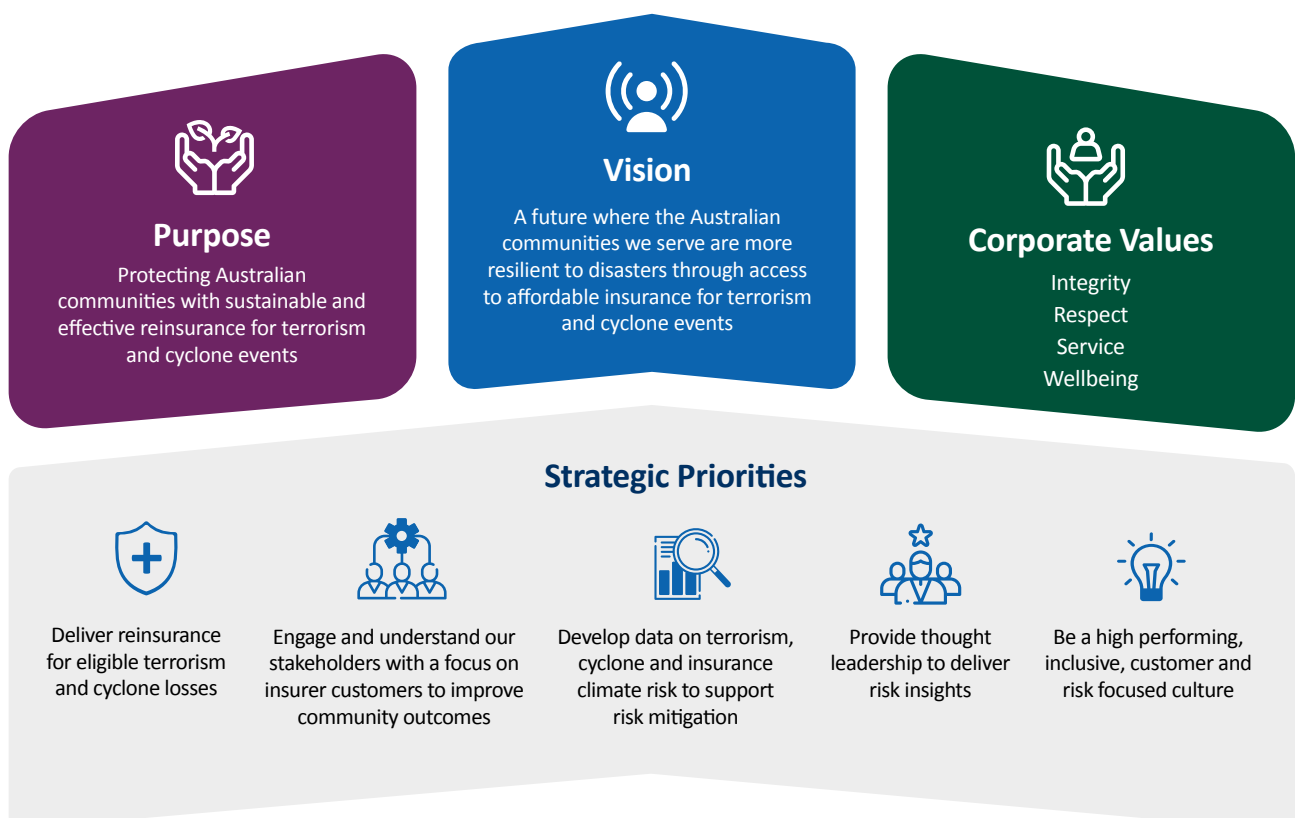
ARPC's purpose statement reflects our statutory functions, which are

protecting Australian communities with sustainable and effective reinsurance for terrorism and cyclone events.

### Vision

ARPC's vision statement describes our long-term desired future. ARPC's vision is a future where the Australian communities we serve are more resilient to disasters through access to affordable insurance for terrorism and cyclone events. Our vision sets a defined direction for the planning and execution of ARPC's strategic priorities. ARPC's purpose, vision, strategic priorities, and values are shown in **Figure 2.1**.

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





Storm cell above Darwin city, Northern Territory

## About the Pools

The **Terrorism Reinsurance Pool** (terrorism pool) provides insurers with reinsurance for commercial property and associated business interruption losses arising from Declared Terrorism Incidents (DTIs).

As at 30 June 2023, the terrorism pool had \$14.4 billion in funding (excluding insurance industry retentions) available for claims arising from a Declared Terrorism Incident and protects more than 786,000 eligible insured property assets valued at \$4.0 trillion sums insured nationwide. The funding includes a \$10 billion Commonwealth guarantee, a \$3.5 billion retrocession reinsurance program with private sector reinsurers, and the terrorism pool's net assets of over \$910 million.



ARPC operates within the commercial reinsurance landscape engaging with reinsurers, insurer customers and other stakeholders.

**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 (DCEs). This includes wind, rain, rainwater, rainwater run-off, storm surge, and riverine flood damage caused by a declared cyclone event. The cyclone pool is backed by a separate \$10 billion annually reinstated Commonwealth guarantee.

Large insurers, those with \$300 million or more gross written premiums in householders’ insurance, must join the cyclone pool before 31 December 2023. Small insurers have until 31 December 2024 to join the cyclone pool. Large and small Insurers are defined in **Figure 2.2**.

**Figure 2.2: Who must join the cyclone pool and by when.**

If/when to join the cyclone pool	Threshold (GWP*)	Eligible classes	Eligible regions
Optional	GWP of less than or equal to \$10 million	Householders/SME/Strata	Ineligible postcodes specified by ARPC via Notifiable Instrument**
Small insurers (join latest December 2024)	GWP of less than \$300 million in householders’ insurance	Householders	All postcodes in Australia
Large insurers (join latest December 2023)	GWP of \$300 million or more in householders’ insurance	Householders	All postcodes in Australia

\* GWP = Gross Written Premium. Gross written premiums are the total revenue from a contract expected to be received by an insurer before deductions for reinsurance or ceding commissions. All thresholds are for the most recent financial year.

\*\* ARPC has released, via a Notifiable Instrument, a list of postcodes where cyclone risk is negligible ([view here](#))



Tropical cyclone damage










# 03 OUR STRATEGIC PRIORITIES AND KEY ACTIVITIES

Over the four-year term of this plan, ARPC will undertake key activities which support our purpose as they relate to the terrorism pool, cyclone pool, and the organisation.

