



Reinsurance pool for cyclones and related flood damage

Improving insurance affordability for northern Australia

The Government is implementing a reinsurance pool for cyclones and related flood damage, which will be backed by a \$10 billion Government guarantee and cover household, residential strata and small business property insurance policies.

The Australian Reinsurance Pool Corporation (ARPC) will operate the pool from 1 July 2022. The pool will improve the accessibility and affordability of insurance for households and small businesses in cyclone-prone areas across Australia.

Driving down premiums for cyclones and related flood damage

The pool will cover cyclone and related flood damage. This includes wind, rain, rainwater, rainwater run-off, storm surge, and riverine flood damage caused by a cyclone.

Australia's weather agency, the Bureau of Meteorology (BoM), will observe when a cyclone begins and ends.

The pool will cover claims for cyclone and related flood damage arising during a cyclone event, which lasts from the time a cyclone begins until 48 hours after the cyclone ends.

Benefitting households, strata and small businesses

The pool will cover household, residential strata and small business property policies. This includes:

- residential home and contents, including landlord insurance and farm residential cover;
- commercial property policies with less than \$5 million total sum insured across risks covered by the pool (property, contents, and business interruption); and
- residential strata, including mixed-use strata schemes, where 80 per cent or more of floor space is used mainly for residential purposes.

Coverage for small business marine property insurance policies will be included from 1 July 2023.

See [Attachment A](#) for further detail.

Insurers will be required to participate to maximise premium savings

Participation will be mandatory for general insurers with eligible policies. Insurers can include cyclone-risk policies in the pool from 1 July 2022.

Large insurers will have until 31 December 2023 to have all cyclone-risk policies in the pool. Small insurers will have until 31 December 2024.

Policyholders will continue to have freedom to choose their insurer, and insurers will continue to manage any claims.

Backing from a \$10 billion Government guarantee

The reinsurance pool will be supported by an annually reinstated \$10 billion Government guarantee. Any shortfall in reserves built up over time will be paid for through the Government guarantee.

If the \$10 billion guarantee is likely to be exceeded by a single cyclone event or series of cyclone events within a single year, the Government will increase the guarantee to support the pool to meet all its obligations.

Subject to legislation appropriately including the \$10 billion guarantee and the requirement for the pool to meet all its obligations, the Australian Prudential Regulation Authority (APRA) has indicated it would allow insurers to fully recognise the risk transfer provided by the reinsurance pool.

Changes to APRA's prudential framework would occur after the passage of legislation.

The pool will charge premiums to insurers

The pool will be funded by charging reinsurance premiums to insurers that are consistent with the expected claims and operating expenses for the pool.

The pricing formula will be finalised prior to 1 July 2022 and will use property-level data such as: geography, building characteristics, and mitigation. It will be developed in line with the principles that the pool will:

- be cost-neutral to Government over the longer term;
- lower the reinsurance cost for most policies with medium-to-high exposure to cyclone risk;
- have minimal impact on policy premiums for lower cyclone-risk properties; and
- maintain incentives for risk reduction and offer discounts for properties that undertake mitigation.

Covering the cost of claims

From 1 July 2022 to 30 June 2025, the pool will cover all of the cost of eligible cyclone and related flood damage claims above the policyholder excess to support insurer transition and maximise the potential premium reductions through the pool.

From 1 July 2025, the pool will operate on a risk sharing arrangement with insurers where the pool will continue to cover a significant proportion of eligible cyclone and related flood damage claims.

The ACCC will monitor insurer premiums to ensure savings are passed through to policyholders

From early 2022, the Australian Competition and Consumer Commission (ACCC) will monitor and collect data to ensure that savings are passed through to policyholders and the reinsurance pool is delivering on its intended outcomes.

Supporting mitigation and informing natural disaster planning

Over time, the pool will offer discounts for policies that cover properties that have undertaken cyclone and flood mitigation.

Additionally, the ARPC will collect data through the pool that will help the Government to plan its response to natural disasters.

ATTACHMENT A:

Eligible policies and property types	
Household policies	
<ul style="list-style-type: none"> • Home and contents. • Residential landlord insurance. • Residential property on agricultural land. • On-site caravans and moveable homes (e.g. cabins), if used primarily as places of residence. • Other arrangements where building primarily used as place of residence (e.g. retirement village). • Defence Service Homes Insurance Scheme, which provides direct household insurance to current and former members of the Australian Defence Force. 	
Strata policies	
<ul style="list-style-type: none"> • Strata and community title properties where at least 80 per cent of the total floor space of units in the property are used wholly or mainly for residential purposes. <ul style="list-style-type: none"> – This approach would be neutral between state-based regulatory regimes, instead focusing on the proportion of residential floorspace in a strata property. 	
Small business property policies	
<ul style="list-style-type: none"> • Business property policies (including policies taken out by charities and not-for-profits) with total sums insured (covering building, contents and business interruption) of \$5 million or less. <ul style="list-style-type: none"> – Property used for primarily residential purposes would not count towards the sum insured limit (e.g. social housing provided by community organisations). • Accommodation (such as hotels, motels and boarding houses) and aged care facilities would be eligible subject to the sum insured limit (but could also form part of an eligible strata property). • From 1 July 2023, small business marine property insurance (e.g. for charter boats and marinas). 	