



TERRORISM INSURANCE ACT 2003

**Treasurer to Australian Reinsurance Pool Corporation (Risk Retention)
Direction 2007**

I, Peter Costello, Treasurer, give this written direction to the Australian Reinsurance Pool Corporation under s.38(2)(e) of the *Terrorism Insurance Act 2003* (the Act).

Dated 23 March 2007

PETER COSTELLO
Treasurer

1. **Name of Direction**

This Direction is the Treasurer to Australian Reinsurance Pool Corporation (Risk Retention) Direction 2007.

2. **Commencement**

This Direction commences when it is made.

3. **Definitions**

In this Direction:

APRA means the Australian Prudential Regulation Authority.

Corporation means the Australian Reinsurance Pool Corporation.

Date of Expiry means the date and time at which the *Reinsurance Agreement* expires, according to the terms of the Agreement.

Reinsurance Agreement means a contract of reinsurance between the Corporation and another person (the Reinsured) relating to terrorism risks.

Reinsurance Period means the period from commencement of a *Reinsurance Agreement* between the Corporation and the Reinsured until termination of that *Reinsurance Agreement*, according to the terms of that *Reinsurance Agreement*.

Reinsured's Retention means the risk to be retained by the Reinsured under a *Reinsurance Agreement*.

Retention Period means:

- (a) initially, the period from the commencement date of the *Reinsurance Agreement* between the Corporation and the Reinsured to the next 30 June;
- (b) thereafter, each period of 12 consecutive calendar months during the *Reinsurance Period* commencing on 1 July each year;
- (c) thereafter, each period of 12 consecutive calendar months commencing on the day following the *Date of Expiry*.

For the avoidance of doubt, each such period constitutes a separate *Retention Period* for the purpose of applying the *Reinsured's Retention*.

Note: Some terms in this Direction, for example, *declared terrorist incident*, have the same meaning as in the Act.

4. **Risk to be retained**

(a) A *Reinsured's Retention*, calculated in accordance with clause 4(b), shall apply in respect of all *declared terrorist incidents* which happen during the same *Retention Period*.

(b) The *Reinsured's Retention* shall be fixed for each *Retention Period* and shall be an amount equal to the lesser of:

(i) the Default Figure specified in the table set out below in paragraph (e) (the Retention Table); or

(ii) either of the following which is appropriate to the circumstances of the Reinsured:

A 4% of the amount calculated as follows:

The Reinsured's Gross Fire and ISR premium LESS the amount of the Fire Service Levy component of that premium which the insured has remitted. (The figures used for this calculation must be the figures disclosed in the Reinsured's returns to APRA for the 12 months ending 30 June prior to each *Retention Period*).

OR

B If the Reinsured does not submit returns to APRA for Fire and ISR premium, or, being a newly formed entity has not submitted a return to APRA for the 12 months ending 30 June prior to the relevant *Retention Period*, the figures used for this calculation will be an appropriate equivalent to that described in clause 4(b)(ii)A as determined by the Corporation in its discretion.

OR

C If the amount calculated in accordance with clauses 4(b)(ii)A or 4(b)(ii)B is less than the *Minimum* specified in the *Retention Table* then the *Reinsured's Retention* shall be an amount equivalent to the *Minimum*.

(c) The *Reinsured's Retention* may be borne by the Reinsured or wholly or partly reinsured elsewhere at the Reinsured's discretion.

(d) If, however, the sum of the *Reinsured's Retention* and the retentions of all the Corporation's other reinsureds together total more than the *Maximum Industry Retention* set out in the *Retention Table* in respect of all *eligible terrorism losses* caused by a single *declared terrorist incident* then the amount of the *Reinsured's Retention* in respect of that *declared terrorist incident* shall be adjusted on the following basis:

A the Corporation will determine the *Reinsured's Retention* as a percentage of the total retention of all of the Corporation's reinsureds that incur claims caused by that *declared terrorist incident* (the *Reinsured's Proportion*);

B the *Reinsured's Retention* shall be an amount equal to the *Reinsured's Proportion* of the *Maximum Industry Retention*.

(e) Retention Table

Retention Period	Minimum	Default Figure	Maximum Industry Retention
Occurring before 30 June 2007	Nil	\$1 million	\$10 million
1 July 2007 to 30 June 2008	\$100,000	\$1 million	\$25 million
1 July 2008 to 30 June 2009	\$100,000	\$5 million	\$50 million
Occurring after 30 June 2009	\$100,000	\$10 million	\$100 million

5. Corporation to ensure consistency

The Corporation must ensure that a contract of reinsurance between the Corporation and another person is consistent with this Direction.