Key activities are important areas of work that make a significant contribution to ARPC delivering on its purpose. They are explained in **Figure 3.1** below:

**Figure 3.1:** Key activities supporting ARPC's purpose

 Strategic Priority	 Activities	 Terrorism Pool	 Cyclone Pool	 Organisational
Deliver reinsurance for eligible terrorism and cyclone losses	<ul style="list-style-type: none"> <li>Enhance preparedness, capability and organisational agility to respond to major concurrent events</li> <li>Deliver enabling technology and systems to achieve terrorism and cyclone pool goals</li> <li>Encourage the private market to participate in terrorism risk insurance</li> <li>Support risk mitigation</li> <li>Support insurer customers to join the cyclone pool</li> <li>Keep reinsurance premiums as low as possible in medium and high risk areas and be cost neutral over the long term</li> <li>Maintain and develop the 3D terrorism catastrophe model</li> <li>Create a government-owned cyclone catastrophe model</li> </ul>	✓  ✓  ✓  ✓  ✓	✓  ✓  ✓  ✓  ✓	✓  ✓     
Engage and understand our stakeholders with a focus on insurer customers to improve community outcomes	<ul style="list-style-type: none"> <li>Continue to build strong strategic partnerships and relationships with terrorism pool stakeholders</li> <li>Engage with communities and stakeholders to inform, educate and update them about the cyclone pool</li> </ul>	✓	✓	
Develop data on terrorism, cyclone and insurance climate risk to support risk mitigation	<ul style="list-style-type: none"> <li>Publish relevant data and insights to inform the market about terrorism risk</li> <li>Provide information and data to support cyclone risk mitigation activities across relevant government agencies</li> </ul>	✓	✓	
Provide thought leadership to deliver risk insights	<ul style="list-style-type: none"> <li>Develop thought leadership to deliver risk insurance insights</li> <li>Invest in research studies and thought leadership which supports insurance risk mitigation</li> <li>Lead international collaboration on terrorism reinsurance</li> </ul>	✓  ✓  ✓	✓  ✓	
Be a high performing, inclusive, customer and risk focused culture	<ul style="list-style-type: none"> <li>Enhance preparedness, capability and organisational agility to respond to major and concurrent events</li> <li>Develop our culture, collaboration and change management capabilities</li> <li>Evolve our employee value proposition to attract and retain talent</li> </ul>	✓	✓	✓  ✓  ✓





# 04 OUR OPERATING CONTEXT

## Environment

ARPC's external environment is influenced by multiple factors in 2023-24 and the period covered by this plan.

### Terrorism pool

The Australian Security Intelligence Organisation (ASIO) lowered the domestic terrorism threat level assessment to POSSIBLE in late 2022. In its 2023 Annual Threat Assessment, ASIO said this means Australia remains a potential terrorist target, but there are fewer extremists with the intention to conduct an attack onshore than there were when ASIO raised the threat level in 2014.

Mike Burgess, ASIO Director General of Security, said for 2023, ASIO's biggest concern was "individuals and small groups who could move to violence without warning, using weapons such as guns".

In December 2022 this threat was sadly realised in Wieambilla where six people, including two police officers, were ambushed at a remote property and died. Our sincere condolences to their families, friends and community.

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 2023, the \$3.5 billion retrocession reinsurance program, plus the terrorism pool'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 \$14.4 billion.

Insurers who have cover with ARPC insure approximately \$4.0 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 consequences of such events to provide an estimate of terrorism losses.

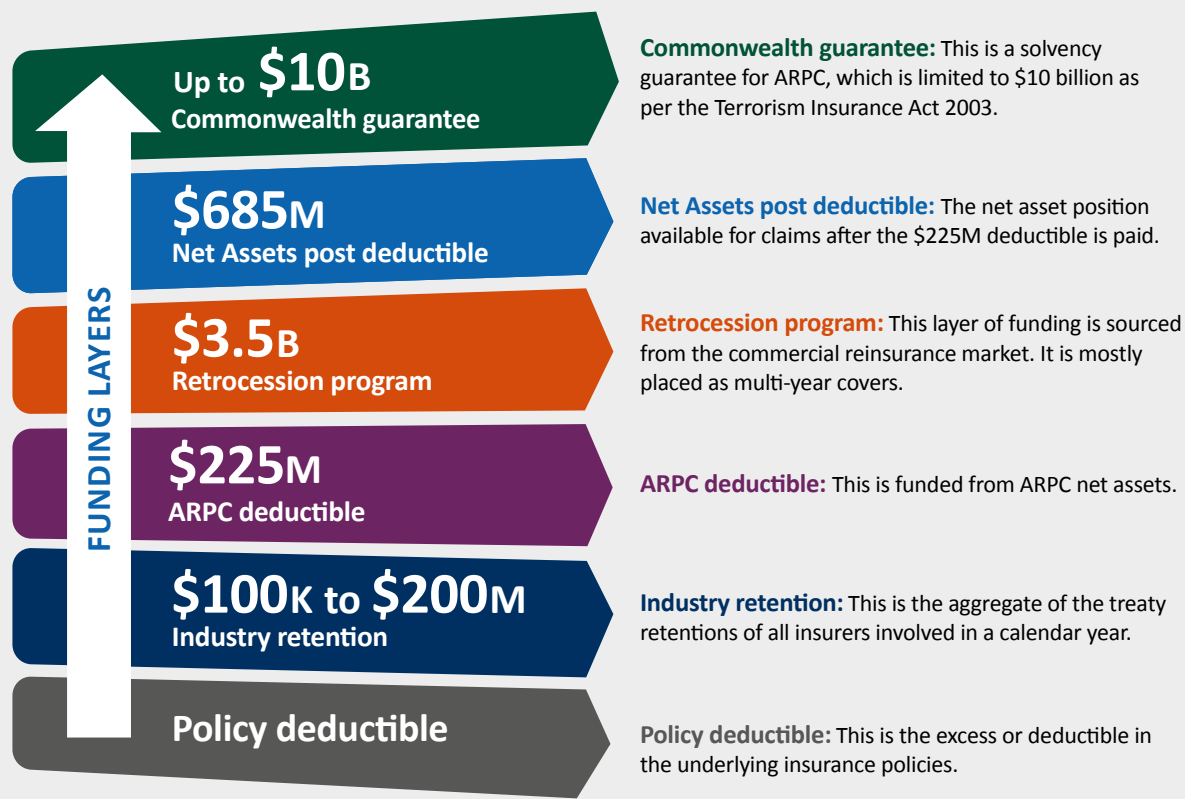
Terrorism insurance premium rates are set through Australian Government Ministerial Direction. The premiums are community rated as fixed percentages of the underlying premium charged by insurers based on postcode tiers. ARPC's pricing is based on population density and is split into tiers for city, suburban 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 2023 ARPC Terrorism Pool.



