

MARKET BULLETIN

REF: Y4322

Title	Australian Terrorism Insurance Act
Purpose	To advise the market of the Australian Reinsurance Pool Corporation's findings on syndicate reviews and to remind the market of the purpose of the Australian Terrorism Insurance Act.
Type	Event
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Date	13 October 2009
Deadline	
Related links	The following Market Bulletins provide further information on the Australian Terrorism Insurance Act and the Australian Reinsurance Pool Corporation: Market Bulletins Y3081 , Y3126 , Y3144 , Y3150 , Y3210 and Y3315

The Australian Terrorism Insurance Act 2003 (ATIA) renders terrorism exclusion clauses in eligible insurance contracts ineffective in relation to loss or liabilities arising from a declared terrorist incident affecting eligible property located in Australia and established the Australian Reinsurance Pool Corporation (ARPC) to offer reinsurance for terrorism risks in Australia. Market Bulletins Y3081, Y3126, Y3144, Y3150, Y3210 and Y3315 provide further information on ATIA and the role of the ARPC. Lloyd's International Regulatory Affairs are also currently working on the production of an Australian Terrorism Manual to assist the market in its understanding of ATIA and will consult with relevant stakeholders before publication to ensure that its content meets expectations.

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 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.

Further information

For further information please contact –

General enquiries

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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 cedants with regards to the figures declared in the Returns from their Australian Binders Bordereaux, for example: failure to include the Terrorism Insurance Charge (TIC¹) in the subject GWP or the declaration of only the TIC with no GWP.

To clarify, the premium due to the ARPC is calculated as a percentage of a cedant's gross base premium. If a cedant 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.

Below is an example to illustrate how the gross written premium of a Tier A risk would be 'grossed up':

Without Grossing-up		With Grossing-up	
Premium	\$10,000.00	Premium	\$10,000.00
Plus 12% ²	1,200.00	Plus 12% grossed up ³	1,363.64
Gross base premium	\$11,200.00	Gross base premium	\$11,363.64
Reinsurance premium @ 12% of gross base premium ⁴	1,344.00	Reinsurance premium @ 12% of gross base premium ⁵	1,363.64
Balance	\$9,856.00	Balance	\$10,000.00

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

$$\text{Gross base premium}^6 \text{ per tier (\$)} \times 1/(1 - \text{tier \%})$$

¹ This is the amount of the gross written premium that the insurer has attributed to the costs of ATIA compliance on eligible insurance contracts

² This is deemed by the ARPC to be the TIC

³ This is deemed by the ARPC to be the TIC

⁴ This is deemed by the ARPC to be the TIRP that they would expect to be ceded to them

⁵ This is deemed by the ARPC to be the TIRP that they would expect to be ceded to them

⁶ Gross base premium excludes the Fire Service Levy, GST and Stamp Duty

- **Adaptability and flexibility of Lloyd's syndicate systems** – the ARPC were encouraged to find some syndicates with postcodes, tiers, states and rates inbuilt into their systems.
- **Unfamiliarity with postcodes, tiers and states** – the ARPC noted that postcode information is not always made available to syndicates by the ceding broker making it difficult to allocate a risk to the relevant tier and state. Whilst the ARPC viewed it as the responsibility of the ceding broker to provide full details of the risk, including post code to the syndicate, it has recommended the use of the following websites to assist in the determination of postcode where not provided: www.whereis.com ; www.maps.google.com.au ; and the 'find a postcode' link on www.auspost.com.au
- **Inadequate Terrorism Exclusion Clauses on foreign based global policies with Australian locations** – it was identified that where the shared line was a small following percentage that the overseas broker introducing the business invariably did not include an Australian Terrorism Exclusion Clause in the slip or policy wording. The lack of a terrorism exclusion clause means that the ATIA will not be triggered and, consequently, the syndicate is bearing the terrorism risk itself.
- **Annual Aggregate Return (AAR)** – the ARPC noted that uncertainty still remained as to what information was required to be reported within the AAR. Most errors identified were in the number of risks and Total Insured Values being recorded where a shared line was involved. The ARPC would refer syndicates to the instructions provided with the AAR template. The ARPC further advised that Maximum Probable Losses should not be added to the Total Insured Value.