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Manager
Cyclone Reinsurance Pool Taskforce – Treasury
Langton Crescent
Parkes ACT 2600
Via email: reinsurancepool@treasury.gov.au

TOWNSVILLE ENTERPRISE SUBMISSION:

Reinsurance Pool for Cyclones and Related Flood Damage

Townsville Enterprise Limited (TEL) welcomes the opportunity to provide a submission to the Treasury-led Cyclone Reinsurance Pool Taskforce into the consultation process of the Federal Government's intention to establish a \$10 billion reinsurance pool for cyclones and related flood damage.

Townsville Enterprise is the principal economic peak body and regional tourism organisation (RTO) representing Townsville North Queensland, which includes the five Local Government Areas of Townsville, Charters Towers, Hinchinbrook, the Burdekin and Palm Island. Townsville Enterprise is the primary engine for economic development, charged with leveraging the region's assets and strengths to drive jobs, growth, infrastructure investment and quality of life.

On 4 May 2021, Townsville Enterprise welcomed the Federal Government's intention to establish a reinsurance pool covering the risk of property damage caused by cyclones and cyclone-related flood damage. The pool would seek to improve the accessibility and affordability of insurance for households and small businesses in cyclone-prone areas, which are located in northern Australia.

Introduction

Higher insurance premiums in North Queensland and Northern Australia is increasing the financial risk exposure of the most vulnerable members of our communities; those on welfare, the elderly and business. Middle income households are expected to pay up to 10% of their take-home earnings to insure homes and motor vehicles. It is important to acknowledge that we have reached the point of 'Market Failure' whereby there is no sufficient and/or affordable insurance in Northern Australia. Access to insurance is essential to building resilient communities.

The high cost of insurance and the ability to access insurance is seen as prohibitive for those looking to invest and live in the North Queensland region. Without insurance, investors are unable to access credit through financial institutions. This stifles the ability of the region to grow and prosper.

In this submission, Townsville Enterprise will address some key considerations in the design and operation of the Reinsurance Pool, with a key focus on ensuring the scheme will apply downward pressure on insurances prices in Northern Australia.

Reinsurance Pool Coverage

- The insurance industry has a pre-existing flood definition which should be incorporated within any new or additional definitions which are created for the purpose of defining cyclone-related flood damage.
- The reinsurance pool should cover all property and where possible eliminate any areas for interpretation.
- Small Business should not be defined for the purposes of eligibility - the scheme should cover all located within the areas designated for eligibility to the reinsurance pool. If the scheme is limited to "small business" this will add a layer of complexity to renewal process. It would also mean small businesses would be impacted where larger businesses own the property and are ineligible to obtain the benefit of the reinsurance pool. This would lead to the property owner passing on the higher insurance costs to the small business. Rather than defining "small business", we would see it more beneficial that the pool incorporates a definition of 'property' allowing broader scope and eligibility to all individuals and business which are currently being impacted by the market failure of insurance in Northern Australia.

Reinsurance Product Design and Insurer Participation

- It is essential for the panel makeup to include North Queensland representation from industry and business and local insurance representatives.
- A levy to every 'property insurance' policy holder in Australia should be added to help fund the scheme on an ongoing basis and cover the costs of operation (similar mechanism to the Terrorism Reinsurance Pool).

Reinsurance Pool Governance and Monitoring

- Similar set up to the Terrorism Reinsurance Pool.
- The Australian Reinsurance Pool Corporation has specialised property reinsurance skills and systems capability to extend to other reinsured perils for catastrophe.

Links to Risk Reduction

- Mitigation from a local government planning point of view is important.
- Major Government funded infrastructure works that decrease the risk of flooding we are supportive of.
- Placing too much emphasis on the policy holder undertaking risk mitigation should not be a focus at the moment. It is difficult to see board reductions to insurance premiums where individual risk mitigation has been undertaken. There is currently little recognition within the insurance industry, in the form of premium reductions for those insured who have diligently undertaken their own risk mitigation.

Public Liability Insurance

Although not directly under the remit of this Taskforce, we take this opportunity to draw attention to escalating issue of public liability insurance, which is most significantly challenging the tourism industry. In addition to the increasing cost of property insurance, tourism operators are finding that public liability renewal notices have seen significant premium increases or in some cases cover was outright refused.

We have already seen tourism businesses in North Queensland, particularly in the adventure sector, close their doors because they are unable to obtain or afford public liability insurance. The Australian Small Business and Family Enterprise Ombudsman Insurance Inquiry Report clearly identifies that the

risk environment for public liability litigation can only change through government intervention. The proposed recommendations are supported by Townsville Enterprise to assist in reducing the cost and challenges of the industry:

- Following the approach taken in New Zealand, liability for personal injury should be subject to statutory caps.
- The Federal Government, in coordination with the States and Territories, should urgently progress work on a National Insurance Injury Scheme in line with the recommendations of the 2011 Productivity Commission Inquiry Report into Disability Care and Support.
- Where there is only one or no insurers left in a professional indemnity market, the Federal Government should provide an insurance scheme of last resort for small business.

Townsville Enterprise welcomes the opportunity to make this submission to highlight the urgency of applying downward pressure on insurances prices in Northern Australia and assist to inform the Taskforce's understanding of the importance of this Reinsurance Pool to support communities across the North.

Yours sincerely,



Claudia Brumme-Smith
Chief Executive Officer
Townsville Enterprise Limited