Each year, ARPC places an annual terrorism retrocession (private market reinsurance) program to provide a valuable funding source for rebuilding Australian commercial infrastructure in the event of a major terrorist attack.

Figure 4.1: 2023 Terrorism pool structure





## Cyclone pool

On average, there are 11 tropical cyclones which form in the Australian region each season, with four crossing the Australian coast. The cyclone season typically runs from November to April, but cyclones can occur at other times as well. In 2022/23 ARPC declared four cyclone events.

The cyclone pool commenced operations on 1 July 2022. Participation is mandatory for general insurers with eligible policies.

Large insurers (as previously defined) have until 31 December 2023 to join the cyclone pool. Small insurers will have to join by 31 December 2024. This will provide insurers with sufficient time to manage costs and risks associated with changing over from existing reinsurance contracts.

The cyclone pool is 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.
- keep premiums as low as possible for 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 to reduce and mitigate the risk of eligible cyclone losses.

ARPC has invested in its environment to implement the pool by developing and building its workforce, and its operational and information technology capabilities to deliver the cyclone pool alongside the Terrorism Pool.

As at 30 June 2023, 9 insurers had joined the cyclone pool, with the balance of large insurers expected to join by 31 December 2023. ARPC has invested in resources and support materials to partner with insurers joining the pool.

Investment has been made in systems and processes to enable the pool to be operational. This investment will continue over the coming year as ARPC increases scale and operational capability with the expected growth of the cyclone pool.

## Government reviews

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

## Capability

ARPC requires appropriate financial, people and information technology capabilities to deliver on its purpose and support its functions under the *Terrorism and Cyclone Insurance Act 2003*.

## Financial

**Figure 4.2:** ARPC financial capability forecast (budget)

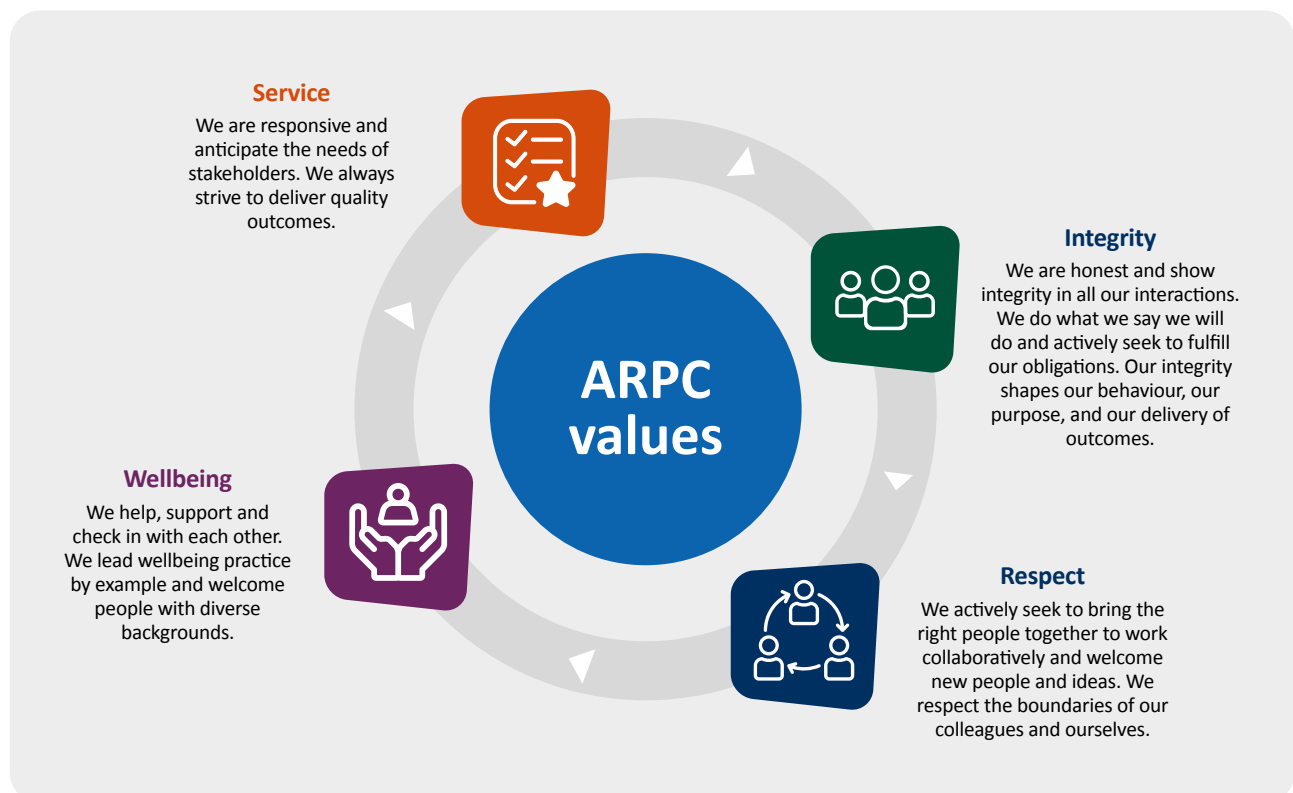
Financial capability	Terrorism Pool 2023-24	Cyclone Pool 2023-24	Consolidated 2023-24
Total funding available for claims	\$14.6 billion	\$11 billion	\$25.6 billion
Premium income p.a.	\$339 million	\$967 million	\$1,306 million
Payments to Government p.a.	\$90 million	Nil	\$90 million
Commonwealth guarantee	\$10 billion	\$10 billion annually reinstated and adjustable	\$20 billion
Reinsurance sector funding for claims (retrocession program)	\$3.5 billion	Nil	\$3.5 billion
Net assets	\$1,119.8 million	\$41.1 million	\$1,160.9 million
Operating expenses	\$9.7 million	\$21.2 million	\$30.9 million

## People

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

ARPC promotes a values-based approach to its people, culture, and decision-making. Our values, as shown in **Figure 4.3**, underpin our commitment to our insurer customers but also to cyclone-affected communities and the broader Australian community.

**Figure 4.3:** ARPC Values





ARPC employees have suitable capabilities to undertake business as usual functions as well as to fulfill service obligations in the event of a DTI or DCE. ARPC engages with third parties, and co-sourced and outsourced providers to leverage technical expertise and capability needed to deliver our functional obligations. ARPC will continue to review its operating model and capability needs as the organisation evolves.

The primary technical capabilities and areas of expertise within ARPC include:

- DTI and DCE response (communications, operations, claims handling, customer interaction, corporate governance, and security)
- insurance and reinsurance

- actuarial
- insurance market liaison
- regulatory, relative to government and insurance sectors
- financial management
- stakeholder engagement and communications,
- technology
- claims management.

