

17 December 2021

Cyclone Reinsurance Pool Taskforce
Treasury
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Email reinsurancepool@treasury.gov.au

Stakeholder Views - Submission to - Exposure Draft Legislation - reinsurance pool for cyclones and related flood damage.

Dear Cyclone Reinsurance Pool Taskforce

Thank you for your email stakeholder participation invitation. Please find our views for your responses request.

Inspected Documents

1. Exposure Draft Legislation Schedule-C – 18 pages
2. Exposure Draft Explanatory Materials (EDEM) - 22 pages
3. Exposure Draft Regulations – 8 pages
4. Exposure Draft Explanatory Materials (EDEM) – 6 pages
5. Factsheet pdf – 3 pages

In our reading of the 57 above pages of the emailed ARPC Reinsurance pool for cyclones and related flood damage (**ARPC-C**) materials. Our views extracted from the read are as follows :-

1. No provision that addresses ARPC-C consumer protections for the strata Insured.
2. We do not see any warranty that the ARPC-C pricing will reduce cyclone premiums for strata consumers.
3. We do not see any ARPC-C audit functions to ensure that the new legislation is working and delivering results.
4. We find no provisions for visible ARPC-C project success delivery metrics. ie what is the baseline cyclone 2021 premiums that the ARPC-C will measure this cyclone affordability reinsurance project success against. (Federal Treasury reported the Australian Cyclone premiums for 2015 were valued at \$697 million.)
5. Which regulator is to report the ARPC-C premium pricing and claims loss consequences for this project and will such be in a visible format for public scrutiny?
6. Will ARPC be hosting a public access web site “control” listing of all general insurers large and small who will be ARPC mandatory qualified at the \$10 million gross written premiums threshold reinsurance participation for public visibility?
7. The assumption that policyholders will continue to have freedom to choose their insurer, and insurers will continue to manage any claims. This assumption does not allow provision for the scenario where an event when there are no such supply choices available.

8. **Reporting:** ARPC-C-Exposure Draft Explanatory Materials item-1.8 (**EDEM-1.8**) does not detail the actual ARPC-C reporting format. Yearly may be too long for monthly insurance premium and claims metrics. Quarterly is the current ARPC-T practise.
- a. To note - The current ARPC-Terrorism (ARPC-T) reinsurance disclosures to strata consumers is optional per the ARPC web site FAQs extract below. This ARPC-T format reporting is very poor as no visibility for end consumers who are lump sum invoiced by insurers without any ARPC-T transparency on price and process.

Should insurers show their terrorism insurance premium as a separate item on policy documents?

Insurers have the option to show terrorism premium as a separate item because the amount paid by the policyholder to the insurer is decided by the insurer, not ARPC. However, the amount paid by the insurer to ARPC is to be calculated by multiplying the appropriate tier rate to the gross base premium processed by the insurer each quarter.

- b. The ARPC-T strata insured have opaque imbedded terrorism lump sum amounts in the premium tax invoices. There is no premium precise disclosure of the ARPC-T reinsurance computations, taxes, duties, commissions and fees and markups applied by the insurers. ARPC-T accountability does not exist nor does a ARPC-T Product Disclosure Statement (PBS) exist outlining the insured liability cover. It is the insured who fund the ARPC-T operation and yet have no ARPC-T clarity on the funds flow accountability
9. ARPC-C reporting must not deliver in this ARPC-T reporting format. The ARPC-C must obtain from insurers and web publish clear Gross written Premiums and Claims quantity and value statistics separated according to the proposed ten ARPC-C Factsheet-Attachment-A general insurance eligible property types.
10. No provision exists to prevent APRA from aggregating all the proposed ten ARPC-C Factsheet-Attachment-A general insurance eligible property types of insurance statistics into one big homogeneous illegible metric.
11. We believe the insurance companies cannot complain on the ARPC-C having prescribed ten property type detailed reporting categories by gross written premiums, and gross claims losses, both by value and quantity. Such data enables the project mitigation metric to be very visible by web listing reduced claims value per claims at post code level. We understand all insurers have supercomputer capability which can drill down to street address risk, premium and claims detail as advocated by the ICA.
12. The ARPC-C must ensure provision that the entire cyclone insured community participants including regulators all have access to monitor the ten property classifications for concise and precise insurance data to be able to determine the economic success or waste of various eligible ten insured property types specified by the ARPC-C scheme.
13. ARPC-C APRA reporting detail is not defined. Historically APRA has made a mess of combining compulsory insured strata homes with optionally insured free standing house home insurance premium and claims details. This oversight distorts the viability perspective of determining what building type is best resilient suited for the NA and NQ

