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The logo for Townsville Enterprise, featuring a stylized sunburst icon above the text "townsville enterprise" in a white sans-serif font on a blue square background.

ABN 58 053 020 536

17th October 2021

Exposure Draft Legislation: Cyclone and Related Flood Damage
Reinsurance Pool Consultation Paper
The Treasury
Langton Cres
Parkes ACT 2600

Submitted via email: reinsurancepool@treasury.gov.au

Dear Sir/Madam

For over 30 years Townsville Enterprise has played a critical role in supporting the progress of the Townsville North Queensland region. As the peak economic development and destination management organisation, Townsville Enterprise has attracted major investment and grown the visitor economy, contributing towards the rise of local job and the economic growth of the region.

Townsville Enterprise represents that Local Government areas of Townsville, Magnetic Island, Palm Island, the Burdekin Shire and Charters Tower. As a membership-based organisation, one of the highest priorities for Townsville Enterprise is supporting, promoting, and advocating for our members. The cost of insurance for Townsville, and the North Queensland region has been a critical issue for both residents and businesses. In our 2021 Membership Survey, 29.68% of respondents selected that insurance affordability or access will be one of the greatest challenges for their industry over the next five years. The table below illustrates how dire the situation is for North Queenslanders and has resulted in high levels of underinsurance and non-insurance in the region. To ensure the economic prosperity of our region, it's imperative that Townsville Enterprise advocates strongly for a reduction in insurance for both businesses and residents alike.

Townsville Enterprise has reviewed the amendments made to the cyclone and cyclone related flood reinsurance draft legislation and has found that the legislation provides adequate coverage to

residential homeowners and residents in strata and community title properties. It appears that homeowners will have the most to gain from the reinsurance pool and should experience some reduction in their insurance. However, Townsville Enterprise has identified several shortcomings in the current legislation that will exclude large sects of the population. There are also concerns that the reinsurance pool will be unable to deliver the savings required for insurance in North Queensland to be affordable and competitive with the rest of Australia.

Table 1 Home & Contents Insurance Cost

State	Average cost Home only	Average cost Per Day	Average cost Home and contents	Average cost Per Day
NSW	\$1,401	\$3.84	\$1,689	\$4.63
VIC	\$1,177	\$3.22	\$1,433	\$3.93
QLD	\$1,670	\$4.58	\$1,916	\$5.25
North QLD*	\$4,296	\$11.77	\$4,813	\$13.19
SA	\$990	\$2.71	\$1,219	\$3.34
WA	\$1,182	\$3.24	\$1,442	\$3.95
TAS	\$1,095	\$3.00	\$1,306	\$3.58
NT	\$4,930	\$13.51	\$5,229	\$14.33

Source: <https://www.canstar.com.au/home-insurance/home-contents-insurance-cost/>

Key concerns

Funding Structure

It is understood that the Cyclone Reinsurance Pool draft legislation is being integrated into the Terrorism Insurance Act 2003. Originally, the terrorism reinsurance pool was paid for by an Australia-wide levy on all existing insurance. A primary advantage of reinsurance pools is the ability to “spread the risk” across the pool, with the Federal Government charging a levy to all insurers regardless of the risk profile associated with the policyholder. In the case of the Terrorism Reinsurance Act, this levy was distributed

to insurers across Australia, however the amendments made to this law for the cyclone reinsurance pool has limited this levy to insurers located in Northern Australia. This places an unfair burden on insurers and subsequently policy holders, considering that the warming oceans and rising sea levels will result in more frequent and intense weather events, which would undermine the scheme's core objective of reducing insurance for Northern Australia.

Eligibility Criteria

Sum insured threshold for non-residential policies.