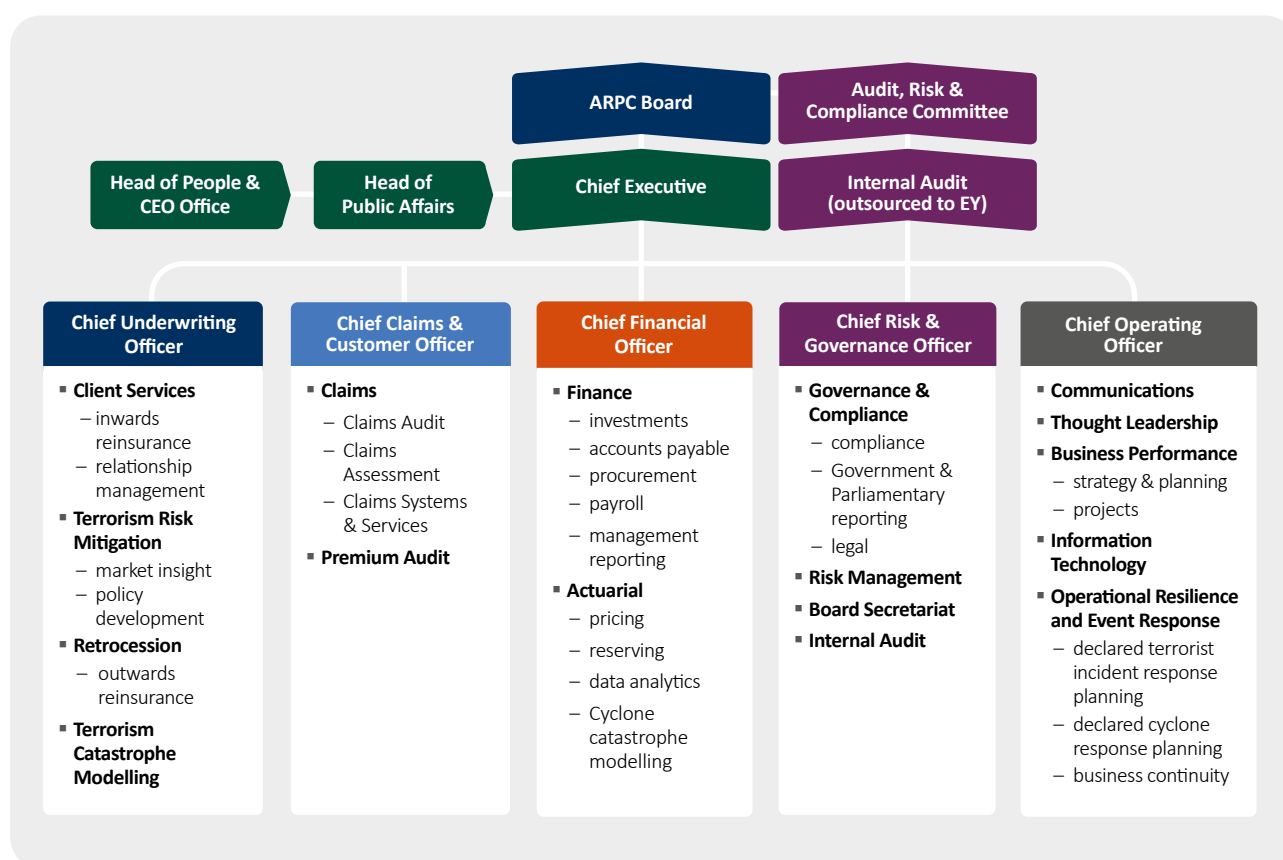
Other core capabilities which underpin the organisation include risk management, human resources management, leadership, project management and governance and compliance. ARPC aspires to engage, enable, and develop all employees to undertake meaningful work that positively supports the delivery of strategic priorities.

Our functional structure, as shown in **Figure 4.4**, has been designed to support this intent.

Talent acquisition and development strategies form an important part of the corporate plan. In 2022- 2023 and over the forward years of the plan to 2027, we will work toward appointing and developing talented individuals who share a passion for ARPC's purpose and have the capability to positively contribute to our strategic program of work.

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

**Figure 4.4: ARPC organisational chart**





## Information technology

ARPC is a completely cloud-based IT environment with a deep focus on cyber security.

The remote working capability provided by ARPC's cloud environment affords built-in resilience in the event of degraded operational capability at ARPC's primary location and disaster recovery site.

ARPC will continue to enhance our new reinsurance platform for the cyclone pool (PACE), to meet the needs of our insurer customers and stakeholders with support from our technology partner and

supplier. Our longer-term intention is to have a single platform to service all ARPC's reinsurance premium and claims bordereau processing across the cyclone and terrorism pools.

Data management is a key strategic priority, with the enabling information management architecture, data governance and records and information management being an ongoing focus area as ARPC looks to build a platform for reporting and insights.

ARPC has established a comprehensive cybersecurity program and deployed systems that are governed by policies, standards, procedures, and guidelines to effectively manage and maintain a high security posture. The cybersecurity roadmap consists of further uplifting our capabilities to remain relevant in the fast-changing cyber environment.

## Risk oversight and management

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

Our approach to risk management involves supporting an organisational culture where risk is managed and communicated across all levels, which enables all employees to recognise and respond to risk events, as well as identify opportunities and appropriately address potential weaknesses. ARPC's risk appetite statement delineates the target risk positions of the organisation, 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:

- manage risks which may prevent ARPC from achieving its objectives, in a timely and effective manner,
- encourage ARPC's people to continue to adopt positive risk behaviours, and
- manage 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.

ARPC's 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, and 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.

Substantial reviews of ARPC's Risk Appetite Statement, Risk Management Policy, and risk register, were completed during 2022/23. These reviews were undertaken to reflect the significant changes to the organisation with the commencement of the cyclone reinsurance pool and to further develop our organisational approach to risk-based decision-making. This will enable ARPC to meet the evolving needs of the organisation and achieve its strategic outcomes, while managing risk appropriately.

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. The last review was completed in 2023.

### Accountabilities

As the accountable authority, the ARPC Board has 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, the Board Charter, and the Audit, Risk and Compliance Committee Charter. The ARPC considers risk at each scheduled meeting.

Under section 17 of the *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule), ARPC's 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. ARPC has established an Executive Risk Management Committee with the purpose to review risks associated with the delivery of ARPC's

purpose and strategic objectives. This includes monitoring the appropriateness of controls in place to enhance ARPC's risk management and internal control environment. The Committee is supported by an organisational structure that assigns accountability for identifying and mitigating risks to accountable owners across ARPC, with the Chief Risk and Governance Officer accountable for the overall risk management framework. Outputs from the Committee will inform reporting to the Board and Audit, Risk and Compliance Committee.