natural disasters climate with best economic outcomes of minimal risk damages and recovery response time.

14. Cost of ARPC-C claims losses and number of claims (quantity) must be recorded by APRA as this is not done currently. The strata compulsory insured statistics must be separated from optional House home insurance reporting statistics. The current APRA aggregation continues to distort the market performance analysis for home and strata insurance.
15. **Mitigation** EDEM-1.58: ARPC pool will offer discounts for policies that cover properties that have undertaken cyclone and flood mitigation. The ARPC have not specified who is responsible to make the Mitigation directives at street address level. We believe the only qualified mitigation expert is the Insurance companies. Only they can guide all mitigation investments to ensure premium affordability reduction outcomes are achieved. Un approved mitigation spending is a waste of money if it is not sanctioned by the insurer’s mitigation master plan for cyclones.
16. The ARPC-C has not designed for Mitigation responsibilities and controls in the draft legislations.
17. EDEM – 9 New functions for ARPC Regulation 6 prescribes additional ARPC functions. That “the **National Insurance Affordability** functions are no longer in operation”. This redundancy was never detailed, can it be detailed now for public scrutiny and its replacement control?
18. EDEM-1.4 Slow economic recovery- is blamed on the existence of home under or uninsured. This may not be correct as decade long price gouging also causes poor economic recovery when there are no natural disaster events. ARPC-C designers have not designed for the fact that all Strata Buildings are 100% fully insured and compulsory insured and cannot cease or become under or non-insured without facing state government insurance breach notices. This mandatory insurance of strata buildings means it is the strata’s alone that are the economic powerhouses for recovery after any natural disasters. All damaged strata communities have to fix and re insure their buildings by state law. Optional house home insurance do not have this imposition as House home insurance is optional and contributes to low economic recovery if insurance is not affordable. Yet the ARPC-C must monitor the economic support role the compulsory strata insured deliver and consider providing the strata insured preferential premium and mitigation benefits to continue their lead role in economic recoveries.

Table-14.C: Northern Australia Strata Cyclone Claims History			
Ref-1 A14.6 ACCC Fig-5.14 & 5.15 and 16.18 Ref-2= NAIPT 2015 Inquiry Finity Table-3.3	1995-2015	2008 -2018	1995-2018
	million	million	million
all Northern Australia Strata Claims	\$ 113	\$ 18	\$ 131
Australia Home Contents & Strata Claims	\$ 2,442	\$ 1,700	\$ 4,142
NA/Australia	5%	1%	3%
\$131 million damages spend in 25 years = \$5.2 million pa			

19. Federal Treasury has inquiry reports that indicate since 1995 the \$1.0 trillion national strata assets have created a \$1.0 billion strata insured economy of Australia. This strata insured economy has had a mere 3% damage bill of all cyclone claims. There have been 225 cyclones reported between 1995-2018. Future APRA cyclone specific building

insurance reporting should confirm these historic damage metrics to further substantiate the ARPC-C project success outcomes.

- 20. **Commissioning – Transitioning.** Has the ARPC-C considered the possibility of calamity if all 9,013 NA strata buildings simultaneously cancel their current insurance policy on the 1st of July 2022? This could occur if all rush to access the new ARPC-C reduced premium policies. Will the ARPC-C compensate the strata insured to hold off and compensate them with the ARPC-C premium savings they will miss out on if they retire their existing policies gracefully when their current policy expires.?
- 21. No provision is observed in the documentations of what the new generation strata insurance premium tax invoice look like come the 1st July 2022. Will there be a PDS to explain the tax invoice pricings and the cyclone liability cover procured? What ARPC controls are in place to prevent 3rd line forcing of additional insurance products currently experienced in all Strata insurance policies?

