



Insurance Council
of Australia

Submitted via email:

reinsurancepool@treasury.gov.au

17 December 2021

Dear Treasury Reinsurance Pool team

Cyclone and related flood damage reinsurance pool

The Insurance Council of Australia (Insurance Council) welcomes the opportunity to comment on the Treasury consultation on the exposure draft legislative framework for the establishment of the cyclone and related flood damage reinsurance pool (the Pool):

- the Treasury Laws Amendment (Measures for a Later Sitting) Bill 2021: Cyclone Reinsurance and related explanatory memorandum (the Bill); and
- the Terrorism Insurance Amendment (Cyclone and Related Flood Damage Reinsurance Pool) Regulations 2022 and related explanatory statement (the Regulations).

The Insurance Council welcomed the briefing which the Treasury Cyclone Reinsurance Pool Taskforce (the Taskforce) hosted for Insurance Council members on 7 December (the briefing).

The Insurance Council thanks the Government for its efforts to deliver this important next step for a very complex issue. Our members recognise that it is one part of the solution to improving affordability and availability of insurance for those living with the threat of cyclones in northern Australia. Our members acknowledge that the draft legislation and regulations are one element of the framework to establish the Pool with further detail yet to be announced by the Government, notably the pricing arrangements through the ARPC.

We appreciate the Government's commitment to have the draft legislation introduced into Parliament at the earliest possibility in the new year with a commencement from 1 July 2022. However, the timeframes for consultation of 10 business days over December have made it challenging to provide considered input on the design of the Pool, especially without the additional critical design elements, notably the pricing arrangements through the ARPC. This additional detail and the Government's modelling is fundamental to investigate and test how the model will operate to drive down premiums and improve availability for cyclone and cyclone-related flood. Our members have provided their input on the legislative elements announced thus far noting that our views will continue to evolve as further critical details are released by the Government.

Affordability challenges in northern Australia

Insurers have worked hard for many years in northern Australia to keep premiums affordable and coverage available. The final report of the ACCC's three year Northern Australia Insurance Inquiry released at the end of 2020 found that the premium rises were due to natural peril risk and address industry losses. The report noted that in 2018-19 insurers in northern Australia lost approximately \$208 million, and over the 12 years from 2007-08 suffered aggregate losses of \$856 million in real terms in the region, highlighting the pressure insurers are under to deliver for customers in a way that is financially sustainable.



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By way of further context, even before the pandemic, events such as bushfires, and storm losses, and the increased number of class actions had resulted in reinsurance price increases for Australian programs by between 10-20%. Over the 2020-21 Financial Year, the sector saw relatively small premium growth of just over 5% which was similar to the two years prior. This premium growth was offset by an increased claims cost as a result of inflationary pressures and a continued increase in reinsurance that has climbed steadily since 2017. This reinsurance cost is expected to continue to increase in 2022 driven in part by the return on capital still being below target and global reinsurance cost increases. In 2020-21, the industry faced the worst return on equity performance in almost two decades, of just 2% which was lower than the 3% reported in 2020 and which has fallen from 15% in 2018-19.

We would welcome insights provided by the Government's funding model to consider how the losses highlighted in the ACCC's report would be offset given the cost-neutral funding objectives of the Pool. While the Pool's objective is stated to achieve premium *reductions*, against the wider economic context for insurers as well as increasing natural peril risks, we submit that it would be more appropriate to recognise that the Pool may hope to achieve premium *relief*. The ongoing development of the Pool and any modelling should account for widely used models within industry that are more reflective of the current realities for insurers.

As highlighted in the Insurance Council's submission of 18 June 2021 to the Taskforce, while premiums reflect the high level of cyclone risk as well as the average annual expected costs, the cyclone component of reinsurance forms a relatively small part of the premiums for consumers. Therefore, risk mitigation both by customers and through public infrastructure is ultimately the most effective and more sustainable way to reducing premiums in the long run rather than direct government intervention in the market for reinsurance. However, noting that the Government remains committed to the Pool, we are confining the following comments to the design.

Objectives of the Pool

The Pool's objective is to improve the accessibility and affordability of insurance for households and small businesses in cyclone-prone areas across Australia. The explanatory memorandum to the Bill states that the Pool will provide lower cost reinsurance and benefit customers by increasing competition in North Queensland.

On lowering the cost of reinsurance, our members note that the pricing formula for the reinsurance premiums to be charged by the Pool is yet to be finalised and is expected to be released by the ARPC prior to 1 July 2022, with another likely round of consultation on the formula in early 2022. On this basis, we will need to reserve detailed comment until the proposed pricing arrangements are seen.