Each employee's position description outlines the individual responsibilities and accountabilities of their role.

### Risk Appetite 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 operate, improve and evolve the organisation. The level of risk acceptance is articulated in the Risk Appetite Statement approved by the Board. ARPC's Risk Appetite Statement is structured around the organisation's strategic priorities and includes both qualitative statements and quantitative metrics related to each priority. The Risk Appetite Statement is reviewed by the Board in conjunction with the senior executive team annually, or more frequently if required in response to changes in the operating or strategic environment.

ARPC faces a broad range of risks that reflect its responsibilities as a public financial corporation and reinsurer. Some of the significant risks managed by the organisation are summarised in **Figure 4.5**.

## 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 executive team, organisational risk and governance structures, cross-functional communication and collaboration, and the recognition and encouragement of positive risk behaviours. A review of ARPC's risk culture survey was undertaken during the financial year with the intent to launch a new survey in 2023-24.

**Figure 4.5: Summary of ARPC's key risks**

Key Risk	Risk Mitigation	ARPC Strategic Priority
Risk that the Cyclone Reinsurance Pool is not implemented in a manner that meets legislative and stakeholder requirements.	<ul style="list-style-type: none"> <li>ARPC has engaged with stakeholders including Government and industry, in planning and implementing the cyclone pool.</li> <li>ARPC has developed and implemented policies, procedures, and processes in relation to the cyclone pool.</li> </ul>	<b>Deliver reinsurance for eligible terrorism and cyclone losses</b>
Risk that ARPC does not effectively respond to the occurrence of a Declared Terrorism Incident (DTI) and/or Declared Cyclone Event (DCE).	<ul style="list-style-type: none"> <li>ARPC has plans and processes in place detailing the responsibilities and steps that ARPC will take in response to a DTI/DCE event.</li> <li>ARPC monitors terrorism threat level and weather events and liaises with relevant agencies.</li> </ul>	<b>Deliver reinsurance for eligible terrorism and cyclone losses</b>
Risk that there is non-compliance with primary legislation and regulations.	<ul style="list-style-type: none"> <li>ARPC has a governance framework that identifies legislative obligations and has policies, procedures, and delegations in place. Regular attestations are undertaken by officials and training is provided to employees.</li> <li>ARPC provides regular reporting to Government regarding legislative obligations that are captured on the compliance plan and calendar.</li> </ul>	<b>Be a high performing, inclusive, customer and risk-focused culture</b>
Risk that a cyber intrusion event occurs that attempts to compromise ARPC's resources or operational capability.	<ul style="list-style-type: none"> <li>ARPC utilises recognised cyber security frameworks as a component of the operating approach. All employees take part in regular mandatory information and cyber security training.</li> </ul>	<b>Be a high performing, inclusive, customer and risk-focused culture</b>

ARPC's risk register is regularly reviewed to capture new or emerging risks and monitor risk target levels and ratings for potential changes. It underwent a significant review during the financial year to incorporate risks associated with both reinsurance pools as well as organisational risks. It will continue to be reviewed as ARPC refines its operations associated with the management of both reinsurance pools.



ARPC's Audit, Risk and Compliance Committee is responsible for reviewing the appropriateness of ARPC's risk management systems and internal controls.



## 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, ARPC 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. Refer to **Figure 4.6** for a list of key legislation ARPC must comply with:

Figure 4.6: Key legislation

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*Terrorism and Cyclone Insurance Act 2003*

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*Public Governance, Performance and Accountability Act 2013*

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*Privacy Act 1988*

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*Public Interest Disclosure Act 2013*

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*Freedom of Information Act 1982*

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*Work Health and Safety Act 2011*

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*Archives Act 1983*

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*Modern Slavery Act 2018*

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*Data Availability and Transparency Act 2022*

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## Co-operation

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

<b>Aon</b>	Aon is ARPC's reinsurance broker. ARPC uses Aon to access global reinsurance markets for its terrorism retrocession program.
<b>Australian Cyber Security Centre (ACSC)</b>	ARPC has worked closely in partnership with ACSC, leveraging their expertise and cyber security frameworks.
<b>Australian Government Actuary</b>	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.
<b>Australian Office of Financial Management (AOFM)</b>	AOFM would raise funds in the event of a DTI or DCE that would require a call on the respective \$10 billion Commonwealth guarantees.
<b>Australian Prudential Regulation Authority (APRA)</b>	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.
<b>Bureau of Meteorology (BoM)</b>	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.
<b>Defence Science and Technology Group</b>	The terrorism biochemical catastrophe model utilises inputs from the Federal Government's Defence Science and Technology Group (DSTG).
<b>Department of Home Affairs</b>	ARPC collaborates with the Department of Home Affairs on related issues.
<b>Early Warning Network</b>	ARPC engages EWN to provide data and insights on cyclone activity and on the impact of the weather event on the built environment to assist in the claims process.
<b>Finity Actuarial Consultants</b>	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.
<b>Geoscience Australia</b>	ARPC works with Geoscience Australia 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 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.
<b>Global reinsurers</b>	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.
<b>Insurer customers</b>	ARPC relies on the infrastructure and handling procedures of its insurer customers to manage claims from consumers and small businesses. ARPC will conduct data validation and post claims payment audits to confirm that public funds have been used in an efficient and effective manner.
<b>National Emergency Management Australia</b>	ARPC is working with NEMA on initiatives and data sharing in relation to cyclone risk mitigation
<b>Risk Frontiers</b>	ARPC has partnered with Risk Frontiers to build a geospatial catastrophe model for terrorism covering the entire mainland of Australia for commercial property assets. More recently ARPC has partnered with Risk Frontiers on cyclone modelling.
<b>Taylor Fry Actuarial Consultants</b>	Provides ARPC with separate actuarial advice on claims reserving.
<b>The Treasury</b>	ARPC is an entity within the Treasury portfolio. ARPC works with Treasury to assist ARPC to deliver to the needs of the Government. ARPC meets with Treasury regularly.