The maximum sum insured threshold for commercial property policies has been capped at \$5 million in total across risks covered by the pool. This negates many small businesses from eligibility due to property, contents and business interruption being included in this threshold of sum insured. As a result, the maximum sum limit will exclude many small to medium sized businesses that are also property owners from experiencing any reduction in their insurance. Furthermore, this could also affect private tenants of commercial buildings under a body corporate. If the landlord has more than \$5 million in combined sums insured, then they will not be eligible for the scheme and therefore may pass on their insurance costs to their tenants in the rental charge.

Recommendation: To combat this the eligibility threshold for business and commercial property could be assessed by annual turnover of business rather than a fixed sum or increase the fixed sum to cover a higher total sum insured.

Strata buildings.

To be eligible for this pool, strata and community buildings must show that at least 80% of floor space is used wholly or mainly for residential purposes. From the residential perspective the 20% commercial use limit would unfairly penalise consumers who live in mixed-use strata buildings (which is over the 20% commercial entity threshold). This distinction will also adversely affect many business owners who may live above their commercial premises, with a 50% residential and a 50% commercial split. The scheme also does not provide any solution for strata properties where commercial use is greater than

20%. This would mean that small businesses operating in a commercial complex under a body corporate or strata complex would be ineligible for access to the scheme and would continue paying extremely high insurance premiums.

Recommendation: For strata and community title properties over the 20% commercial threshold to be assessed on a case-by-case basis based on the annual turnover sum of the individual businesses to ensure that small-medium sized businesses are not unfairly excluded from the pool.

Hotels, motels, and holiday letting accommodation.

The eligibility limitation placed on strata properties and the \$5 million maximum sum insured threshold for commercial buildings is the most concerning aspect of the draft legislation for Townsville Enterprise. There is great concern from our members that this eligibility criteria could be detrimental to holiday accommodation buildings across the North. This scheme does not provide any solution for smaller motels or hotels run by local, small businesses, despite the serious challenge that insurance affordability poses to this industry. The North's tourism industry is still recovering from the impacts of COVID-19 and this draft legislation has the potential to provide much needed relief to struggling business owners.

Recommendation: To combat this the eligibility threshold for business and commercial property could be assessed by annual turnover of business rather than a fixed sum or increase the fixed sum to cover a higher total sum insured.

Mitigation

Pre-disaster mitigation is the most effective way to reduce risks and protect properties against damage sustained during an extreme weather event. Whilst the proposed draft legislation does provide incentives for consumers to install mitigation measures on their property, very little detail is given into what these incentives could be. The scheme does not elaborate on what type of mitigation measures will be accepted, as well as how the consumer will benefit in terms of what discount will be applied. For this reason, it is difficult to assess whether this aspect of the policy will be effective in incentivising

consumers to adopt mitigation measures. In most cases this would be cost prohibitive, and the discounts would not be enough to incentivise the owners to implement the mitigation measures.

Recommendation: Mitigation measures could be made a requirement for any new building codes and guidelines such as the changes that were made to the Australia Standards requirement for wind-rated garage doors in 2012 (AS 2505:2012). This would ensure that building measures would be more efficient and standardised for all new build or renovations. Residential properties which are older and do not have mitigation measures would not benefit from the discounts unless they implemented the changes.

Premium Reduction

Legal Aid Queensland has found that a key disadvantage of reinsurance pools is the risk that insurance will still not be affordable for a significant number of residents in North Queensland (Queensland, 2019). Concerns have been raised by the Northern Australia Insurance Lobby (NAIL) about what the savings would be for the policyholders (Shandiman, 2020). If the policy is only saving consumers less than 20%, than this will have very little impact if the policy is already significantly higher than the rest of Australia (see Table.1)

Concerns have also been raised about the implication that mandatory participation for insurers in the reinsurance pool could have on the region. It could have a detrimental effect on insurers who already offer competitive pricing for their policies, due to a pre-existing agreement that they have in place to purchase reinsurance. Alternatively, in some cases, some insurers may not have to purchase reinsurance, as their company's policy dictates that the company itself will absorb the risk. Examples of such arrangements prove that the reinsurance pool scheme could have the opposite effect on insurance affordability, as the reinsurance pool could increase premiums for customers of these insurers due to not already having to pay reinsurers or the premiums set by the ARPC being higher than their current reinsurance provider.

