Australian Government
Australian Reinsurance Pool Corporation

The quarterly newsletter from ARPC

UNDER THE COVER

In this issue

Message from the CEO

Welcome to the Spring edition of our newsletter.

We are about to begin the purchase of retrocession cover for the 2016 program and market briefings start this month. You can expect to hear more about our program renewal soon.

Our 2016-2017 Corporate Plan was recently published on our website. This summarises our goals and objectives for the next four years. A copy of the plan can be accessed here.

By October 31, our 2015-16 Annual Report will also be published on our website.

ARPC is recruiting a General Manager, Business Performance and Strategy to join the executive team. Reporting to the CEO, the GMBPS will be responsible for leading the strategic planning cycle and supporting the development, implementation and measurement of ARPC's strategic objectives. The role also focuses on enhancing business performance by supporting cross organisational activities.

Preparations for the 06-07 October *ARPC-OECD Global Terrorism Risk Insurance Conference* at Parliament House in Canberra are continuing. We have gathered an impressive line-up of speakers including insurers/reinsurers, policymakers, senior law enforcement representatives, counter terrorism experts, risk modellers and researchers. Individuals working in the insurance and reinsurance industries are welcome to attend. For more information, including a link to the Conference program and registration details click here.

We hope to see you there!

Dr Christopher Wallace
Chief Executive Officer

Updated Reinsurance Agreement

ARPC has updated the Terrorism Reinsurance Agreement in line with current market practice. While the broad intention of the wording remains unchanged, we have addressed a few administrative issues such as how to treat withholding tax, late reinsurance premium payments and clarification of some ambiguities in the existing wording.

ARPC released a draft of the new Agreement and an Information Guide to all of our reinsureds for comment before 22 August 2016.

After that market consultation stage, the final version of the new Agreement will be issued by ARPC to all reinsureds before 1 October 2016. This gives reinsureds three months' notice of the new Agreement which comes into effect on 1 January 2017.

Retention information deadline

ARPC would like to remind all Reinsureds that, under clause 5 of the Agreement, the Reinsured is to submit required information which is used to set their Retention (or excess) for the current Retention Period. This information, including nil submissions, is now overdue. For APRA registered insurers, this information is due by 30 September each year. Non-APRA registered insurers must provide required information to ARPC by 30 August each year. Failure to meet these deadlines means that the default retention of $10 million will apply.

The Fire and Industrial Special Risks (ISR) GWP reporting is for all fire and ISR, not just ARPC eligible fire and ISR which is already reporting through quarterly premium returns. For APRA registered insurers this figure will agree with that reported to APRA (GRF 310.1) which is also due by 30 September each year.

In accordance with clause 5 (b) (ii) A of the Agreement, insurers who provide returns to APRA will notify ARPC of their Retention for the current Retention Period. If a Reinsured does not report to APRA or is a newly formed entity, they should refer to clause 5(b) (ii) B and provide the necessary information that will enable ARPC to confirm their Retention for the current Retention Period.

If you are experiencing difficulties using ARPC's RISe system, please refer to ARPC's website for the online manual www.arpc.gov.au/reinsuring/rise or contact accounts@arpc.gov.au or call (02) 8223-6777.

Premium submissions due (first quarter)

Premium submissions for the first quarter (1 July–30 September) of the new 2015–2016 financial year are due by 30 October 2015. All premium submissions, including nil submissions, must be lodged.

A new premium return template for the new financial year is now available in RISe and must be used to submit new premium returns. For further instructions, please refer to page 27 of the RISe Cedant User Manual.

If you have any questions please contact accounts@arpc.gov.au or call +61 2 8223 6777.

Review of nil premium returns

Cedants insured with ARPC but who currently do not write any eligible polices (based on the Terrorism Insurance Act 2003) must submit a nil premium return to ARPC to confirm their status. ARPC is considering visiting cedants in Australia who have returned nil premiums to confirm this situation is still valid.

ARPC presents

Michael Pennell, ARPC Chief Underwriter, has delivered several recent presentations at industry events about terrorism insurance/reinsurance and the ARPC Scheme.

These events include the:

- July NIBA Underwriting Expo, a major gathering of brokers and underwriting agencies in Brisbane. Here, he addressed the Young Insurance Professionals network on terrorism insurance, how the ARPC Scheme works and what brokers need to know. This was followed by a question and answer session and an opportunity to discuss the cover provided by ARPC.
- August CAT Risk Management & Modelling Australasia Conference on the topic of Modelling the unpredictable – Insights into terrorism modelling. The presentation included: an overview of terrorism modelling and risk management; challenges in terrorism modelling – has the rise of ISIS changed terrorism risk and how re/insurers are monitoring, managing and pricing terrorism exposure.
- NIBA Convention on 13 September on the topic of the status of ARPC, possible adjustments and what brokers need to know about the Scheme and will include scheme coverage, the terrorism threat level in Australia, how ARPC models terrorism risk, likely changes to the scheme and what brokers need to know.

To request a copy of any of these presentations in powerpoint, please email: enquiries@arpc.gov.au

Q&A

Q: How should I calculate the reinsurance premium due to ARPC?

A: The premium due to ARPC is calculated as a percentage of a cedant's gross base premium. However, if a cedant does not "gross up" the base premium by the relevant percentage, it will be left with a lower amount after remitting the reinsurance premium to ARPC.

The following example illustrates this point using the current Tier A rates:

Not Grossed Up	
Premium	$10,000.00
Plus 16%	$1,600.00
Gross Base Premium	$11,600.00
Less Reinsurance Premium (16% of gross base premium)	$1,856.00
Balance (remaining for cedant)	$9,744.00

Grossed Up	
Premium	$10,000.00
Gross up factor (1 / (1 – 16%))	x 1.190476
Gross Base Premium	$11,904.76
Less Reinsurance Premium (16% of gross base premium)	$1,904.76
Balance (remaining for cedant)	$10,000.00

The formula for "grossing up" the tier rates is:

Without commission =
Gross base premium ($) x 1 / (1 – tier %)

Premium	$10,000.00
Gross Base Premium	$12,318.84
Less Brokerage/Commission (15% of gross base premium)	$1,847.83

With commission =
Gross base premium ($) x (1 – commission %) / (1 – (tier % + commission %))

Section 9 of the Reinsurance Agreement for Terrorism Risks provides that the gross base premium excludes the Fire Service Levy, GST and Stamp Duty.

Postcode update

Please ensure that your company's master postcode tables are updated to include the additions in the table below. Only use ARPC authorised postcodes in all underwriting of eligible classes (e.g. premium rating and aggregate reports).

New postcodes

3358	VIC	C
5611	SA	C

Please note: We have learned from Australia Post that postcode 3008 (Docklands, Victoria) now incorporates postcode 3005 (which is now obsolete). Apparently, some businesses are still using the 3005 postcode.

Contact ARPC

Mailing address
PO Box Q1432
Queen Victoria Building
NSW 1230

Phone: +61 2 8223 6777
Email: enquiries@arpc.gov.au
Website: www.arpc.gov.au