# 05 OUR PERFORMANCE

## Performance Measures Summary

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

**Figure 5.1:** Performance measures and targets

Strategic priority	Performance Measure	Assessment criteria	Target	Level of ARPC Influence
<b>Deliver reinsurance for eligible terrorism and cyclone losses</b>	<b>Measure 1</b> Income	Gross Written Premium	<b>Target</b> Achieve budget in each plan period	<b>Limited</b>
	<b>Measure 2</b> Financial resilience	Net Assets	<b>Target</b> Maintain sufficient net assets to support targets in ARPC Capital Management Policy	<b>Limited</b>
	<b>Measure 3</b> Operational efficiency	Operating expenses	<b>Target</b> Achieve budget in each plan period	<b>Moderate</b>
	<b>Measure 4</b> Technological resilience	Cyber Security Framework	<b>Target</b> Continuous improvement in cyber security	<b>High</b>
	<b>Measure 5</b> Delivery of strategic projects	ARPC delivers projects and initiatives against time, scope and budget	<b>Target</b> Completion of strategic projects to plan	<b>High</b>
<b>Engage and understand our stakeholders with a focus on insurer customers to improve community outcomes</b>	<b>Measure 6</b> Insurer customer satisfaction	Annual survey of insurer customers to inform future engagement	<b>Target</b> Publish outcome of 2023 Insurer Customer Survey <b>Target</b> <b>Terrorism:</b> Terrorism Stakeholder Perception Index (T-SPI) score of at least 70 per cent <b>Cyclone:</b> Develop an interim target for the cyclone pool once all insurers onboard and measure for 24 months. In year 3, set actual measures and targets	<b>High</b>
<b>Develop data on terrorism, cyclone and insurance climate risk to support risk mitigation</b>	<b>Measure 7</b> Statistical Publications	ARPC will develop data analytics and insights on insurance risk to support risk mitigation	<b>Target</b> Publish aggregated statistics on cyclone pool and terrorism	<b>Moderate</b>
<b>Provide thought leadership to deliver risk insights</b>	<b>Measure 8</b> Publication of research papers	ARPC aims to provide advice to government and the insurance industry as a trusted advisor on terrorism and cyclone risk insurance	<b>Target</b> Publish and promote terrorism and cyclone research Host and participate in industry forums	<b>High</b>
<b>Be a high performing, inclusive, customer and risk focused culture</b>	<b>Measure 9</b> Employee engagement	ARPC will measure employee engagement via an employee engagement survey	<b>Target</b> Annual employee engagement survey results that are consistent with industry practice in both government and insurance sectors	<b>Moderate</b>
	<b>Measure 10</b> Event response preparedness	ARPC will conduct desktop discussions and desktop simulations to rehearse and prepare for a DTI, DCE and a cyber incident	<b>Target</b> Conduct one desktop discussion exercise and one full desktop simulation exercise annually for both DTI, DCE and cyber incident	<b>High</b>

## Performance Assessment



### Measure 1: Income – Gross Written Premium (GWP)

**Target:** Achieve budget in each plan period.

ARPC has a limited capacity to influence this performance area. Over the period covered by this 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:

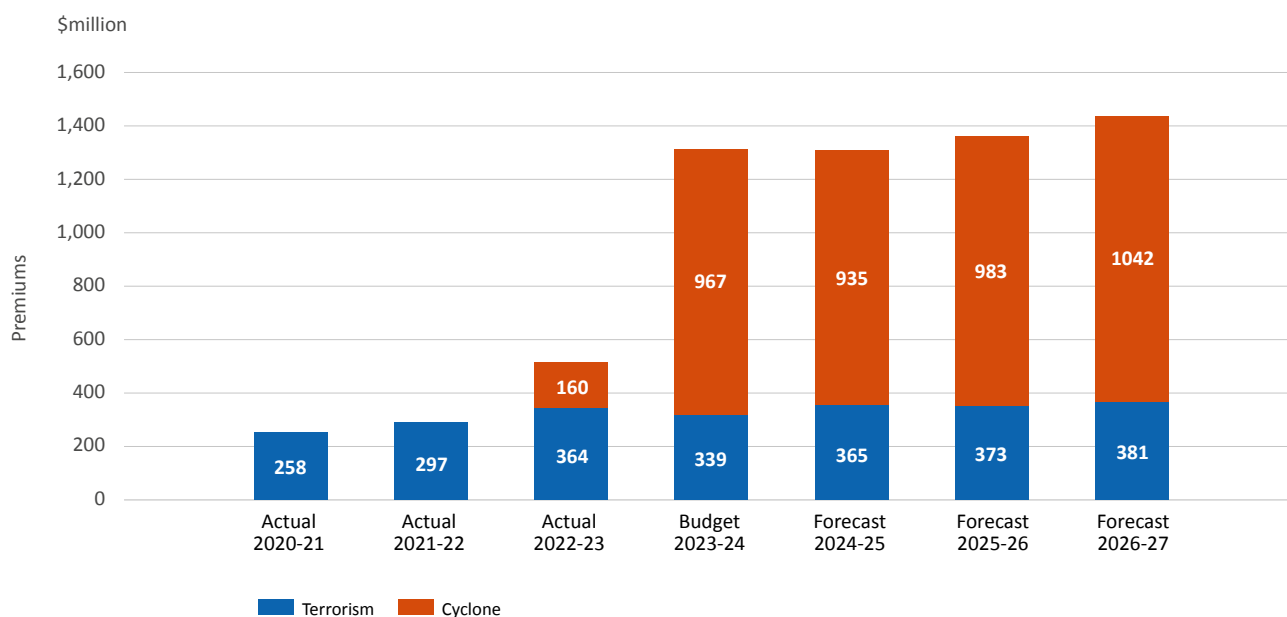
- Our premium income is subject to market movements in commercial insurance premiums as terrorism reinsurance premiums are a percentage of commercial property premiums.
- It is voluntary for insurers to participate in the terrorism pool, but mandatory for insurers to pay terrorism claims in a DTI.

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 continues to engage with insurers assisting with their onboarding. First premiums were received during January 2023.

**Figure 5.2: Gross written premium**





## Measure 2: Financial resilience

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

ARPC's Capital Management Policy sets available asset thresholds for the terrorism pool and cyclone pool. The thresholds are based upon the following considerations.

### Terrorism pool:

- 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.

