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, strata and small business property insurance policies.

The Australian Reinsurance Pool Corporation (ARPC) will operate the pool from 1 July 2022. The pool will operate Australia wide but target support to cyclone-prone areas, which are mainly in northern 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 commencing 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, strata and small business property policies. This includes:

- residential home and contents, including landlord insurance and farm residential cover;
- commercial property policies, including commercial strata, with less than $5 million sum insured across risks covered by the pool (property, contents, and business interruption); and
- residential strata, including mixed-use strata schemes, where 50 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 and they will be able to include eligible policies in the reinsurance pool from 1 July 2022.

Large insurers will be required to sign up by 31 December 2023. Small insurers will have to sign up by 31 December 2024.

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

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:

- direct savings to those policies with medium-to-high exposure to cyclone risk, while maintaining incentives to reduce and mitigate risk; and

- be cost-neutral to Government over the longer term.

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

Following a direction from the Government, the Australian Competition and Consumer Commission (ACCC) has begun work to 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
• Home and contents.   • Residential landlord insurance.   • Residential property on agricultural land.   • On-site caravans and moveable homes (such as cabins), if used primarily as places of residence.   • Other arrangements where building primarily used as place of residence (such as retirement village).   • Defence Service Homes Insurance Scheme, which provides direct household insurance to current and former members of the Australian Defence Force.
Strata policies
• Residential and mixed-use strata and community title properties where at least 50 per cent of the total floor space of units in the property are used wholly or mainly for residential purposes.   − Approach is neutral between state-based regulatory regimes, instead focusing on the proportion of residential floorspace in a strata property.   • Commercial strata and community title properties where the total sum insured is $5 million or less.
Small business property policies
• 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.   − Property used for primarily residential purposes would not count towards the sum insured limit (such as social housing provided by community organisations).   • Accommodation (such as hotels, motels and boarding houses) and aged care facilities are 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 (such as for charter boats and marinas).