Insurance Council of Australia

Joint Select Committee on Northern Australia – Cyclone Reinsurance Pool
Questions taken on Notice by the Insurance Council of Australia
19 April 2024

Question on Notice	Response
Mr NEUMANN: Don't follow the US; follow the UK, but with modifications—is that your message to us? **Mr Hall:** And I think you've got to narrow down what the problem you're trying to fix is. You don't want to wreck a whole system in trying to fix a handful of homes, and that's what the ACCC found in their report back in 2019. They assessed all of this and they said to government that it would probably be cheapest and easiest in the long term to offer subsidies for those high-risk properties for a defined period, until you can do something about those properties' risk exposure, rather than creating a whole scheme that, politically, you'll never be able to get out of and that will inevitably cost money. It will only be effective if it's subsidised. The reality is that someone has to pay for this risk. There was no profit margin being eliminated in the northern Australia pool; government has discovered that. If you want to actually reduce people's premiums, take the taxes off their insurance policies and provide a subsidy for the highest-risk properties. **Mr NEUMANN:** The chair is asking me to request that you take on notice to provide some written evidence in relation to the UK scheme and a bit more extrapolation of that for us. **Mr Hall:** We can provide a summary to the committee, yes.	Flood Re, short for Flood Reinsurance, is a UK government-backed reinsurance scheme designed with a goal to make flood insurance more affordable and accessible for homeowners in flood-prone areas in the UK. It was established in 2016 as a response to the increasing risk of flooding due to climate change and the consequent rise in insurance premiums for those living in high-risk flood zones. Flood Re acts as a reinsurer, meaning it provides insurance to insurance companies. Homeowners in flood-prone areas can still purchase flood insurance from their regular insurance providers, but these providers can then transfer the flood risk to Flood Re. This helps to reduce the financial burden on insurers, allowing them to offer more affordable flood cover premiums to homeowners in flood-prone areas. Flood Re is funded through a levy on insurance premiums, which is collected from all home insurance policies in the UK, regardless of whether they are in flood-prone areas or not. This pooled fund is then used to compensate insurers for flood claims that exceed a certain threshold. Flood Re is funded by a £135m annual levy collected from insurers offering home insurance, equating to less than £10 per household with insurance. A levy of this low amount reflects the fact that the UK has a significantly larger pool of insured properties to draw the levy from than exists in Australia, and while careful modelling would need to be undertaken, it is likely that the cost of a similar model in this country would be significantly more than $10 per insured household. Overall, Flood Re aims to ensure that homeowners in flood-risk areas have access to affordable flood insurance, while also encouraging better risk management and resilience against flooding. Flood Re is intended to end in 2039 to incentive investment in risk mitigation measures. However, Flood Re has recently suggested that the investment in risk mitigation measures has not advanced as quickly as initially hoped, and as such they will be unlikely to be able to exit the market in line with original projections.

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Mr WILLCOX: With the chair's permission, could you take this on notice? Could you tell us a little bit about what reform would look like to you, what success would look like, in that space, please? For me, particularly, in the northern Australian area, we're most affected by these events. Our insurance premiums are a lot dearer, which reflect that. If we could quarantine some of that money or build some resilience, to take care of some of that, that would be a step in the right direction. **Mr Hall:** Yes, we're happy to give you our thoughts on stamp duty and tax reform broadly. One thing I would say is that we have remained agnostic. Every state has an idea about how they would like to reform their taxation systems, which is fair enough, and I think Queensland can make further design choices around stamp duty reform, particularly for insurance premiums. Suffice to say, if we want to give immediate premium relief to consumers, cutting the rate of stamp duty would provide that—immediately and overnight.	The Insurance Council of Australia (ICA) has long advocated for the reform of unfair state taxes that increase the cost of insurance premiums, to improve insurance affordability and drive down levels of underinsurance. State taxes and charges on insurance such as stamp duty and levies to fund emergency services continue to make premiums more expensive, leaving businesses and consumers vulnerable in their time of need. In states and territories where stamp duty is charged on top of the GST (all except the ACT), consumers are being double taxed on their insurance premiums. In 2022-23, states made more money from stamp duty ($6.39 billion) than insurers made in profit ($4.6 billion). In Queensland, $1.4 billion was collected in stamp duties on insurance. As stamp duty is a percentage of premiums, states are experiencing windfall gains as a result of higher premiums in recent years due to the impacts of inflation and extreme weather events.
Senator GREEN: I'm conscious of time. I have a question about the breakdown of coverage for impacted consumers in Far North Queensland, but I might put that on notice to the ICA. Then they can probably give us some more detailed information, if that assists you in getting to the next witness on time. **CHAIR:** Okay. That's the end of questioning. Thank you for your evidence today, Mr Hall and Ms Hordern. The committee has set a date of 10 May as the due date for answers taken on notice. You had a request from the member for Blair, the member for Dawson and Senator Green, so we might compile all of that. The secretariat will be in contact with you, as to the three areas that you've agreed to take on notice. The requirement for the response for that has to be by 10 May 2024. We'll get the secretariat to follow up with you, in relation to those outstanding matters. Thank you very much for your appearance today.	This is a matter for the Australian Reinsurance Pool Corporation (ARPC). I refer you to their recently published *The Cyclone Reinsurance Pool Premium and Exposure Statistics Report (Report),* which was made public on 3 May 2024: https://arpc.gov.au/resources/arpc-releases-cyclone-pool-statistical-report/ and with particular reference to risk mitigation discounts on page 7 & 8 of the Report. Approximately $5.4m in premium savings on home insurance were realised as a result of risk mitigation measures adopted by consumers. The benefit of premium savings was mainly realised in Queensland, which has enjoyed the positive impacts of the Queensland Household Resilience Program, with the report showing the mitigation discounts are much higher for Queensland building owners than for those in Western Australia (see page 8 graph wind risk bands L-U as opposed to risk band W). This shows the effectiveness, as well as the importance, of mitigation investment in delivering premium relief to consumers.