Reduction of premiums could occur with more insurers in the marketplace. Currently Australia has five main insurers with only three providing insurance in North Queensland. It needs to be considered if the

Legislation and Regulation of the Cyclone Reinsurance is broad enough to attract more insurers to the region. While the scheme does ensure that the pricing of premiums will be monitored by the ACCC, issues could arise from insurers increasing other aspects of a consumer's policy, thereby negating the benefits of reduced insurance premiums to the customer.

Recommendation: More flexibility needs to be included for insurers that have lower reinsurance costs for policies than what will be offered through the pool. It is also recommended to further expand on incentives for insurers to accept more customers in North Queensland, to enable more competition in the industry and further drive down prices for policyholders.

Scheme Limitations

Another consideration would be the limitations of this draft legislation. This legislation specifically covers cyclones and flood damage incurred during a cyclone event. This would not cover ongoing damage sustained by the cyclone once it has weakened to a low-pressure system. This would be something insurers would need to consider as the effects of a cyclone can continue past the 48-hour window provided by in the legislation as it did in the case of Cyclone Debbie in 2017.

Other major weather events in the tropics such as slow-moving low-pressure systems and extreme rainfall events would not be covered by the pool. The extreme flooding that Townsville experienced in January of 2019 was not due to a cyclone event, but rather extended periods of heavy rainfall. Based on the current definition provided in the legislation, if Townsville were to experience flooding due to extreme rainfall, then any damage sustained to properties during this event would not be covered by the reinsurance pool.

Recommendation: Expand on the current definition of tropical cyclone to include other related weather events such as low-pressure systems and extreme rainfall events.

Other Issues and Exclusions

Whilst the scheme does cover residential property on a farm or agricultural site it makes no provision at all for the assets of that farm even though the business assets would likely fall under the \$5 million threshold. This is inconsistent with other commercial provisions under the scheme.

Marine business will not be included in the scheme, which could also have serious implications for the tourism industry in North Queensland. Whilst the government has announced that the cover will be extended to cover certain marine insurances from July 2023, this delay could result in marine business relocating further south, where the insurance is more affordable.

Recommendation: Farms and agricultural sites should be made eligible under the small business property policies within the new legislation.

Concluding Statements:

The current draft legislation for the cyclone and flood related reinsurance pool does well to cover insurance for consumers using their home for residential purposes (other than mixed-use strata). Unfortunately, the limitations of the scheme's eligibility criteria does mean that residents and small-medium business will be unable to benefit from the scheme. As the reinsurance pool has been designed to be cost neutral to the government over time, the eligibility criteria for the reinsurance pool should cover as many consumers as possible, this includes:

-Mixed Use Strata where commercial use is greater than 20%

-Commercial buildings with a sum insured more than \$5 million

Additionally, Townsville Enterprise encourages the Federal Government to assess the actual savings that can be gained from this scheme, and if it will encourage more insurers to expand their business into North Queensland. More clarity is needed around the benefits that the scheme can provide for businesses and residents that adopt mitigation measures, and finally Townsville Enterprise recommends that the definition of a cyclone event is expanded to include damage sustained from low-pressure systems and extreme rainfall events.

Yours Sincerely,

Tracey Holmes

Director Corporate Services
Townsville Enterprise Limited

References

Commission, A. C. (2019). *Northern Australia Insurance Inquiry*.

Queensland, L. A. (2019). *Australian Competition & Consumer Commission Northern Australia Insurance Inquiry- Second Update Report*.

Shandiman, T. (2020, December). *Reinsurance Pool Draft Legislation*. Retrieved from Northern Australia Insurance Lobby: <https://www.nail.org.au/news>