### Cyclone pool:

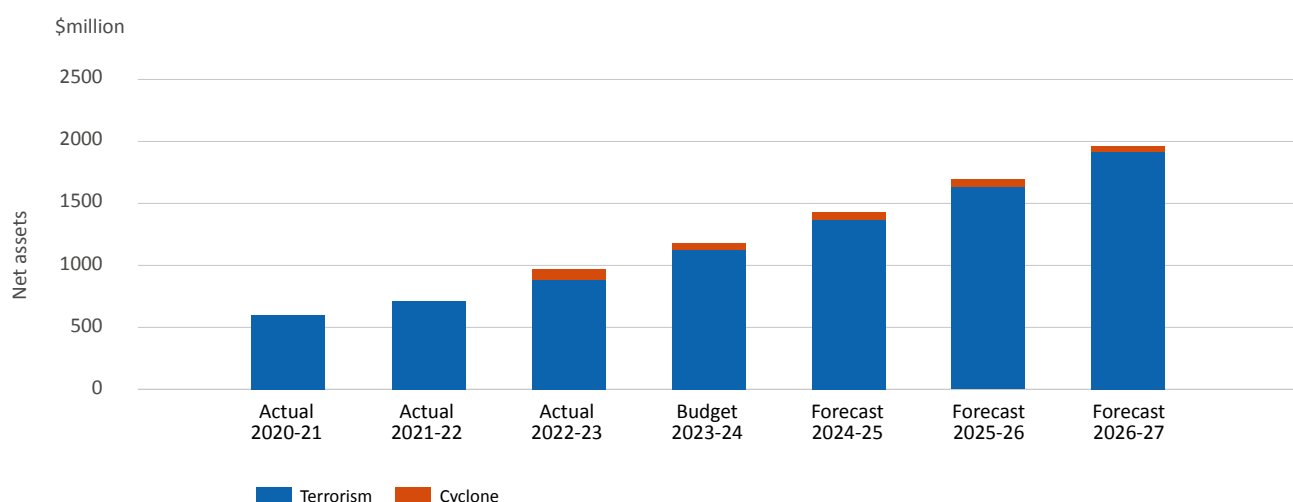
- the financial position of the cyclone pool
- legislative obligations in determining premiums
- modelling of expected cyclone catastrophe events
- claims experience, and
- financial outlook and risks.

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.

**Figure 5.3: Terrorism and cyclone pools – available asset minimums and targets**

	Terrorism		Cyclone	
	Available Assets	\$	Available Assets	%
Available Asset Minimum	ARPC retrocession program retention plus an operational margin	\$250m	To fund modest claim payments for three months and allow time for management actions.	25% of forecast premium
Available Asset Target	Currently two and a half years of retrocession program retention, with allowances for future increases in retrocession premiums	\$700m	Covers a 1 in 20-year level of losses over the next year, equivalent to a 95% probability of sufficiency.	400% of forecast premium

**Figure 5.4: Projected net assets for the terrorism pool and cyclone pool**



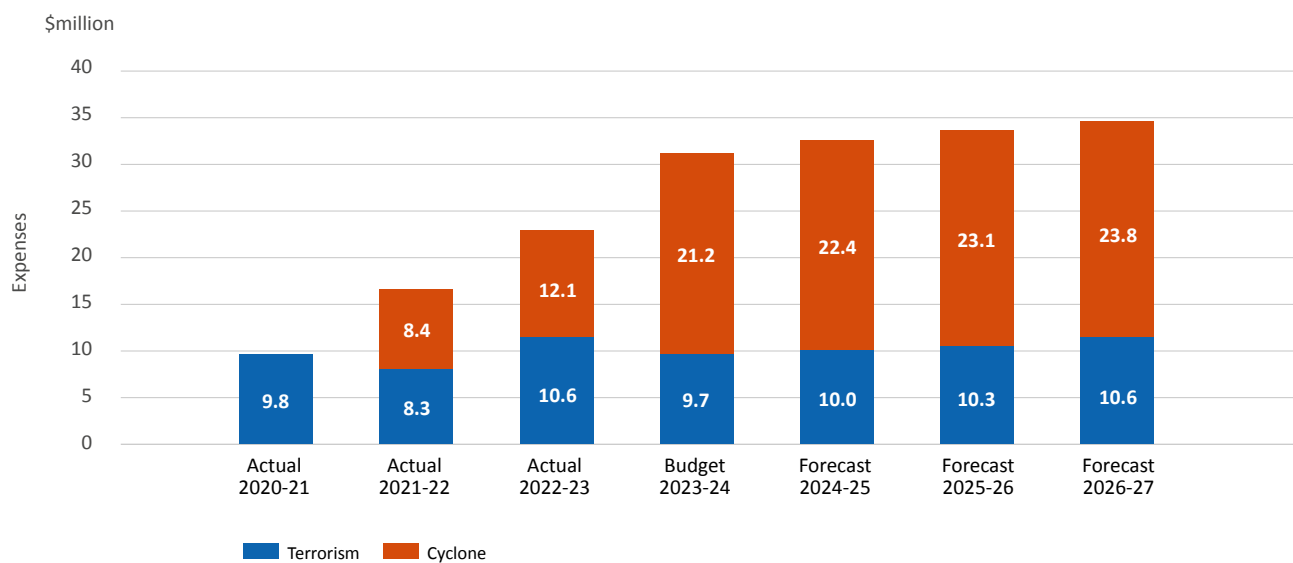


### Measure 3: Operational efficiency

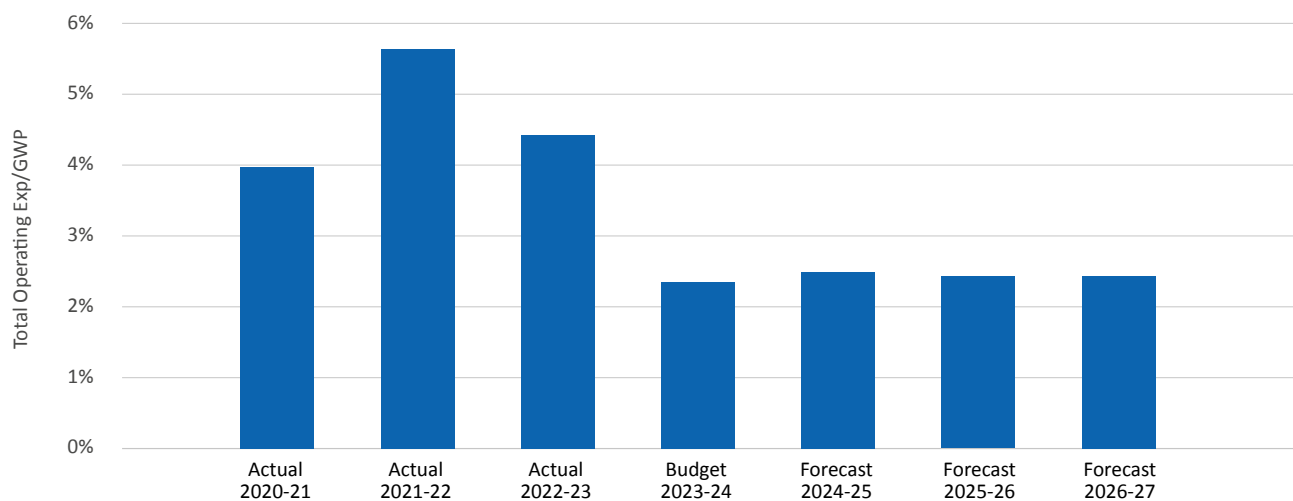
**Target:** Achieve budget in each plan period.