We appreciate that the Government is to initially cover all of the cost of eligible cyclone and related flood damage claims above the policyholder excess and, 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".

In terms of its initial operation, while the intention is to cover all of the cost of eligible cyclone and related flood damage claims, the definition of cyclone and related flood damage is fairly narrowly confined by conscious policy design. This should be viewed in the context of insurers' existing



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commercial reinsurance arrangements which will need to factor in the Government's proposed Pool coverage with associated frictional costs that may dilute the benefits of a Pool.

Cyclone related flood cover occurring within 48 hours of a cyclone event

Insurance Council members request the consideration of a wider time period in relation to cyclone-related flooding. We wish to highlight that cyclone related flooding has a greater impact on affordability than cyclone. So, while we appreciate the Government's intention to confine the Pool coverage to floods occurring within 48 hours, it may do little to address affordability for those facing affordability challenges. Consideration should be given to the Pool covering claims for cyclone and related flood damage arising during a cyclone event up to 7 days after the cyclone ends. We accept that it is the Bureau of Meteorology which will observe when a cyclone begins and ends.

We submit that Treasury should also consider scenarios where the first damage related to the cyclone and related flood occurs after the end of the event (inclusive of the 48 hour period) and possible coverage, noting that it is not the Government's intention to cover riverine flood (which would be excluded).

A broad definition of cyclone-related flooding could reduce complexity in pricing, facilitate separation of risk from other reinsurance treaties and minimise complexity at time of claim. Some members highlight that provision of a longer time period could support the declaration of the start of an event by allowing a reasonable period for its natural conclusion. This could reduce the potential for disputes and expensive claims management practices required to differentiate the cause of damage after an event. A longer time period may also make it more enticing for new market entrants who will need to invest in new systems and processes to take advantage of the benefit of a Pool.

Insurers' reinsurance negotiations on eligible cyclone risks

An initial observation is that large insurers may lose diversification benefit which may minimise potential savings. On the other hand, the Pool may increase competition in North Queensland if it entices smaller insurers through offering more favourable terms than those offered in the commercial market. There may also be benefits through the retained risk of insurers if the Pool does not allow a profit component for this retained risk.

Due to the scope of the Pool, insurers will still need to purchase flood cover in the commercial market since the Pool largely excludes flood (which occurs outside of the 48 hours offered by the Pool).

Given the multi-peril basis of all insurance policies in Australia, there is likely to be existing cross-subsidisation between component parts of the price when insurers negotiate reinsurance. Members have expressed reservations around how they would be able to negotiate reinsurance cover in relation to one element of risk (cyclone and related flood damage that occurs within 48 hours after the cyclone ends) covered by the Pool and the savings that may be possible. They would be inclined to approach their reinsurance negotiations with a view to addressing any potential gaps in cover for example, with reinsurance being sought twice, once through the ARPC in relation to cyclone peril and then again in the commercial market in relation to other perils. This



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could result in higher reinsurance costs to insurers which is then passed on to customers, diluting the benefit of a reinsurance pool.

The ICA acknowledges reinsurance of the ARPC (retrocession) increases overall pool capacity, may position the Commonwealth further away from the risk of losses under the Pool, reduces the likelihood that a reduction percentage will be required and facilitates inflow of foreign funds to rebuild Australian assets following an incident. If the ARPC buys reinsurance to protect the Government balance sheet (as they do for terrorism risk) then they will have to pay reinsurance margin, which will have to be factored into the pool pricing to achieve a net neutral outcome, and which again could dilute potential savings.

Cross-subsidisation issues

Insurance Council members acknowledge the Treasury perspective that the intention of the pricing formula will not be to create a cross-subsidy with low cyclone risk zones but to utilise the margins that are within reinsurance contracts; and the savings that the pool generates via the \$10 billion guarantee (without capital carrying costs). Members further noted the threshold for mandatory participation as \$10 million of gross written premiums payable for the previous financial year (for policies with eligible cyclone risks).

Insurers with a national presence note the intent is not to cross-subsidise in the risk pricing but there will likely be a need for insurers to amortise implementation costs which may mean that either an individual policy (or indeed an insurer) that has little modelled cyclone risk will not see any risk premium saving but are likely to be paying more as they will be subsidising the operational costs of the Pool.