Table T14-D:

Northern Australia Strata Insurance Averaged Policy Profiles.

ACCC, page 10 & 82	Premium Qty	Average \$/poli	Premium Invoiced pa
North WA	148	\$ 13,400	\$ 1,983,200
Northern Territory	2,255	\$ 7,000	\$ 15,785,000
FNQ	6,610	\$ 6,800	\$ 44,948,000
Total NA	9,013	\$ 6,958	\$ 62,716,200
Rest of Aust (ROA)	300,433	\$ 3,300	\$ 991,428,900
Total ROA + NQ	309,446	\$ 3,407	\$ 1,054,145,100

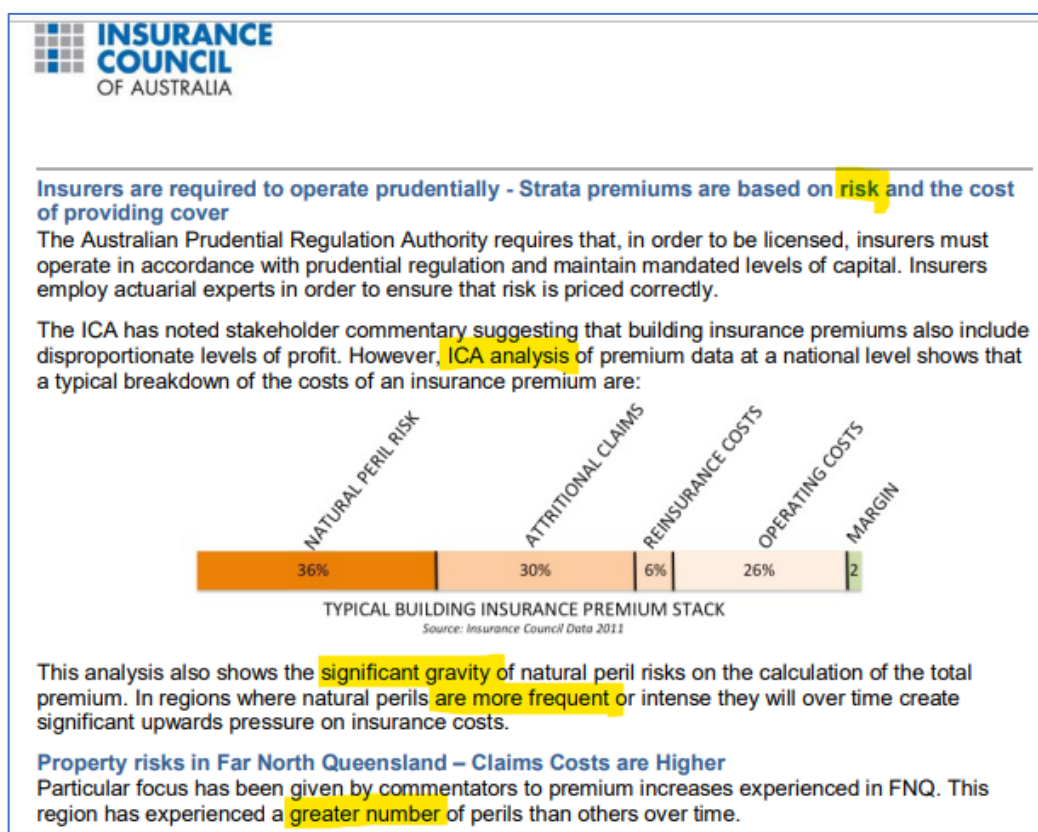
The ACCC reported page-446 the Insurers informed them the following
 FNQ policies quantity increased 53% for the 12 years from 2007 to 2019.
 This indicates only 4320 CTS Strata existed in FNQ in 2007. = fake news ??
 This increase in new CTS Strata buildings caused the premiums income to increase 423%

