

## MARKET BULLETIN

REF: Y4433

<b>Title</b>	Australian Terrorism Insurance Act
<b>Purpose</b>	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.
<b>Type</b>	Event
<b>From</b>	Andrew Gurney, Senior Manager International Licences International Regulatory Affairs Contact details: +44 (0) 20 7327 6677 <a href="mailto:LITA@lloyds.com">LITA@lloyds.com</a>
<b>Date</b>	11 November 2010
<b>Deadline</b>	
<b>Related links</b>	The following Market Bulletins provide further information on the Australian Terrorism Insurance Act and the Australian Reinsurance Pool Corporation:  Market Bulletins <a href="#">Y3081</a> , <a href="#">Y3126</a> , <a href="#">Y3144</a> , <a href="#">Y3150</a> , <a href="#">Y3210</a> and <a href="#">Y3315</a>

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 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 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.

### **Further information**

For further information please contact –

#### *General enquiries*

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Email: [LITA@lloyds.com](mailto:LITA@lloyds.com)

**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 (TIC<sup>1</sup>) 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 base premium of a Tier A risk would be 'grossed up':

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

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

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

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

<sup>2</sup> This is deemed by the ARPC to be the TIC

<sup>3</sup> This is deemed by the ARPC to be the TIC

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

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

<sup>6</sup> Gross base premium excludes the Fire Service Levy, GST and Stamp Duty

- **Adaptability and flexibility of Lloyd's syndicate systems** – the ARPC have previously been encouraged to find some syndicates with postcodes, tiers, states and rates inbuilt into their systems. However, please be advised that the ARPC from time to time update their tier postcode listings and syndicates should refer to the link below at the time of completing their quarterly/annual submissions to ensure that their systems are up-to-date.

[http://www.arpc.treasury.gov.au/content/tier\\_postcodes.asp?NavID=7](http://www.arpc.treasury.gov.au/content/tier_postcodes.asp?NavID=7)

- **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 and on occasion does not reflect the most appropriate post code for the risk. 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 or for validation purposes: [www.whereis.com](http://www.whereis.com) ; [www.maps.google.com.au](http://www.maps.google.com.au) ; and the 'find a postcode' link on [www.auspost.com.au](http://www.auspost.com.au)
- **Annual Aggregate Return (AAR)** – the ARPC noted that uncertainty still remained as to what information was required to be reported within the AAR. The errors identified this year were in relation to the determination of 'Risk Count' and what should be included. Syndicates should refer to the instructions provided with the AAR template, or discuss any questions with the relevant individuals within International Regulatory Affairs. It is also important to note the ARPC is only concerned with buildings not 'contents only' premiums.
- **Reportable Currency for Returns** – the ARPC wish to remind syndicates that the currency to be reported within both quarterly and annual submissions should be Australian dollars. Where the gross written premium or sum insured are shown in currencies other than Australian dollars these should be converted using the relevant quarter-end exchange rates.
- **Omission of Eligible Policies** – the ARPC noted that a number of eligible open market policies were omitted by syndicates from their quarterly/annual submissions. Syndicates should refer to Section 7 of the Australian Terrorism Insurance Act 2003 and the Terrorism Insurance Regulations 2003 (as amended) for verification as to what is deemed an 'eligible insurance contract'. **Please note that State Government entities and residential properties are not viewed as 'eligible insurance contracts'**.

The Act and its Regulations are available on the ARPC website by following the link below:

<http://www.arpc.treasury.gov.au/content/regulations.asp?NavID=4>

Lloyd's Frequently Asked Question list, available on Crystal, also provides responses to more specific class of business questions relating to eligibility.

- **Claims Procedures** – 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.

Please find attached, at Appendix 2, a copy of the current templates for the ARPC's Reinsurance Loss Estimate and Reinsurance Claim Forms. Please note that, as with the quarterly and annual submissions, these forms would need to be completed on an individual syndicate basis and submitted to International Regulatory Affairs for their onward submission to the ARPC. In the event of a DTI, further instructions would be issued to the Market on the appropriate claim reporting procedures.