Those insurers that are predominantly based in states where there is little cyclone risk modelled into their reinsurance premiums note that they may see their reinsurance premium increase, on net, as they will not be receiving any savings. Alternatively, the costs may remain constant which is comparably worse off than insurers that receive the benefit of lower cyclone premium. This would raise a question as to policy holders in states with low cyclone peril risk subsidising policy holders facing high cyclone peril risks.

Insurers' investment in systems to utilise the Pool

To utilise the potential savings that may be available through the Pool, insurers will need to invest in new systems, pricing algorithms and staff training. There will also be ongoing operational or frictional costs, such as additional experts or hydrologists reports to determine the cause and timing of damage as well as costs to comply with the ACCC's price monitoring. Our members note that these costs have the potential to erode any anticipated cost savings possible through the Pool and will need to be carefully considered in any overall assessment of premium relief.

Call on the Pool

Insurance Council members note that the Explanatory Memorandum to the Pool states that "As a new cyclone reinsurance Commonwealth guarantee is introduced, amendments are made to the Commonwealth Terrorism guarantee to ensure separation between the two guarantees" (para 1.66). However, we note the information provided during the Treasury briefing that the operation of



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the Pool would allow for a cross-leveraging of assets. Our members seek clarification on how the terrorism and cyclone pools will be kept separate in order to safeguard their financial integrity.

Our members also acknowledge that the Australian Government has committed to ensuring all obligations of the pool. That is, if the \$10 bn guarantee is exceeded then the Government will back all liabilities. However, we note that unlike the terrorism pool, insurers anticipate a greater call on the new Pool for the purposes of meeting the Government's obligations in relation to cyclone events. In this vein, we welcome formal guidance from APRA on its treatment of the Pool for insurer capital purposes without which insurers will potentially need to purchase additional reinsurance to address the uncertainty.

More broadly, we support the existing Government reporting functions as well as the review process discussed further below as a means of overseeing the viability and sustainability of the Pool.

Review : mitigation, state and territory taxes, land-planning

In the majority, Insurance Council members support an end date for the Pool in order to focus attention on the need to achieve a permanent reduction in the risk of cyclone related damage noting the Government's proposed risk sharing arrangement from 1 July 2025. After 1 July 2025 it is proposed that the pool will cover a *significant proportion* of eligible cyclone and related flood damage claims as opposed to *all* of the cost of eligible cyclone and related flood damage claims to policyholders. What amounts to "significant proportion" would appear to be at ministerial discretion and yet to be decided. Our submission touches on the relatively short timeframes for implementation, as well as the move to risk sharing arrangements, in more detail below.

We support the review process outlined in the draft legislation to monitor the Pool's effectiveness as well as the policy intent for the Pool to offer discounts for policies that cover properties that have undertaken cyclone and flood mitigation. The Insurance Council supports the ARPC collecting data through the Pool that will help the government plan its response to natural disasters. This data, the Insurance Council submits, should also be considered as part of the review.

The Insurance Council and its members would be happy to work with ARPC (as well as NRRRA and other agencies) to provide our perspectives on the type of data that would be most useful in this regard. Similar to policymakers, insurers have an interest in ensuring that programs are targeted to reducing peril risk, measurable and have a meaningful impact on households most in need.

Alongside investment in risk mitigation, the Insurance Council has long advocated improvements in resilience standards in building codes, reform of state insurance stamp duties and levies and making better land planning decisions into the future that factor in climate impacts. The Insurance Council submits these additional elements should also be taken into account in the review.

Notably, the Pool shouldn't dampen risk signals to home occupants. Rebuilding or undertaking major repairs to a property substantially impacted by flood in the same location with the same floor height would be a poor outcome. The Pool should work alongside improvements in land planning decisions with support provided to relocate property owners.



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Depending on the design of the Pool and the outcomes of Reviews, there may be benefits in progressively phasing out premium relief in order to prepare policyholders for the end of the Pool.

Portfolio transfer arrangement

Relevant to discussion on transfer arrangements, one area for clarification is the potential for a portfolio transfer arrangements as flagged during the Treasury briefing on 7 December and it would be helpful to understand how this could potentially operate.

Transition times for participation

The Insurance Council appreciates the decision to provide a transitional period for large insurers to have all cyclone-risk policies in the Pool arrangement. However, we note that to meet the timeframe, larger members would need to start ceding into the Pool from the final quarter of 2022 to take into account renewal periods and have all policies in by 31 December 2023. We also note the decision to provide additional 12 months for small insurers to provide additional flexibility to transition to the new arrangement. Given that the complexities of transitioning to a new arrangement are likely to be considerably greater for larger insurers, we suggest that it may be appropriate to extend the additional 12 months to all insurers with eligible cyclone insurance covers, rather than limiting it to smaller insurers with less than \$300 million of gross written premiums for household insurance in the last financial year.