Owner:
Average Australian Strata Insurance policy per building

- 22. **Conflict:** Schedule-C does not address the Queensland Body Corporate Community Management (**BCCM**) mandatory strata insurance requirements for strata Full Replacement Value (FRV) rather than the lesser Sum Insured Value (SIV) for ten stipulated damage criteria. Folk law not prescribed law has cyclone damage as being BCCM FRV regulated when in fact it is not prescribed at all. So the ARPC-C outcome here would be Cyclone Insurance cover to be set at Body Corporate Committee AGM agreed SIV cover that is in accordance with the BCCM-Act-1997 Secondary Objects so legislated. Doing so will reduce overall insurance waste on excessive cyclone cover. To date there is no evidence since 1997 of a Qld strata building of ever making a full FRV cyclone damage claim. This fact indicates Cyclone cover was correctly omitted from the prescribed BCCM regulations in the first place as Fire or an atomic bomb will destroy a strata building, cyclones only damage a strata buildings. Not having any FVR cyclone cover will consequently reduce the ARPC-C reinsurance exposures as the FRV liability can now be eliminated by an agreed lower value SIV as determined by the Body Corporate committee and not by the Government under Secondary Objects legislation.
- 23. EDEM 1.12 “where these hazards are covered under the policyholders choice of insurance cover.” The ARPC-C authors have not addressed the compulsory BCCM

stipulated insurance denies the insurance freedom of choice objectives of this ARPC-C proposal.

24. **Expectations:** We did read the government media release¹ promise that the proposed ARPC-C legislation would return a \$1.5 billion in premium savings over ten years. (The ACCC informs us that there are some 484,000 house & strata home insurance policies in NA. The savings results with a \$300 pa premium savings for homeowners, yet unfairly results in only \$300 for an entire strata building whether it be 2 units or 150 units, so in summary, miniscule savings are available for the strata insured. What would be fairer if every strata lot owners received the same \$300 entitlement.
25. **Historic Reinsurance** The famous 2012 ICA² baseline Stack³ that caused the NQ & NA insurance crisis.



26. Treasury education note: Per clause EDEM 1.3 the ARPC-C claim “Due to the greater risks of extreme weather events in Cyclone prone areas” is an assumption without evidence. This reader conditioning misinformation should not be published in the explanatory notes as is damaging to the ARPC-C economic intent. There are many public reports that place Bushfire, Flood and Hail as more damaging events than Cyclone.

27. EDEM 1.13. Eligible Cyclone Risk (ECR) is used often in the texts, but nowhere is it defined.

¹ Tsv,log reported to Treasury, CRIPT and the ACCC that the Prime Minister’s 3/5/21 press release \$6800 average NQ premium price for strata buildings was wrong, the ACCC had used wrong information. Our collection of many Townsville strata insurance tax invoice policies confirms the fact that the NQ strata insured are 5 times the national strata insured average \$3300 as promoted by our PM.

² ICA = Insurance Council Of Australia – lobby group

³ 2012 ICA submission to Treasury Residential Housing Insurance Inquiry on premiums compositions

28. EDEM 1.16 indicates the ARPC-C will tolerate sovereign risk.

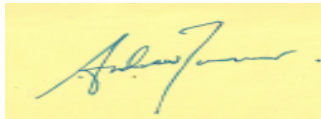
29. Minister Sukkar Treasury Press Release extract 3rd Dec 2021:- *To ensure the reinsurance pool is delivering for northern Australia, the Government will provide **\$18.4 million** over five years to the Australian Competition and Consumer Commission (ACCC) to monitor the premiums of insurance policies covered by the pool from 2022. The ACCC will collect data to evaluate the impact of the reinsurance pool and assess whether the savings from the reinsurance pool are being passed through to policyholders.*

- a. This above ARPC-C ACCC project quality control starts two years too late. All home house and strata premiums and claims should be monitored now to provide the home insurance crisis baseline for the pending ARPC-C changes. The ARPC-C project success metrics can only be established from a NA home insured baseline of the current crisis case that NA is experiencing now. This is the only metric that will report true long-term affordability has been achieved by this governments ARPC-C efforts.

