Joint Committee on Northern Australia

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into the cyclone reinsurance pool

2022 - 2023

Division: Financial System Division
Topic: Reinsurance pool coverage
Reference: Written
Member: Marion Scrymgour

Question:

What consideration has the Government given to sunsetting the pool's coverage so that it does not extend to new builds or developments unless:

a. They meet particular standards intended to reduce the damage caused by cyclones; and/or

b. They are built in lower-risk areas?

Answer:

a. The Government is implementing the cyclone reinsurance pool as legislated by the previous Parliament. The pool will be formally reviewed in 2025 after three years of operation, and then every five years thereafter. These reviews will assess if the pool is meetings its objectives and consider any potential changes to its design.

b. See response to (a) above.

Joint Committee on Northern Australia

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into the cyclone reinsurance pool

2022 - 2023

Division: Financial System Division
Topic: Modelling of premium savings
Reference: Written
Member: Marion Scrymgour

Question:

How does modelling of anticipated premium savings take into account the possibility that insurers may still need to take out cyclone reinsurance for cyclone-related events that extend beyond 48 hours after a cyclone has been downgraded?

Answer:

The costs of flooding beyond 48 hours are not covered by the pool and the modelling assumed insurers would generally reinsure these costs outside the pool. Estimates of this reinsurance cost have been factored into the modelling of anticipated premium savings.

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into the cyclone reinsurance pool

2022 - 2023

Division:	Financial System Division
Topic:	Extension of coverage
Reference:	Written
Member:	Marion Scrymgour

Question:

If coverage was extended from 48 hours after a cyclone is declared to have ended to 7 days, what impact would this have on:

a. The total funds in the pool;

b. The cost of premiums, for both insurers joining the pool and policy holders; and

c. The number of policy holders covered, particularly those further south (e.g. in Sydney), bearing in mind that many policy holders further south may not have cyclone insurance?

Answer:

a. As per the Australian Government Actuary (AGA)'s comments at the 25 November 2022 hearing for the inquiry, extending the related damage period to 7 days after the end of a cyclone would increase the total reinsurance premiums charged by the pool as the pool would be covering more risk. Claims would also increase. The actual amount of funds would depend on premium collection and claim events.

b. and c. In general, the longer the time period to cover flood following a cyclone, the greater the reinsurance coverage being offered as more 'downstream' losses are captured, but the ability to target savings to those most at risk of cyclone would also change. As per the AGA comments at the 25 November 2022 hearing for the inquiry, additional modelling would be required to determine the impact on policy holders if the related damage period were increased from 48 hours to 7 days. See: www.aph.gov.au/Parliamentary_Business/Committees/Joint/Northern_Australia/CycloneReinsurancePool/Public_Hearings, p 46.

Joint Committee on Northern Australia

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into the cyclone reinsurance pool

2022 - 2023

Division: Financial System Division
Topic: ARPC membership
Reference: Written
Member: Marion Scrymgour

Question:

If joining the ARPC was not compulsory, what impact would this have on:

a. The total funds in the pool;
b. The cost of premiums, for both insurers joining the pool and policy holders; and
c. The requirement for the pool to be cost-neutral in the long term?

Answer:

A voluntary pool would be subject to selection issues by insurers in a way that a compulsory pool is not. In a voluntary pool, insurers would likely join only if ARPC premium rates are lower than their own assessment of a policy's risk. As the pool is priced to target savings to higher-risk areas, insurers with more exposure to higher risk would be more likely to join, and those with more exposure to lower risk less likely.

Where insurers do not join, the pool would receive less premium from lower risk policies, and would be less likely to generate the same level of savings for higher risk policies. The impact on insurance premium prices and longer-term cost impacts would depend on the extent of take up by insurers, insurer's pricing choices and how these may change over time.