Some additional comments regarding transition

The Insurance Council notes that the proposed risk sharing arrangements to commence from 1 July 2025 is a relatively short timeframe following implementation. This may not provide sufficient time to bed down existing arrangements and assess the effectiveness. It could pose problems for some members if it involves significant operational costs, including renegotiation of commercial reinsurance arrangements so soon after initial implementation. Some members may manage this by introducing more limited cover for instance.

Risk sharing after three years

The Exposure Draft provides for a ministerial decision to set the level of risk retention in the scheme after the first three years. However, it does not include any requirement for consultation with the insurance industry. We suggest the following is added to Section 38(2)(e) of the Act:

‘the insurance industry must also be consulted on the extent of risk retention and have the ability to provide written submissions to the Minister on the matter’

Summary

Additional detail, notably the ARPC’s pricing schedule, and the Government’s modelling is fundamental to investigate and test how the Pool will operate to provide premium relief and improve availability for cyclone and cyclone-related flood. Our members’ input on the Pool will continue to evolve as these critical details are released. As highlighted above, there will be frictional costs associated through setting up systems, processes and reinsurance negotiations to take account of the establishment of the Pool which seeks to cover a narrow element of catastrophe perils ordinarily negotiated by insurers.



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Overall, the impact on customers may be more nuanced, depending on the costs to insurers of setting up systems to take advantage of the Pool and what is currently being offered to customers such as terms of coverage, premium and excess settings. In this context, we request that the Government release its modelling to assist manage stakeholder expectations on the premium relief the Pool may be able to deliver while remaining cost neutral to Government over time.

Reinsurance forms a relatively small component of the premiums for consumers. The establishment of a reinsurance pool is one part of the solution to improving affordability and availability of insurance for those living with the threat of cyclones in northern Australia. While we will need to reserve detailed comment until the proposed pricing arrangements are released to gauge the impact of the Pool, we reiterate that to create a long-term and sustainable market for insurance, more must be done at all levels to lower the risks posed by cyclones and related flood damage by improving resilience standards in building codes, reform of state insurance stamp duties and levies, and making better land planning decisions into the future that factor in climate impacts.

We trust that our observations are of assistance. Specific feedback on other key elements of the design of the Pool is at **Attachment A**. If you have any questions or comments in relation to our submission please contact Aparna Reddy, the Insurance Council's General Manager, Policy – Regulatory Affairs, on [REDACTED] or areddy@insurancecouncil.com.au.

We look forward to ongoing work with the Government and the Australian Reinsurance Pool Corporation on the consultation.

Yours sincerely

Andrew Hall

Executive Director and CEO



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ATTACHMENT A: DESIGN OF CYCLONE REINSURANCE POOL

Key elements	INDUSTRY POSITION
Farming policies	<p>We suggest that the definition of farm also be further considered – currently s8B(8)(b) provides the following exclusion (we suggesting the italicised text be added):</p> <ul style="list-style-type: none">(i) producing crops or livestock, or produce derived from the crops or livestock; <i>including secondary processing or manufacturing of such crops, livestock or produce at the farm site; or</i>(ii) the interests of the insured in property used to produce crops or livestock; <p>The suggested addition is to address vertical and horizontal integration for farm businesses where they may undertake additional activities on the farm premises. Otherwise, these types of activities may be inadvertently captured under the small business definition so farm package products would need to be split into buildings types and specific activities.</p> <p>Separately, the inclusion of farm householders may be challenging as often the residential address is not geocoded – these may need to be considered in more detail by the ARPC.</p>
Strata policies	<p>ICA’s initial submission of 18 June was that ARPC considers buildings as commercial where 20% or more of mixed occupancy is commercial. After further consideration of the legislation and the extent to which the Pool would meet the objectives of assisting those in need, we suggest an alternative 50:50 proportion where coverage would be for properties where 50% is residential floorspace. We recognise that Government would also need to consider simplicity of administration since a different approach on the (Cyclone) Pool would result in different definitions for the purposes of terrorism and the cyclone Pools.</p>
Small business property policies	<p>Draft leg notes “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.”</p>

Members noted their preliminary feedback to Treasury on the potential for gaming by policyholders who may split their policies as well as the incentive for under-insurance where policyholders may seek to utilise the eligibility threshold for the pool. Members recognise, however, the Treasury response that this risk would exist in any design of the Pool with reference to a sum insured threshold.

