



3rd March 2022

Inquiry Submission - Cyclone and Flood Management Reinsurance Pool

To Whom it May Concern.

Northern Australia Insurance Lobby Inc (**NAIL**) has been formed to represent consumers on the issue of affordability and availability of insurance in Northern Australia. We are now the leading consumer representative group on this issue.

As you are aware the cost of insurance in Northern Australia is a very topical issue for residents in the North. Legislation has recently passed through the House of Representatives for the Cyclone and Cyclone-related Flood Reinsurance Pool (**reinsurance pool**).

While we believe the current reinsurance pool is a step in the right direction and **we support it passing in the senate**, we would like to raise a number of matters to this inquiry that we believe must be considered for future legislative change.

Eligibility

As the reinsurance pool is intended to be cost neutral to the government over time, the eligibility criteria for the reinsurance pool should provide cover for as many consumers as possible without exposing the reinsurance pool to a loss greater than the \$10billion government guarantee.

What we don't know is the impact the reinsurance pool may have on those not afforded cover – **this needs to be closely monitored**. While we hope the reinsurance pool will free up capacity for private reinsurers and insurance companies to step in and fill the void by providing affordable insurance for consumers who are not currently eligible for the reinsurance program - it would be extremely disappointing if the insurance industry decided to only insure properties covered by the Federal Government reinsurance program, thus creating an even greater crises for buildings that are not eligible to be part of the proposed reinsurance program.

1. Accommodation Buildings: Short-term accommodation with a sum insured over \$5million

The reinsurance pool seeks to exclude buildings for commercial use with a sum insured greater than \$5million. Treasury have confirmed that this will also include buildings used for short term accommodation purposes.

We have concerns about the exclusion of accommodation buildings adversely impacting tourism, which plays an important part of certain economies in Northern Australia. This will include a number of buildings primarily used for accommodation purposes on Hamilton Island, Airlie Beach, Townsville, Cairns, Darwin & other tourism hotspots.

Our main concern is mum and dad investors in strata buildings over \$5million where the building has a greater than 50% use for commercial (i.e. short term accommodation). We also have concerns for Hamilton Island which operates like strata buildings do but are not under a strata title – NAIL believes Hamilton Island is the epicentre of the insurance crises in Northern Australia and solutions should be provided for the island.

On the flipside, we don't want international hotel chains (like Hilton & Shangri La) that have global insurance programs accessing the reinsurance pool, but we do believe enhancements can be made to ensure that

Recommendation: To make the reinsurance pool more suitable for tourism, we are believe future legislative changes should include buildings used for accommodation purposes in strata. We also believe the reinsurance pool should find a way to include buildings that operate similar to a strata building (with multiple owners) like those on Hamilton Island in the reinsurance pool.

2. Aged care (and other care) facilities



Treasury have confirmed Aged & other care facilities are considered commercial use due to the care component. This will mean that they will be limited to sum insured of \$5million like with all other commercial buildings.

NAIL strongly believe that aged and other care facilities are the primary residence for the elderly people and those with other care needs who reside in them and should be included in the reinsurance pool. By excluding aged care and other care facilities with a sum insured over \$5million you increase the cost of care for those who reside, and use, those buildings for residential purposes

Recommendation: To make the reinsurance pool fair for those in aged and other care, we believe legislation should exclude care facilities that reside those in aged and other care from being considered commercial use.

3. Limit on Commercial Buildings

NAIL believes the **\$5million limit** for commercial buildings may be too low and will not cover enough consumers. At this stage we don't know the full impact this will have on businesses and we believe this limit should be monitored and future reviews should consider an increase to this limit.

Recommendation: Review the sum insured limit for commercial buildings in the next review with a view to increasing the limit.

Review

4. 12 Month Review

In view of our concerns raised, the Federal Government have committed to a 12 month review of the reinsurance pool by ministerial discretion and we have written confirmation of this from the office of the Assistant Treasurer.

NAIL have vocally advocated for an earlier review, as a three-year wait may be too long for some consumers if the legislation is not fit for purpose. We also highlight it is not clear what impact the reinsurance pool will have for those that are not eligible.

Recommendation: We believe all parties should support review of the reinsurance pool after 12 months (by ministerial discretion) to ensure that the reinsurance pool meets the needs for consumers.

Other Areas

5. Broadening the Reinsurance Pool

Traditionally, the role of insurance has been a model of "spread the risk" – whereby everyone pays into an "insurance pool" and only some (who have claims) take out of an "insurance pool".

Insurers are becoming sophisticated in how they assess the risk and have moved to a "risk selection" model which plays an important part of the insurer's appetite for business and more importantly price of insurance.

As insurers are for profit entities that work in the interest of shareholders, the better they are at risk selection, the more advantageous it is to their underwriting result and thus more profitable they are for shareholders.

Risk selection is causing market failures in other areas of insurance and NAIL believes the Federal Government should use the Australian Reinsurance Pool Corporation (**ARPC**) as a way of intervening in market failures in the insurance industry. As the effects of global warming intensify, we believe this threatens major pricing disparity for insurance consumers.

We have identified the following areas:



- **Flood (unaffordable & uninsurable)** – Consumers in high-risk flood areas are affected by high premiums that match the risk of their property flood. In some instances, homeowners face premiums of \$25,000 p.a. for flood cover, that is more than the cost of their mortgage and simply unaffordable for most Australians. This leads to many policy holders electing to not to take the cover and we see time and time again devastation caused by uninsured losses associated with flood. There are also number of consumers in high-risk areas that simply cannot get flood cover because no insurer will offer flood insurance.
- **Storm Surge (not available)** - Storm surge is one of the most difficult covers obtain on the market, particularly for policy holders located within proximity of the sea. Large insurance programs can obtain cover in overseas markets, but this cover is unattainable for mum and dad homeowners. NAIL believes, when there is a major storm surge incident this issue will rear it's head as a problem for the Federal Government to deal with.
- **Bushfire (unaffordable)** – NAIL are aware of a number of consumers in high risk bushfire areas that have been faced with excessively high premium increases since the 2019-2020 bushfires. This is making insurance unaffordable for many consumers in these areas.
- **Leisure Operators (unaffordable & uninsurable)**: As is well publicised, leisure operators are having to shut their business down due to issues of affordability & availability of Public Liability insurance.
- **Building Surveyors**: There are also publicised market failures with professional indemnity for cladding activities for building certifiers and surveyors (further information: <https://www.insurancenews.com.au/local/pi-crisis-as-insurers-retreat-from-cladding-risk>).

Recommendation: NAIL believes the Federal Government should commission a broader review into market failures in the insurance industry with a view to broadening the scope of the ARPC beyond Terrorism and Cyclone & Cyclone-related Flood Reinsurance.

6. Stamp Duty

NAIL also believes the State Governments should review stamp duty charges in line with the recommendations by the Australian Consumer & Competition Commission to abolish stamp duty for home, contents and strata insurance. GST was introduced for the very reason of removing state based taxes.

Recommendation: Although not an issue for the Federal Government, NAIL believes representations should be made to State Governments requesting the removal of stamp duty from insurance contracts.

Thank you for taking the time to review our concerns related to issues associated with the reinsurance pool.

We believe the issues of affordability & availability of insurance is an issue that needs urgent attention from the Federal Government.

We ask the senate to support the proposed reinsurance pool legislation in the upcoming Senate vote with a view to future enhancements as recommended.

We look forward to hearing from you.

Kind Regards.


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