## ATTACHMENT TO ARPC TERRORISM REINSURANCE LOSS ESTIMATE FORM

### DEFINITIONS

1	Incident code - as issued by ARPC. Available on website : <a href="http://www.arpc.gov.au">www.arpc.gov.au</a>										
2	Class: <table border="0"><tr><td>1. Fire / ISR / BI</td><td rowspan="8">}</td><td rowspan="8">As per premium returns</td></tr><tr><td>2. Contract Works</td></tr><tr><td>3. Mobile Plant</td></tr><tr><td>4. Farm</td></tr><tr><td>5. Burglary</td></tr><tr><td>6. Miscellaneous Accident</td></tr><tr><td>7. Glass</td></tr><tr><td>8. Public Liability</td></tr></table>	1. Fire / ISR / BI	}	As per premium returns	2. Contract Works	3. Mobile Plant	4. Farm	5. Burglary	6. Miscellaneous Accident	7. Glass	8. Public Liability
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8. Public Liability											
3	Loss Site ID - identifies an area of loss if more than one risk location is involved in the same incident, eg. Pitt St. bomb.										
4	Sum Insured / Limit of Liability - whichever is most appropriate for the risk location concerned										
5	Estimated Loss Value - The latest available loss estimate for the claim involved in the incident. To include PD to buildings and contents as well as business interruption.										

### INSTRUCTIONS

A	The claims procedure is outlined on our web site: <a href="http://www.arpc.gov.au/content/claims.asp?NavID=9">http://www.arpc.gov.au/content/claims.asp?NavID=9</a>
B	The format of this standard Loss Estimate Form is not to be altered.
C	All figures are for reinsured's share only
D	Complete on-line and save. (Print a copy for your records)
E	On completion, upload saved copy to RISE: <a href="https://rise.arpc.gov.au/login.aspx?ReturnUrl=%2fDefault.aspx">https://rise.arpc.gov.au/login.aspx?ReturnUrl=%2fDefault.aspx</a>
F	Please use a separate Loss Estimate Form for losses triggered by different DTI's. Separate incident codes will be issued and made available on the ARPC website.





## ATTACHMENT TO ARPC TERRORISM REINSURANCE CLAIM FORM

### DEFINITIONS

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3	Loss Site ID - identifies an area of loss if more than one risk location is involved in the same incident, eg. Pitt St. bomb.									
4	Sum Insured / Limit of Liability - whichever is most appropriate for the risk location concerned									
5	Gross claims paid to insured - the claims paid by you as the insurer, gross of any reduction percentage.									
6	Input Tax Credit or Decreasing Adjustment/Increasing Adjustment - contains all ITC/DA/IA and any other "tax" item.									
7	Recovery from Salvage/Subrogation etc. - Contains recovery from all Salvage, Subrogation, Dual Insurance or any other "non tax" items.									
8	Total Net Paid Claim to end insured - Gross Paid Claim less amounts under Definitions 6 & 7, for this advice, and any reduction percentage if applicable.									
9	Outstanding Claims to end insured - latest available claims outstanding (gross).									

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A	The claims procedure is outlined on our web site: <a href="http://www.arpc.gov.au/content/claims.asp?NavID=9">http://www.arpc.gov.au/content/claims.asp?NavID=9</a>
B	The format of this standard Loss Estimate Form is not to be altered.
C	All figures are for reinsured's share only
D	Complete on-line and save. (Print a copy for your records)
E	On completion, upload saved copy to RISE: <a href="https://rise.arpc.gov.au/login.aspx?ReturnUrl=%2fDefault.aspx">https://rise.arpc.gov.au/login.aspx?ReturnUrl=%2fDefault.aspx</a>
F	Please use a separate Loss Estimate Form for losses triggered by different DTI's. Separate incident codes will be issued and made available on the ARPC website.
G	Weekly updates of claim figures will initially be requested which will then extend to monthly updates as instructed by the ARPC.
H	Claims will be settled in accordance with Clause 13(a) of the Reinsurance Agreement.
I	Please use a separate Claim Form for losses triggered by different DTI's. Separate incident codes will be issued and made available on the ARPC website.