We understand Treasury is considering whether "sum insured" needs to be defined, including whether the sum insured calculation should include/exclude CAT cover extensions, 'safety net' uplifts (e.g. in the event of a total loss) or automatic increases to the sum insured (e.g. annual sum insured indexation to reflect increased building costs). Given the difference across insurers in terms of extensions and other benefits, this will enable further thought to be given to how these are covered. Our preference is for the legislation to provide the ARPC with sufficient flexibility to establish appropriate contractual arrangements by class of business and insurer.

The ARPC reinsurance arrangement should be explicit as to their coverage in whether they are included or not. That is, if included, the Pool prices them, if not then it falls back as a gap that needs to be picked up by the insurer and protected as they choose.

Claims costs

We understand that policyholder claims will continue to be managed by the primary insurer. In our initial submission of 18 June we noted that claims handling costs related to claims recoverable from the Pool should also be recoverable from the Pool. We also suggested that the same cash call clauses as in current arrangements need to be provided by the Pool in order to avoid cash flow problems. It is also suggested that there should be a fixed methodology for allocation of claims processing costs (e.g. 5%).

Following the Treasury briefing we note that it is anticipated that claims handling costs would be dealt with in the reinsurance contracts insurers would have in place with the ARPC and potentially, there would be recoverables from the pool akin to those clauses in the terrorism treaty. Noting that this is a



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matter for ARPC's consideration, members continue to support a fixed methodology for allocation of claims processing costs (e.g. 5%).

APRA treatment of the Pool

We note the supporting material and factsheet for the Pool which notes that APRA has indicated it would allow insurers to fully recognise the risk transfer provided by the reinsurance pool and that changes to APRA's prudential framework would occur after the passage of legislation. Members welcome this clarification by APRA noting that without this approach by APRA, insurers would need to take into account "spillovers" from the pool in relation to any obligations the Pool may not be able to meet as part of insurers' reinsurance negotiations. Our members request formal guidance from APRA in this regard.

Definition of cyclone

The draft legislation establishes the boundaries around which the Pool will respond to loss or damage caused by a cyclone. As proposed, a cyclone is defined in the draft Regulations as:
a non-frontal low pressure system, of synoptic scale, that:

- a) develops over warm waters; and
- b) has organised convection, and a maximum mean wind speed of 34 knots or greater that extends more than half-way around near the centre of the system and has persisted for at least 6 hours (our emphasis).

We understand that it is Treasury's intent that a cyclone will only be declared after the 6 hour period specified in the definition, and the Pool will not provide cover for damage that has already occurred within that 6 hour window. Consideration should be given to whether, once a cyclone meets the above definition, the claims period should be inclusive of the 6 hour window prior to the declaration. Whilst losses in this period may be considered unlikely, the application of hours clauses in reinsurance contracts are likely to be applied post downgrade leaving this period of exposure less likely to be covered.

In addition, as proposed, "eligible cyclone loss" is defined in section 8C in the draft Bill as:
....a loss that *arises* (our emphasis), during the claims period for a cyclone event



Consideration should be given to whether “arises” should be replaced with “commences” to provide clarity that the Pool provides cover for initial and any subsequent losses that are eligible for coverage under the Pool. The term “commences” provides clarity as to the point of loss that determines whether the Pool responds and avoids splitting of losses between various reinsurance arrangements. This is particularly the case where losses occur over a period of time. For example, losses we suggest could be covered and which could ‘arise’ after commencement include situations where:

- wind damage to a roof is followed by water inundation over subsequent days; and
- business interruption, which occurs over a period of weeks or more following initial property damage caused from a cyclone.

While we expect that this issue could be addressed through appropriate technical drafting of insurers’ reinsurance contracts with the Australian Reinsurance Pool Corporation (ARPC), we submit that clarity in the legislation by way of amendment as we suggest is preferable.

Definition of building and incidental cover

It is of critical importance that the type of property and consequential losses which the Pool will respond to are clear to reduce the risk of a gap between reinsurance arrangements. Within this context, we make a suggestion in relation to how “building” is defined to enhance clarity, and we seek confirmation on the intended treatment of incidental cover provided in policies.

