

Budget Estimates - 9 November 2022

Opening Statement by Dr Chris Wallace, Chief Executive, Australian Reinsurance Pool Corporation

Thank you Chair, and members of the Committee for the invitation to appear today.

I would like to start by acknowledging the Ngunnawal people, Traditional Custodians of the land on which we meet today and pay my respects to their Elders past and present.

The Australian Reinsurance Pool Corporation's purpose is to protect Australian Communities with sustainable and effective reinsurance for terrorism and cyclone events.

ARPC is a public financial corporation within the Treasury Portfolio. The Corporation is established by legislation and governed by our Accountable Authority, which is the ARPC Board.

ARPC operates in a commercial context as a service provider in the reinsurance sector, with insurance organisations being ARPC's customers. The Corporation is funded through reinsurance premiums charged to insurers.

ARPC's reinsurance premium is expected to reach \$1.1 billion for both terrorism and cyclone reinsurance pools when fully established.

ARPC was established under the Terrorism Insurance Act on the 1 July 2003 to administer the Terrorism Reinsurance Pool. This was in response to the global withdrawal of terrorism insurance cover by insurers, following the 11 September 2001 attacks in the US. The legislation requires that ARPC provide reinsurance cover for eligible terrorism losses to Australia's commercial property insurers.

There is still no whole of market, sustainable alternative terrorism reinsurance cover available, and the current Australian terrorism threat level remains at *probable*.

ARPC currently provides insurers with an annual funding capacity of \$14.2bn in the event of a loss. This includes ARPC net assets, retrocession reinsurance that ARPC purchases and \$10 billion commonwealth guarantee.

Last year's review of the legislation by Treasury recommended that ARPC continue to provide terrorism re-insurance cover.

ARPC welcomed the passing of legislation in late March this year, which established the cyclone reinsurance pool to be administered by ARPC.

The cyclone pool will cover losses caused by cyclonic winds, cyclone related flooding and storm surge. We estimate it will cover 3.3 million households, 220,000 small businesses, and 140,000 residential strata and small commercial strata properties.

The cyclone pool operates Australia wide, but targets premium reductions on home, commercial and strata insurance for eligible consumers in cyclone-prone areas. These are mainly in northern Australia. It is underpinned by a \$10 billion Commonwealth guarantee, which can be adjusted in the legislation.

ARPC's corporate plan outlines our strategic priorities, which include delivering reinsurance for eligible terrorism and cyclone losses. ARPC commenced substantive preparations for the cyclone pool in November 2021. We established a dedicated project team, focused on implementing the new pool and commenced the processes for systems development, and actuarial determination of premiums.

ARPC is working closely with insurer customers to enable their onboarding to the cyclone pool. We are focused on making our support to insurers as efficient and effective as we can.

We have consulted with insurers and provided them with a reinsurance agreement, insurer onboarding procedures, catastrophe modelling, and data requirements. We have released modelling and provided premium rates, that will support our effort to deliver the best and most affordable outcomes to insurers and consumers.

While it is mandatory for large insurers to transfer all risks to the pool by 31 December 2023, and for small insurers by 31 December 2024, ARPC is ready to receive risk now.

The key matters of interest to various stakeholders have been on what the cyclone pool will look like, how it will work, and what effect it will have on insurance premiums in cyclone prone regions across Australia.

ARPC looks forward to further working with the insurance industry and educating the community to make a success of the new cyclone pool across cyclone-prone regions.

The Corporation is currently going through significant growth, increasing in size and complexity. We are building on our sound foundations to administer both the Terrorism pool and Cyclone pool. This is a very significant change for the insurance industry as well.

I am confident we will deliver our legislative obligations as well as continue to contribute to insurance affordability and in the longer term insurance risk mitigation for Australian communities.

With that, I am pleased to take Committee Member's questions.