Operating expenses increased during the year as needed 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 5.5: General operating expenses**



**Figure 5.6: Total Expense Ratio\***



\* Operating Expenses divided by Gross Written Premium (income).



#### Measure 4: Technological resilience

**Target:** Continuous improvement in cyber security

The Australian Cyber Security Centre (ACSC) developed the Essential Eight Framework to help organisations protect themselves against various cyber threats. ARPC uses the Essential Eight Framework to assess its Cyber Security Maturity. ARPC has a well-defined program of work to maintain and improve ARPC's position within the Essential Eight maturity framework.



#### Measure 5: 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 2022-23, ARPC's major strategic program was the design and build of the cyclone pool. In 2023 and the medium term, the focus is on building on the capabilities and increasing capacity to operate both reinsurance pools. Supporting this will be the development of unique data sets and insights to support resilience in the communities that we operate.

ARPC project activities span fixed term operational activities and multiyear collaborations. Refer to strategic projects in **Figure 5.7**.

**Figure 5.7:** Performance information on major projects for the 2023-24 period

Project	Performance Criteria	Assessed as	Methodology	Timeline
<b>Geoscience Australia Blast and Plume Catastrophe Model</b>	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, 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
<b>Optimise and rationalise reinsurance systems</b>	Complete the implementation of PACE for Cyclone and then migrate terrorism onto PACE.	Migration of terrorism insurer customers to PACE	Leverage learnings from the cyclone implementation to migrate terrorism customers to the PACE system and seek opportunities for improvement	Decommissioning of the RISE platform by June 2024
<b>University Research collaborations</b>	Expand thought leadership in terrorism and cyclone insurance risk.	A university collaboration program to benefit the community, stakeholders and identify strategic forward-looking issues.	Collaboration with the University of Queensland. Identification of candidate universities ongoing.	Ongoing

Project	Performance Criteria	Assessed as	Methodology	Timeline
<b>Social Engagement</b>	Provide sponsorship to ReachOut (RO) to undertake research into identifying high risk youth, and to develop programs and services to connect disengaged youth	ReachOut has identified a potential 'at risk group' through their market segmentation work. This group may be the most at risk of following a pathway leading to radicalisation. ReachOut will test this hypothesis and conduct deeper research into this particular group to identify their needs. Increased employee engagement of ARPC employees to ARPC's purpose.	Market research conducted by ReachOut. Seek opportunities for ARPC employees to contribute to ReachOut	Ongoing until 2024
<b>Reconciliation Action Plan (RAP)</b>	Develop Reflect RAP	RAP is approved by Reconciliation Australia and published on ARPC's website.	Form a RAP working group and follow Reconciliation Australia guidance for developing a Reflect Rap. Collaborate with indigenous employees and communities groups to develop a Reflect Rap.	By July 2024
<b>Premises strategy and implementation</b>	Premises strategy and implementation to support larger ARPC organisational needs	Capital cost and operating costs are minimised by re-using as much current premises infrastructure as possible	Conduct value for money procurement of office premises.	Requirements, approach, and space identified for expanded premises.
<b>Development of government proprietary cyclone catastrophe model by Geoscience Australia</b>	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 2024



#### Measure 6: Insurer customer satisfaction

**Target:** To publish our 2023 Insurer Customer Survey results. Develop interim targets for cyclone pool and in year three set actual measures and targets.

ARPC commits to running an independent annual survey of its insurer customers to inform future engagement and to publish the outcome of the 2023 Insurer Customer Survey.

The survey is part of an annual process that seeks to understand how customers perceive ARPC and to measure the effectiveness of its stakeholder engagement activities and communications.

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 extent ARPC supports national resilience.

In 2022, ARPC introduced a new metric, the Terrorism Stakeholder Perception Index (T-SPI). The index is derived from three questions in the survey to represent a single customer measurement score. The 2022 result was 75 against a benchmark of 70.

**Questions underlying the T-SPI are:**

- To what extent do you feel that ARPC is an effective provider of terrorism risk insurance?
- To what extent do you believe ARPC supports your organisation's financial strength?
- To what extent do you feel that ARPC is a valued partner to your organisation?

The 2022 survey also incorporated cyclone pool questions for the first time focussed primarily on insurer readiness and the effectiveness of ARPC communication and engagement.

This year (2023), the survey will include an additional focus on the cyclone reinsurance pool and will include short in-person interviews aimed at increasing survey participation.



#### **Measure 7: Statistical Publications**

**Target:** Publish aggregated terrorism and cyclone statistics

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 help inform ARPC's thought leadership agenda and support the provision of 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 internal data analytics infrastructure as well as the implementation of a core reinsurance system.



#### **Measure 8: Publication of research papers**

**Target:** Publish and promote terrorism and cyclone research.

ARPC has several projects targeting thought leadership initiatives that will deliver against this measure, including leveraging ARPC's university partnerships, the development of catastrophe models and hosting of industry forums.



#### **Measure 9: Employee engagement**

**Target:** Results of annual employee engagement survey results consistent with industry practice in both the government and insurance sectors.

ARPC is a small organisation with an efficient organisational structure which has experienced significant growth. Its people make it what it is, enabling ARPC to deliver to its insurer customers and stakeholders.

Employee engagement refers to how satisfied, committed and engaged an employee is to their organisation, their role, their manager, and their co-workers.

The focus for the following 12 months will be on supporting employees to settle into their roles and the organisation, fostering a sense of belonging, continued learning and development.

The survey results in an overall score out of 100. In 2023 there was an ARPC Employee Engagement Score of 84 per cent, compared to public sector benchmark score of 70 per cent.





#### **Measure 10:** Event response preparedness

**Target:** Conduct one desktop discussion exercise and one full desktop simulation exercise annually for a DTI, DCE and a cyber incident.

ARPC will conduct simulation exercises to prepare for DTI, DCE and a cyber incident. A cyber incident is a potential hack or breach of ARPC systems. This will involve conducting at least two exercises annually for both DTI and DCE (unless there are live events). Exercises may include a desktop discussion exercise, testing specific components such as claims process, or a full simulation exercise.

A desktop discussion exercise involves a basic scenario, walkthrough and discussion of the process as a group (involving the DTI response team and their alternates), focused on preparedness, proficiency, and continuous improvement. Alternates substitute for response team members who may be on leave.

A full simulation exercise involves realistic scenarios and event injects. These injects include bespoke videos, role plays 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. Lessons learned will be captured and actions documented for improvement.







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