



News release

Insurance Council
of Australia

Monday, 7 February 2022

Insurance Council welcome final Reinsurance Pool design

The Insurance Council of Australia (ICA) today welcomed the release of the final design of the Federal Government's Northern Australia Cyclone Reinsurance Pool.

Further detail from the Australian Reinsurance Pool Corporation (ARPC) on pricing arrangements is required before insurers will be able to calculate the impact on premium costs, noting the Government's intention to provide the greatest savings to those with the greatest need.

Insurers have worked hard for many years in northern Australia to keep premiums affordable and coverage available.

The 2020 Northern Australia Insurance Inquiry undertaken by the Australian Competition and Consumer Commission (ACCC) supported insurers' pricing practices, finding the main driver of premiums in northern Australia was a higher risk of extreme weather from cyclone and cyclone-related flood.

The same inquiry found that over the 12 years from FY 2007-08 insurers in northern Australia suffered combined losses in the region of \$856 million, highlighting the pressure insurers are under to deliver for customers in a way that is financially sustainable.

Insurers welcome the ACCC's ongoing price monitoring role, given their expertise and understanding of this issue, however the Government must ensure this process doesn't add complexity or costs into the system.

Reducing the cost of reinsurance is only one part of improving the affordability and availability of insurance for those living with the threat of cyclones in northern Australia.

Making sustainable inroads on premium prices over the long term will only occur with significant investment in measures that make communities more resilient to extreme weather risk, including cyclone and related flood.

The Productivity Commission has recommended Commonwealth investment in this area should be \$200 million a year, which is around double what is currently allocated, matched by the states and territories.

The Government's \$40 million North Queensland Strata Title Resilience Pilot Program is one example of the practical measures that can be undertaken to reduce risk and put downward pressure on premiums.

Insurers strongly support the review to take place next year to monitor the Pool's effectiveness.

To provide a full picture the review should also include the effects on those most exposed to cyclone risk and the premium impacts of mitigation investment, planning decisions, state taxes, and building codes.

Quote attributable to ICA CEO Andrew Hall:

Insurers have played a constructive role in the Government's development of a Reinsurance Pool for cyclone-related risk.

As the ACCC has previously outlined, those insurers who have remained in the market in northern Australia have done so at considerable cost.

We expect insurers will take advantage of the Pool to provide additional cover for households and small businesses in northern Australia most at risk, but the next step of commercial negotiations with the ARPC will need to be completed to fully understand the impact on premiums.

To provide long-term sustainable reductions in premiums Australian governments – both state and federal – need to invest in stronger homes and infrastructure that makes communities more resilient to worsening extreme weather.

We must also improve resilience standards in building codes, remove state insurance stamp duties and levies, and make better land planning decisions that factor in worsening extreme weather and its impacts.