



Australian Government

Australian Reinsurance Pool Corporation

24 July 2007

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The Hon Chris Pearce MP
Parliamentary Secretary to the Treasurer
Parliament House
Canberra ACT 2600

Dear Mr Pearce

Statement of Intent

Thank you for your letter of 3 May 2007 in which you set out the Australian Government's expectations of the Australian Reinsurance Pool Corporation with regard to the role and responsibilities of ARPC, ARPC's relationships with the Government, issues of transparency and accountability and operational issues.

I am pleased to respond to the Government's Statement of Expectations with ARPC's Statement of Intent.

The role and responsibilities of ARPC

ARPC recognises that its role is to administer the scheme established under the *Terrorism Insurance Act 2003* to provide terrorism insurance coverage for commercial property and associated business interruption and public liability cover.

The scheme requires ARPC to offer terrorism reinsurance to insurers which write eligible insurance contracts. The premiums charged for the reinsurance offered by ARPC are set by Ministerial Direction.

In addition to its primary role of providing terrorism reinsurance, ARPC will seek to be in a position to advise the responsible Treasury minister of likely costs to ARPC in the event that a declared terrorist incident is announced under the Act. ARPC has a number of strategies in place to enable it to meet this expectation.

Annual aggregate reports

The standard reinsurance agreement obliges each cedant to provide ARPC with an annual aggregate report. The report summarises the cedant's aggregate exposures to building, contents and business interruption risks at post code level. This information allows ARPC to analyse the distribution of exposure risk across Australia.

Loss estimation models

ARPC has undertaken considerable work towards developing loss estimation models which will enable it to estimate its potential exposure in the event of a declared terrorist incident. ARPC will continue to develop these models and will test the models using various disaster scenarios. ARPC will also foster alliances with industry bodies and other agencies which are undertaking similar work.

ARPC seeks to keep abreast of key international developments. To this end, ARPC monitors insurance journals and other industry publications, meets regularly with insurers and reinsurers which have international experience and presence and maintains contact with representatives of various overseas reinsurance pools.

One particular contact which adds significantly to ARPC's ability to monitor international developments is the CEO's membership of the Advisory Board to the OECD Network on the Financial Management of Large-scale Catastrophes. Membership of the Advisory Board includes the United Kingdom, France, Spain, China and the United States of America and several other developing nations. It also includes representatives of academic institutions and private sector organisations. This gives the CEO insights into current trends in catastrophe management. The CEO also attends Network conferences which attract delegates from most OECD member countries and provide opportunities to consider developments in industry and government responses to large-scale catastrophes.

Relationships of the Board

Relationship with the Minister

ARPC recognises that accurate and timely advice to the responsible Treasury ministers is essential to ensure the Government is best placed to respond promptly to matters that might arise. ARPC will keep the Government fully informed of its activities, and will alert the government in a timely manner to any significant events related to ARPC's core business.

Relationship with the Treasury

ARPC recognises that Treasury is the principal source of advice to Treasury ministers on a wide range of issues, including policy development and the review of results. ARPC will maintain a close working relationship with Treasury, including holding quarterly meetings between the Treasury policy officers responsible for terrorism insurance and ARPC management. ARPC will advise Treasury on the operational implications of government policy initiatives. It will also consult with Treasury in the development of substantive operational policies to facilitate consistency between the objectives of the legislation and its practical implementation.

ARPC will keep the Secretary to the Treasury appropriately informed of significant high-level meetings between ARPC and Government ministers and other key policy figures.

Relationship with clients

ARPC seeks to ensure that all issuers of eligible insurance contracts are aware of their exposure to eligible terrorism losses by virtue of the operation of the Act. The public speaking program conducted by senior management, direct contact with clients and potential clients and the maintenance of appropriate industry contacts, including regular visits to the major insurance centres, is designed to ensure that all insurers covered by the Act, both in Australia and overseas, are aware of its objectives and its implications.

Transparency and accountability

ARPC is a Commonwealth authority as defined in the *Commonwealth Authorities and Companies Act 1997*. Under that Act, ARPC must report to the responsible Minister and, through that reporting process, to the Parliament and, ultimately, to the public.

To assist ARPC to interact with market participants and the community more generally in a transparent and accountable manner, ARPC will continue to maintain open consultation and sound working relationships with its clients.

The Board's performance is evaluated annually. This is usually conducted by means of a self-assessment undertaken by each Board member and looks at the performance of the Board as a whole as well as the performance of the individual member. The results of the self-assessments are forwarded to the Chair for review and discussed by members at the following Board meeting. For the review conducted in 2005-06 ARPC engaged the services of an independent consultant to examine and report on the assessment and will do so again when the members consider this approach to be appropriate.

The Chair will meet with the responsible Treasury minister as least annually. At this meeting the Chair will be in a position to discuss the outcome of the annual performance evaluation of the Board and the performance of specific directors.

Operational issues

ARPC will maintain the highest standard of corporate governance and implement policies and strategies to ensure that ARPC's officers adhere to ARPC's code of conduct at all times. ARPC's mission, objectives, values and code of conduct are published in its business plan each year and are also displayed prominently in its offices. The code of conduct is promulgated by management at staff meetings.

ARPC notes that it is to remain a Commonwealth agency under the *Commonwealth Authorities and Companies Act 1997*. It will continue to comply with its obligations under that Act and the obligations imposed by the Finance Minister's orders made in accordance with that Act.

ARPC will continue to seek opportunities to achieve outcomes in the most cost-effective manner in order to secure improved efficiency in its operations and obtain value for money.

The review of the Act

ARPC notes that the scheme must be reviewed at least once every three years after commencement. ARPC will contribute to the review process by providing information, advice and expertise.

Conclusion

ARPC is pleased to note that the Government considers that ARPC is a high performing and responsive advisory body and it will seek to remain so. ARPC looks forward to working under the new governance arrangements in continuing to administer the terrorism insurance scheme.

Yours sincerely

Signature Supplied

J I Gersh
Chairman