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Joint Select Committee on Northern Australia
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Parliament House
Canberra ACT 2600

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NIBA Submission: Joint Select Committee on Northern Australia Inquiry into the Cyclone Reinsurance Pool

Introduction

The National Insurance Brokers Association (NIBA) welcomes the opportunity to provide this submission to the Joint Select Committee's Inquiry into the Cyclone Reinsurance Pool. As the peak representative body for the intermediated general insurance industry, NIBA represents approximately 450 member firms and 15,000 individual brokers including large, multinational insurance brokers, Australian broker networks, and small to medium-sized businesses located in cities and regional areas right around Australia.

Insurance brokers perform a number of valuable services for their clients including;

- Helping clients to understand, manage and minimise their risk exposure.
- Identifying and arranging appropriate insurance or other risk financing mechanisms.
- Acting as the client's advocate when an insured event occurs.

NIBA aims to promote the role of insurance brokers and the role they play in supporting and advising their clients on risk and insurance matters. NIBA provides this knowledge and expertise to governments and government agencies to promote understanding of the operation of general insurance markets.

Insurance brokers represent the interests of the purchasers of insurance, the policyholders, and not those of insurance companies. Consequently, comments made by NIBA are made on behalf of its members and the public that purchases general insurance, not on behalf of insurers.

The operation and implementation of the Cyclone Reinsurance Pool

It is important to note that while the Cyclone Reinsurance Pool (the Pool) commenced on 1 July 2022, large insurers are not required to join the Pool until 31 December 2023, while smaller insurers must join the pool by 31 December 2024. NIBA understands that no insurer has joined the Pool to date, as insurers already had their reinsurance

programs for the 2022 calendar year in place prior to the Pool commencing operations. As a result of this transition period, NIBA Members have reported that the Pool has had very little impact on the nature of insurance cover being provided to Northern Australia or the premiums being charged in relation to that cover. In other words, it is too early to tell what impact, if any the Pool will have on insurance premiums.

Nevertheless, NIBA understands insurance companies are working with the Australian Reinsurance Pool Corporation (ARPC) in relation to their reinsurance arrangements for 2023 and beyond, and this process will ultimately lead to insurers determining their insurance premiums for properties covered by the Pool, taking into account their reinsurance arrangements entered into with the ARPC. This is occurring at a time when major weather events have led to significant insurance losses in recent years, with consequential impacts on both insurance and reinsurance premiums.

Insurers will still be required to carry reinsurance for cyclone-related losses not covered by the Pool. the nature and cost of this reinsurance protection will inevitably be reflected in the premiums paid by property owners.

In many coastal areas, cyclones are followed by an extensive rain depression, eventually leading to flooding. This is especially true for coastal towns that are also situated close to a waterway, such as Townsville. Under the legislation, the ARPC is responsible for declaring when a cyclone has begun and finished (based on Bureau of Meteorology advice). Once the ARPC has declared that the cyclone has ended, a 'damage period' will then apply to account for flooding and other damage caused by the rain depression.

The regulations, currently provide for a 48-hour damage period, after such time any damage to properties will not be covered by the reinsurance pool. However, this period fails to take into consideration the extensive damage caused to other parts of Northern Australia by ex-cyclones as they move across the country. A large number of towns and regional centres are not affected by cyclones but are impacted by flooding once the cyclone turns into a tropical low. Many properties in these areas face increasingly high premiums as a result of flood risk, however, the reinsurance pool is unlikely to provide any relief for those who reside in these areas, as the flooding does not usually occur until after the proposed 'damage period' has finished.

NIBA notes that the current design of the Pool does not provide any incentive for insurers who have already exited the Northern Australian market to return, or for those still active in the market to join the Pool earlier in the transition period.

Despite the Northern Australia Insurance Inquiry finding that there were no significant insurance availability issues in northern Australia, feedback from members, indicated that there are very few insurers willing to write cover for

cyclone-exposed risks. Of those that still write cyclone risks, a number have placed embargoes on new risks.

Currently, the legislation requires general insurers who undertake liability, under pool insurance contracts, **in respect of eligible cyclone losses** to maintain contracts of reinsurance with the Australian Reinsurance Pool Corporation (ARPC).

Based on the current wording, general insurers who write cover for other types of risks in Northern Australia but do not write cyclone risk, or who have ceased writing such risks by the date they are required to join the pool are not required to participate.

NIBA notes that there is nothing preventing these insurers from gradually declining to renew existing cyclone-exposed risks until eventually they are no longer required to participate.

Furthermore, insurers may refuse to provide cover to properties that are not eligible for the reinsurance pool, further exacerbating the issues raised by NIBA and other associations in regard to the eligibility of properties. In NIBA's view, this directly contradicts the pools' aim to increase insurer participation and competition in the Northern Australian market.

How does climate change, and the potential for increased frequency and intensity of cyclones, factor into the implementation and operation of the Cyclone Reinsurance Pool?

One of the operating principles of the Cyclone Reinsurance Pool as currently designed is for the Pool to be cost-neutral to the Government over the longer term. Accordingly, if the insurance costs from cyclone and related weather events increase as a result of climate change or other factors, reinsurance costs are likely to increase, and hence reinsurance premiums and premiums ultimately charged to the property owner will also increase. At the end of the day, the Pool is to be funded by reinsurance premiums over the longer term, and it will be property owners who fund any increase in insurance and reinsurance costs over that period of time.

It is therefore crucial that the presence of the Cyclone Reinsurance Pool does not diminish the need for the mitigation of weather-related risks across northern Australia, and it is vital that Federal, State/Territory, and local governments all work together to build resilience in their communities to ensure communities can manage future weather-related events.

NIBA welcomes the moves by the current Federal Government to promote measures that will support the mitigation of risk and the building of resilient communities. It is crucial that steps be taken to "Build Back Better", rather than simply rebuilding damaged structures to their previous building standards.

Should you have any queries or wish to discuss any aspect of this submission please don't hesitate to contact me or my office.

Yours sincerely,

Philip Kewin
Chief Executive Officer
National Insurance Brokers Association