



**Re: ARPC Cyclone Reinsurance Agreement - Reinsured Percentage
Clarification of Clause 7(b) of the ARPC Cyclone Reinsurance Agreement**

The purpose of this document is to inform insurance companies of the intended implementation process regarding any adjustments to the Retained Percentage figure stated in the Schedule of the ARPC Cyclone Reinsurance Agreement.

The Minister is empowered to direct ARPC in the performance of its functions and exercise of its powers under section 38(1) of the Terrorism and Cyclone Insurance Act 2003 (the Act). The Act specifically empowers the Minister to direct ARPC as to the extent to which risk is to be retained by reinsureds under contracts of reinsurance that the Corporation enters into as reinsurer under section 38(2)(e) of the Act. This is a power the Minister can exercise at any time.

To facilitate the operation of a direction under s 38(2)(e), the Reinsurance Agreement provides rights to ARPC at clause 7, particularly the last sentence of 7(b), in the following terms:

7. Premium

(a) The Reinsurance Premium payable to the Corporation by the Reinsured for each Quarter with respect to each Pool Insurance Contract to which this Agreement applies will be calculated by the Reinsured in accordance with Clause 2(c) and the methodology specified in Appendix A to this Agreement, which shall be set by the Corporation in compliance with section 8D of the Act.

(b) The Corporation may change the Reinsurance Premium payable for Pool Insurance Contracts from time to time by providing at least 6 months' written notice to the Reinsured of the revised Base Rates, Rate Modifiers, Rating Levels or methods for calculating the Reinsurance Premium, with such changes to take effect on and from the beginning of the next Quarter for policies issued or renewed after those changes take effect, provided that the Corporation shall set the Reinsurance Premium in compliance with section 8D of the Act. The Corporation is not required to give 6 months' notice of a change to Reinsurance Premium arising solely from a change to the Reinsured Proportion.

ARPC recognises the impact of a sudden change in the Retained Percentage and as part of the process to change the Retained Percentage ARPC intends to do the following:

- ARPC will communicate to the market as soon as possible any indication of a potential change to the Retained Percentage figure.
- Endeavour to ensure that the Minister is briefed on the possible impact on the reinsureds and their other reinsurance arrangements when considering issuing a direction.

Please note that the operation of the Act takes primacy over any other contractual arrangements ARPC enters into with insurance companies and ARPC must follow all requirements of the legislation and regulations.