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22 November 2022

Parliamentary Joint Select Committee on Northern Australia

By email : NorthernAustralia.Joint@aph.gov.au

Dear Secretary,

Inquiry into the Cyclone Reinsurance Pool – Townsville Chamber of Commerce Submission

The Townsville Chamber of Commerce Inc. (the Townsville Chamber) welcomes the invitation from the Parliamentary Joint Select Committee on Northern Australia (the Committee) to make a submission to the Inquiry and to address the Public Hearing of the Committee being held on Friday 25 November 2022.

The Townsville Chamber was established in 1882 to serve and be the voice for the Townsville business community. It represents almost 400 members in the Townsville region. It has advocated strongly for the Cyclone and Flood Damage Reinsurance Pool (the Reinsurance Pool) to provide parity, between the insurance premiums paid for similar properties in the Townsville region to those in other regions, especially in light of the infrequent occurrence of high-intensity cyclones with flood-related damage. Despite the infrequent occurrence, Townsville's insurance premiums remain up to double that of comparable properties, with like-for-like risks in other parts of Australia including NSW and Victoria.

Insurance is an essential service. Following the ACCC's Northern Australia Insurance Inquiry, it was evident there were market failures. The intervention by the Federal Government – through the Reinsurance Pool mechanism – seeks to address two fundamental issues;

- Availability of insurance products in Northern Australia
- Price parity of those products compared to like-for-like risk in other markets

The Townsville Chamber notes the Committee's Terms of Reference require it to *"inquire into and report on the operation and implementation of the Cyclone Reinsurance Pool."*

The Chamber respectfully asks that the Committee focus its inquiry to these primary matters.

1. Delays in generating the expected benefits of insurance premium reductions and increased accessibility and affordability

The Reinsurance Pool has yet to be utilised by insurance companies for a number of reasons, mainly timing issues, including:

- Many insurance companies had already negotiated their reinsurance arrangements and policies, a process that can take up to 3 months. For some, whose arrangements are on a calendar year basis, their 2022 arrangements had been settled in late 2021 and in respect of their arrangements for the year ended 30 June 2023, they had been settled prior to the commencement of the Reinsurance Pool on 1 July 2022. In some instances, reinsurance arrangements are acquired in blocks, sometimes across several years. In each instance it will not be until those arrangements come up for renegotiation will the opportunity arise to ensure benefits from the Reinsurance Pool are passed on to property owners.
- The Government's finalised reinsurance premiums were not released until late September 2022.
- The Government's modelling was only released in June 2022
- Even where an Insurance Company decides to engage with the Reinsurance Pool a number of system and process changes are required to be made by the Insurance Company before being able to offer

While there are delays in the implementation of the Reinsurance Pool, this was not unexpected. It is not the time for knee-jerk reactions on effectively untried legislation. Rather, it is a time for patience and close monitoring by the ACCC to ensure there are insurance companies joining the Reinsurance Pool or there are plans afoot for insurance companies to join the Reinsurance Pool, that benefits are passed on, and that insurance becomes more accessible and more affordable.

Recommendation 1: *This review presents the opportunity for The Committee to gain an understanding of the controls built into the legislation, which are already available to be influenced once the ACCC has undertaken its monitoring activities and reported back to the Committee on the Reinsurance Pool's operation.*

Given that the first report by the ACCC is due December 2022, and little activity will be reported, this Committee should bring the timing of the ACCC second review forwards from December 2023 to June 2023.

2. The operation and implementation of the Cyclone Reinsurance Pool

The Townsville Chamber contributed extensively to the development of the legislation. The then Prime Minister Scott Morrison, visited the Chamber's Offices the day after the announcement on 4 May 2021 to outline the Government's commitment to introducing the Reinsurance Pool.

As set out in the Assistant Treasurer's Direction, the ACCC has a vital role to monitor prices, costs and profits, before and after the commencement of the Reinsurance Pool, relating to the supply of insurance cover in respect of the destruction of, or damage to, a home building or strata title residence, their contents. The first of five Annual Reports from the ACCC is not expected to be published until December 2022.

Recommendation 2: *The Committee should not be seeking to amend the scope or spread of the Reinsurance Pool, or to seek proposals to amend the legislation until such time as;*

- *the Reinsurance Pool has properly commenced operation,*
- *insurance companies have begun purchasing reinsurance from the Reinsurance Pool, and*
- *the ACCC has had a full opportunity to perform its monitoring role and report back to the Committee on its activities.*

Townsville Chamber believes, that while the Reinsurance Pool needs to remain focused on Cyclone and Flood related events, and focused on Northern Australia, there are two areas that The Committee should consider possible changes to the underlying principles of the structure of the Reinsurance Pool.

3. Funding model of the Reinsurance Pool

The underlying principle of insurance is that it spreads of risk in order to compensate the few that are affected.

The presumption that the Reinsurance Pool must be cost-neutral is in direct contrast to the fundamental reason the Reinsurance Pool is required. Further, passing any cost onto affected policy holders by way of levy is counterproductive.

The Terrorism Reinsurance Pool which was established in 2003 has been generated through contributions from every commercial property insurance policy holder in Australia, who contributes to the Reinsurance Pool at a prescribed rate which is determined by where the building is situated. This is in contrast to the Reinsurance Pool which only receives contributions from insurance companies with eligible policies which is expected to allow the Reinsurance Pool to operate annually on a cost neutral basis.

Recommendation 3: *The committee should consider the cost modelling of the Reinsurance Pool in light of the levy model currently applied nationwide to the Terrorism Reinsurance Pool.*

Budget neutrality will not allow the Reinsurance Pool to be either effective, or sustainable.

4. The role of competition in driving a reduction in insurance premiums

The Re-Insurance Pool is currently modelled on the assumption that by reducing the cost of reinsurance to the insurance retailers, they will willingly participate in the market. The assumption follows that the sustainable reductions in insurance premiums will be passed onto households, strata title holders and small businesses creating increased accessibility and affordability.

There is nothing in the structure of the Reinsurance Pool that compels an insurer to offer a product in the Northern Australia marketplace. For a truly sustainable competitive marketplace to be established, participation by a significant number of retail insurers will be required.

The Committee should consider the ways in which it can introduce competition in the marketplace. The Chamber's previous other recommendations, in concert with the introduction of a Reinsurance Pool, were

- Introduce the obligation for an insurer to provide insurance for all of Australia
- The Government provide a baseline level of insurance in failed markets
- Abolish additional fees; Stamp Duty and GST on insurance premiums

It is imperative that the effectiveness of the Reinsurance Pool be measured in quantifiable terms.

Recommendation 4:

Success of the Reinsurance Pool should be modelled on quantifiable outcomes:

- *Availability of insurance products in Northern Australia*
- *Price parity of that product compared to like-for-like risk in other markets*

Conclusion

This submission raises a number of issues that concern the operation and implementation of the Reinsurance Pool. However, the Townsville Chamber remains overwhelming in favour of the continuance of the Reinsurance Pool in its current form until such time as insurers have engaged with the Reinsurance Pool and the ACCC has had a chance to undertake its monitoring directive and provide a report back to the Committee. We welcome the opportunity to continue to provide feedback and advice on this vital subject.

Yours faithfully

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Chris Rockemer

President

The Townsville Chamber of Commerce

Date: 22/11/2022