



RACQ Insurance Ltd ABN 50 009 704 152

2649 Logan Road, Eight Mile Plains, Qld 4113

PO Box 4, Springwood, Qld 4127

13 1905 racq.com

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11 November 2022

Committee Secretary
Joint Select Committee on Northern Australia
PO Box 6100
Parliament House
CANBERRA ACT 2600

Submitted via online portal

Dear Committee Secretary

RACQ is pleased to provide its advice and unique insights to the Joint Select Committee on Northern Australia (the Committee) inquiry into the Cyclone Reinsurance Pool (the pool).

Primarily, RACQ urges the Committee to recommend that the Federal Government immediately works to improve the pool through new consultation with individual insurers operating in the north.

RACQ is very concerned the pool in its current form will fail to achieve the policy objectives – improving access and affordability of property insurance in cyclone prone areas. Worse, the pool will fail to meet the expectations of RACQ's 300,000 members in the north.

RACQ understands that this inquiry aims to identify opportunities to enhance the efficiency and effectiveness of the pool, in relation to its operation and implementation. RACQ would have liked to be already offering meaningful premium reductions to our members through the pool. However, policy decisions that imposed complexity and restrictions have held us back from joining from the start date (1 July 2022) and have raised doubts as to whether the pool will achieve the Government's objectives.

More than any other insurer, RACQ has been vocal in its support for a well-designed cyclone reinsurance pool, and we maintain this position. In fact, with every year the disaster risk grows in Queensland, so too does our support for a pool, in the absence of mitigation. However, RACQ has been equally vocal in calling out inadequacies in the pool's design, development and legislation, while also putting forward practical suggestions that would improve the pool.

We have lodged several submissions, participated in numerous forums and meetings with Government agencies, and appeared before a Senate Committee in March this year. However, we are still left with a pool that is unlikely to deliver what was previously promised.

RACQ has examined information released by the Australian Reinsurance Pool Corporation in recent months, including more specific pool pricing information. However, we still cannot see how the pool will drive deep and widespread premium reductions in northern Australia. We are concerned that any benefits will be more than offset by affordability pressures that are already pinching from building inflation, rising claims costs and growing climate impacts.

The pool needs a redesign if there is a serious intent for the pool to work properly. RACQ cannot identify how material improvements can be made to the pool without changing the legislation and regulations. We therefore urge this Committee to consider the below recommendations.

RACQ RECOMMENDATION: The Federal Government should immediately work to improve the pool through new consultation with individual insurers operating in the north. The Government should set its desired level of premium reductions so insurers can consider necessary changes to achieve objectives.



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Budget Neutrality

RACQ would like the Committee to challenge the “non-negotiable” policy parameter that the pool must be Budget-neutral over time. This was decided early on and immediately restricted the pool’s effectiveness.

As a result, information made available to RACQ does not seem to indicate widespread premium reductions. Any pool benefit that policyholders actually experience is highly uncertain and will be dependent on a number of factors including changes to the cost of non-pool reinsurance next year, the insurer’s current pricing of cyclone risk and underlying claims inflation which is at a record high.

The Assistant Treasurer has already taken steps to moderate community expectation of the level premium relief the pool can deliver. The pool needs to come with a level of subsidy if there is to be any chance for the pool to deliver significant savings to many policyholders.

RACQ RECOMMENDATION: The Committee should explore ways that Government subsidisation of the pool, or direct subsidisation to homeowners, may improve insurance accessibility and affordability in northern Australia.

Claims Period

The legislation and regulations prescribe that the pool provides coverage for claims which commence within the claims period – beginning at the time a cyclone is declared and ending 48 hours after the cyclone has been downgraded.

This so-called “48-hour rule” has been repeatedly raised as a severe limitation, causing much of the pool’s complexity and uncertainty. This will force RACQ to purchase additional cyclone reinsurance cover from the global market to ensure that ex-Tropical Cyclones with a long duration do not leave us dangerously exposed. This type of “spill over” cyclone cover is untested in the global reinsurance market, and reinsurers will certainly add a premium to the cost of this cover to account for the uncertainty.

In addition to the financial impact, we anticipate cumbersome member and staff experiences due to the claims period. We are currently building numerous new processes, reports, and system functionality to enable classification of cyclone claims that fall within the claims period, to ensure we correctly seek recovery of associated costs from the pool. This is all anchored to the precise time the loss commenced. It may not only be impossible in some situations to correctly identify the time of loss, but could be perceived as an overly specific and insensitive question to ask a distressed RACQ member whose home has been destroyed, given they may have been evacuated at the time.

RACQ RECOMMENDATION: The definition of the claims period should be changed to align with standard reinsurance treaties and apply a “168 hours clause” (seven days). However, the seven-day period selected by the insurer must overlap with a point in time when the weather event was still a declared cyclone to meet the Government’s policy objectives.

Motor Insurance

The decision to exclude motor insurance is another complexity because it forces RACQ to “carve out” home from motor – and purchase standalone cyclone reinsurance from the global market just for motor vehicles. This is a practice that we have never been required to do until now, adding further effort and cost to the annual process.

Reinsurers have not previously been required to model and price for cyclone risk for motor insurance alone. This new complexity and uncertainty will be met by additional reinsurance premium charged to insurers, until the risk models mature over time. Put simply, more complexity and more uncertainty will bring more cost to the system, and so the pool has not been set up to succeed.



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RACQ RECOMMENDATION: The pool should be expanded to also cover motor insurance to ensure efficiency and cost effectiveness.

Price Monitoring Certainty

RACQ acknowledges the important role of the Australian Competition and Consumer Commission (ACCC) as price monitor for the pool. We also appreciate the consultative approach taken to the first data and document request conducted in August-September 2022 which will establish a baseline upon which the effectiveness of the pool can be measured.

However, insurers still lack certainty regarding how the ACCC will price monitor the industry in future years. The nature of detailed data that may be requested remains unclear. We are changing our systems and reporting landscape now to get ready to join the pool, yet we don't know if this work will enable us to provide data in the specific manner required by ACCC in future.

Any additional system or reporting enhancements needed in future to comply with ACCC data and document requests will come at additional costs which ultimately flow through to our members, eroding any premium benefits the pool may generate.

RACQ RECOMMENDATION: The ACCC should provide advance notice to insurers of the specific nature of data it intends to collect in future years, to enable insurers to confidently change their systems and reporting infrastructure.

RACQ, as always, would be pleased to further discuss our positions and recommendations. We attach two of our previous submissions (also publicly available here: [December 2021](#) and [March 2022](#)) which have largely remain unchanged.

Yours sincerely

David Carter
Group CEO

Trent Sayers
Group Executive Insurance