30. This is the seventh attempt by Treasury to solve the decade long home insurance crisis of NQ and NA. We trust Treasury can align all its insurance regulators correctly to ensure they can deliver this ARPC as a Government & Public Service economic success for the Cyclone insured of Northern Australia.

Please forgive our rushed unpolished volunteer's compilation, there was not much time allowed for this submission yet we appreciate the opportunity to submit our views to Treasury, thankyou for the invitation.

Yours faithfully



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TSV.LOG - Townsville Lot Owners Group. *Strata Comparisons*®™ *Strata Data*®™ collect and survey strata insurance tax invoices and Insurance Inquiry reports to provide facts, figures and correspondences to help NQ strata Consumers and Regulators and Politicians improve their strata insurance arguments, actions and affordability.

Observation-42 Cyclone Reinsurance Tax Invoice Mitigation Visibility.

The Australian Reinsurance Pool Corporation (ARPC-C) - Federal Treasury Cyclone Reinsurance Pool Stakeholder Views - **Submission** 17th December 2021.

*ARPC draft legislation Factsheet. Improving insurance affordability for Northern Australia (NA). 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.*

We ask that the ARPC-C legislatively specify that all insurance policies for Cyclone Insurance cover be contained in a single standalone policy. This is to prevent the cyclone insurance visibility loss being lost if it is comingled or bundled with other insurance products sold to the consumer. This will ensure Government, Regulator and Consumer can with clear visibility monitor the NA community uptake and affordability success of this ARPC-C project.

We ask the Treasury have APRA create a new suite of Cyclone Insurance reporting statistics to match the Treasury ARPC-C Factsheet Attachment-A listing of the **ten** eligible policy and property types that can qualify for the ARPC-Cyclone reinsurance. APRA in non-aggregated recording of these ten Cyclone Insurance property types will be able to report Cyclone Insurance premiums and claims profiles and which building type is more cyclone resilient than the others. This data then enables future proofing Australia's cyclone building codes and mitigation spending activities to achieve improved cyclone building resilience in NA .

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confirm these historic damage metrics to further substantiate the ARPC-C project success outcomes.

All Cyclone Insurance products should be sold as Sum Insured Value (SIV) and not at Full Replacement Value (FRV). We believe there has been no reported strata building making a FRV claim for cyclone damage in Queensland since 1997. Fire can destroy a building, cyclones only damage a building, FRV is an over specified economic waste of money, that could be better invested in mitigation activities.

By having strata AGM discretion of what the strata community decide for their building SIV is a better affordability value choice option that can be uniquely coupled with strata mitigation spending plans.

Strata community common property insurance is mandatory and single house home insurance is optional. A reduction in cyclone insurance policies can only be caused by the optional insured ceasing insurance policies because of affordability. The strata insured carry the home insurance load in each state because state insurance regulations do not allow opting out and guarantees State and Federal GST and Duties revenues.

As for insurance sales commissions, the ACCC-NAII-2020 insurance inquiry proclaimed 20% as the average Australian home insurance sales commission. Mandatory strata insurance should not have any sales commissions, as the strata must obligatorily find insurance cover. Home insurance has sales commissions for houses as someone must convince the house consumer to buy the product, hence sales commissions. Our national superannuation industry is mandatory and requires no sales commissions to function, so strata sales commissions are an economic waste of funds that deliver no value to the strata consumer. Cyclone insurance should have no sales commissions by law. Pay as you go for cyclone claims makes APRA's cyclone industry economic behaviours reporting all the more visible

By having ARPC-C APRA Cyclone specific insurance statistics reporting, this should ensure good visibility on all the above cyclone insurance activities to occur and enable this Treasury ARPC-C to become a truly successful project for the home insured of NA.