As proposed, the Pool will provide cover for loss of, or damage to, eligible property. Section 3 of the Terrorism Insurance Act 2003 (the Terrorism Act) currently defines “eligible property” to include:

- a) buildings (including fixtures) or other structures or works on, in or under land;
- b) tangible property that is located in, or on, property to which paragraph (a) applies;
- c) any other property prescribed by the regulations.

As we understand it, there is no further definition of “building” in the draft Bill, draft Regulations, or any which already exist in the Terrorism Act or Terrorism Insurance Regulations 2003 (the Terrorism Regulations). It is unclear based on the definition of “eligible property” whether the reinsurance pool will provide cover for other insured property such as sheds and fences.

The definition of “building” should be consistent with that which is used in the Corporations Act 2001 (the Corporations Act), which is well understood by industry. Using the Corporations Act definition, extracted below, provides certainty that sheds and fences are included in the definition of building. Corporations Regulations 7.1.12(3)

“home building” means:

- a) a building used, or intended to be used, principally and primarily as a place of residence; and
- b) out-buildings, fixtures and structural improvements used for domestic purposes, being purposes related to the use of the principal residence;

on the site and, without limiting the generality of the expression, includes:

- c) fixed wall coverings, fixed ceiling coverings and fixed floor coverings (other than carpets); and
- d) services (whether underground or not) that are the property of the insured or that the insured is liable to repair or replace or pay the cost of repairing and replacing; and
- e) fences and gates wholly or partly on the site.

We submit that a consistent definition of “building” should be inserted into the Terrorism Regulations, which we note already contains a definition of “contents” consistent with the Corporations Act.

In addition to clarity on the types of property losses which the reinsurance pool will respond to, we would also appreciate confirmation from Treasury as to the intent around how the Pool will respond to other incidental cover provided in policies. As proposed, section 8B of the draft Bill defines a “pool insurance contract” to include consequential loss arising from loss of, or damage to, or inability to use all or part of eligible property. Our interpretation of this draft provision is that the Pool will respond to incidental cover, such as removal of debris and temporary accommodation, as reflected in insurance policies purchased by consumers and small business. Insurers’ existing reinsurance arrangements closely mirror the coverage provided in product wordings, and it would be important for the Pool to also respond comprehensively to the cover provided to end consumers and small businesses.

We understand that much of the detail around the types of losses the Pool will respond to will be specified in reinsurance contracts between insurers and the ARPC. Our interpretation of the draft legislation is that there is sufficient flexibility within the legislation to permit the contract entered into



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with ARPC to provide cover for a primary risk plus any incidental associated cover, however, Treasury's confirmation (perhaps in the EM) would be very helpful.

Classification errors

Key definitions within the proposed legislation establishes the scope of the reinsurance pool's coverage, for example, the 80/20 rule in establishing whether a strata building is captured and the \$5 million prescribed cap in determining whether a policy is a small business policy. There should be some flexibility in the regime to allow for genuine classification errors, whether due to the customer's error, insurer's error or a change in the risk post contract, so that risks ceded to the reinsurance pool in good faith are eligible for reinsurance cover. For example, an assessor may have incorrectly estimated the floor space to determine that a strata complex is predominantly residential in accordance with the legislation; in these circumstances, the reinsurance contract ARPC has entered should respond to the loss. It is expected that the ARPC would have audit rights to policy and underwriting under the contract.

Flexibility in implementation

In relation to the requirement that all eligible policies be covered by the pool, one suggestion is that perhaps there could be the ability to "exempt" certain classes of business/distribution channels where the implementation and ongoing costs are likely to exceed any potential cost savings.

An example of this is residential landlord insurance primarily designed to cover tenant risks (e.g. damage caused by tenants or loss of rent where a tenant ceases to pay) but includes ancillary cover for damage to the landlord's contents (e.g. carpets & curtains) caused by natural disasters. These types of policies are typically designed for unfurnished units within a strata or community title and have negligible exposure to weather perils of any kind. Accordingly, the pricing models for usually do not separately calculate premium attributable to cyclone or flood given the very small potential exposure (e.g. may be community rated). We therefore anticipate that including these types of policies in the reinsurance pool will create complexity in pricing models, and therefore increased cost, and may potentially result in increased premiums to account for both these costs and for the cyclone cover provided by the reinsurance pool.



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The Insurance Council is the representative body of the general insurance industry in Australia and represents approximately 95 percent of private sector general insurers. As a foundational component of the Australian economy the general insurance industry employs approximately 60,000 people, generates gross written premium of \$57.4 billion per annum and on average pays out \$164.2 million in claims each working day (\$42.7 billion per year).