LLOYD'S

Market Bulletin

Ref: Y5146

Title	Australian Terrorism Insurance Act – Australian Reinsurance Pool Corporation (ARPC) Audit Findings
Purpose	To advise the market of the ARPC's findings on syndicate reviews and to remind the market of the purpose of the Australian Terrorism Insurance Act
Type	Event
From	Stephen Yates, Senior Manager, International Reporting International Regulatory Affairs
Date	20 December 2017
Deadline	
Related links	The Australian Terrorism User Guide, which can be found on Crystal provides further information on the Australian Terrorism Insurance Act and the ARPC

Background

The Australian Terrorism Insurance Act 2003 (ATIA) renders terrorism exclusion clauses in eligible insurance contracts ineffective in relation to losses or liabilities arising from a declared terrorist incident affecting eligible property located in Australia. ATIA also established the Australian Reinsurance Pool Corporation (ARPC) to offer reinsurance for terrorism risks in Australia. The Australian Terrorism User Guide, which is available on Crystal and Secure Store, provides further information on ATIA and the role of the ARPC.

ARPC Review

The ARPC conducted a review earlier this year on a selection of syndicates that have chosen to reinsure with the ARPC. The review highlighted a number of issues; in particular, the continued and inconsistent reporting of Gross Written Premium and Reinsurance Premium payable to the ARPC where some syndicates were shown not to be 'grossing up' the base premium by the relevant ARPC percentage. Failure to 'gross up' results in a syndicate retaining a lesser premium amount after remitting the reinsurance premium to the ARPC.

Appendix 1 summarises the observations of the review and we would draw your attention to the method to address the grossing-up issue and encourage syndicates to adopt this approach when determining Gross Written Premium and the Reinsurance Premium payable to the ARPC.

Action required

Managing agents should review the information contained at Appendix 1 and ensure that their procedures for producing the ARPC Return and for claims reporting to the ARPC are accurate.

Further information

For further information, please contact:

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APPENDIX 1

Summary observations of ARPC Review

- **Inconsistent reporting of Gross Written Premium (GWP) and Terrorism Insurance Reinsurance Premium (TIRP) -** The ARPC has noted some inconsistencies among syndicates with regards to the figures declared in the Returns.

  The ARPC noted that the grossing up calculation is not being conducted correctly. Whilst they recognise that this may be a business decision, it means that the base premium will not remain intact and will cause a shortfall for the syndicate.

  A syndicate should also ensure that sufficient checks are conducted on the TIRP element of eligible premiums submitted to them by their coverholders.

  To clarify, the premium due to the ARPC is calculated as a percentage of a cedant's gross base premium. If a syndicate does not 'gross up' the base premium by the relevant percentage, then they will retain a lesser amount after remitting the reinsurance premium to the ARPC.

  Without grossing up

Premium	AUD 10,000.00
Plus 16% (Tier A)	AUD 1,600.00
Gross Base Premium	AUD 11,600.00
Less Reinsurance premium charged at 16% of Gross Base Premium (AUD 11,600.00 x 0.16)	AUD 1,856.00
Premium retained by the syndicate	AUD 9,744.00

  With grossing up

Premium	AUD 10,000.00
Plus 16% (Tier A) grossed up[1]	AUD 1,900.00
Gross Base Premium	AUD 11,904.76
Less Reinsurance premium charged at 16% of Gross Base Premium	AUD 1,904.76
Premium retained by the syndicate	AUD 10,000.00

[1] The formula for 'grossing up' the tier rate is: Gross Base Premium per tier (AUD) x 1/(1- tier%)

Note: Where there is a broker commission, an additional gross up factor should be used. Gross up multiple is (1 – commission%)/(1-(tier%+commission%)).

- **Annual Aggregate Return (AAR)** – the ARPC noted that uncertainty still remained as to what information was required to be reported within the street address tab of the AAR. The errors identified during this review were in relation to the following:

    - Reporting of the same risk on numerous occasions due to different sums insured needing to be reported. The ARPC has confirmed that where there are different sums insured for the same risk, those risks should be aggregated to one line before sublimation.

    - A risk at a particular address being recorded against the wrong postcode. The ARPC relies heavily on the AAR for its exposure calculations used in modelling and the purchase of retrocession coverage. It is therefore critical that syndicates ensure that risks are recorded against the correct postcode. Please see further information on postcodes below.

- **Claims reporting** – the APRC have advised that in the event of a declared terrorist incident (DTI) formally announced by the Minister, that they would expect **each and every *cedant*** to lodge an individual claim for their share of the loss and that they would therefore be expected to maintain their own records relevant to the claim.

  The ARPC would therefore expect **each and every *syndicate***

  on a claim to lodge their own individual claim for their share of the loss and accordingly maintain their own records. As a result, a following syndicate is unable to place reliance upon the lead to lodge a claim, on their behalf, with the ARPC.

  Lead syndicates should therefore ensure, when required, that relevant claim information can be found through either the Electronic Claims File and/or the Insurance Market Repository to enable following syndicates to lodge their submission with the ARPC. An example of the Lloyd's claim form enabling the collection of the necessary information to ensure that a syndicate's reporting obligations to the ARPC are met is shown at Appendix 4 within the Terrorism User Guide.

  Lloyd's recognises that many syndicates operate under a Single Claims Party Agreement. However, to-date Lloyd's discussions with the ARPC to adapt their processes to recognise the Single Claims Party Agreement have proven unsuccessful, although Lloyd's continues to liaise with the ARPC to find an appropriate solution.

  Where possible, Lloyd's would look to limit the burden on the following market and in the event of a DTI, further instructions would be issued to the market on the appropriate claim reporting procedures.

- **Postcodes, tiers and states** – the APRC noted that the postcode information held by syndicates is not always up to date. The ARPC recommend that postcode tables are kept up to date and aligned with the ARPC's postcode table. Postcode tables are available directly from the ARPC website by clicking here. The ARPC has advised that they regularly issue postcode updates via its newsletter, 'Under the Cover'. Whilst these updates are subsequently reflected within their website, the newsletters they can be accessed here for information.

- **Farm business** - the ARPC has previously advised that to be considered an eligible policy, farm business has to have a business interruption section in the policy. Farm policies without business interruption are considered ineligible.