Economic Assessment of TasInsure: Costs, Risks and Market Implications

A Lateral Economics report to the Insurance Council of Australia

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LateralEconomics

CAPABLE, INNOVATIVE, RIGOROUS

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Overview

The Tasmanian Government (the Government) intends to establish *TasInsure*, a state-backed insurer to address affordability and availability challenges in the local market. This report was commissioned by the Insurance Council of Australia and prepared by Lateral Economics (LE) to provide an independent economic evaluation of the policy. It explores whether TasInsure could fill market gaps effectively while avoiding fiscal and prudential risks, drawing lessons from international experience and modelling Tasmanian scenarios.

The policy rationale for setting up TasInsure is weak

LE finds that the policy rationale for government entry into the provision of retail insurance is weak and is not a sustainable way to improve insurance affordability. Setting up a state-owned insurance company will be costly and risky for the state government, and will crowd out existing private sector insurance provision.

TasInsure will lose up to $13 million annually and require topping up via additional debt

Particularly given the small size of the Tasmanian market and the scale economies involved in establishing and running a stand-alone general retail insurance provider, proceeding with TasInsure will generate far more costs than benefits. TasInsure is expected to lose at least $4 million and up to $13 million annually. If TasInsure lost $13 million annually, it would exhaust any reserves available from MAIB within 15 years. However, as it took the liability of insuring Tasmanian houses, it would need to bolster its reserves with new equity well before then which would involve taking on new debt.

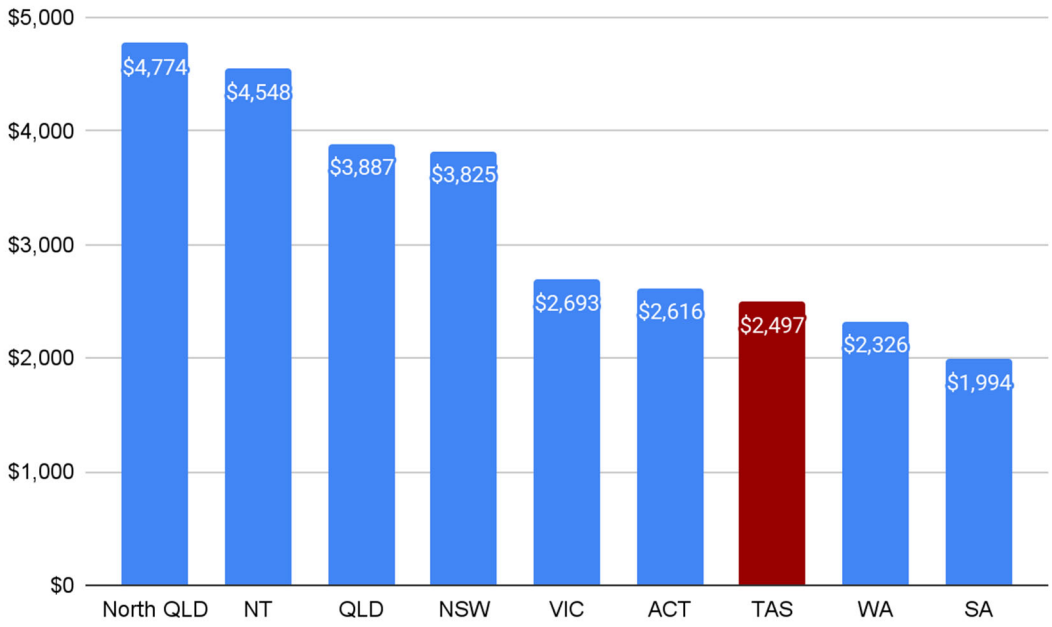
If the Government decides that it needs to take action to improve insurance affordability in Tasmania, it should identify the specific market failures it seeks to overcome. If it did this it would focus its involvement 'upstream' on those factors impacting the cost of insurance around the world: growing exposure to extreme weather risk and inflation in the building and motor repair sectors and the impact these are having on the reinsurance market, and the impact of existing taxes and regulation. In Tasmania, stamp duty is charged at a 10% rate on general insurance policies. With an average home and contents premium of around $2,500 in Tasmania, stamp duty amounts to around $250 for the average policy.[1] To date the policy analysis the Government has released to support its position has not properly considered this approach nor tested the costs and benefits of its existing policy proposals or even this more circumspect approach.

[1] Refer to Figure A.

Principles of Intervention: The Tension at the Heart of Policy

Establishing TasInsure as a general insurer is not justified by the principles of good public policy. Governments must decide whether there is a legitimate rationale for intervention, to improve the efficiency or equity of market outcomes, and then assess the net benefits of various options. This does not appear to have occurred in the case of TasInsure. Tasmania already has among the lowest average premiums among the states and territories, meaning the market is already reflecting lower risk than in states with greater natural disaster risks– particularly Queensland and the Northern Territory (Figure A).

Figure A. Average home and contents premiums, 2025



Source: Mozo, Canstar, CHOICE, and CoverClub.
Notes: Lateral Economics computed an averaged estimate from each State/Territory/Area from the listed four insurance data sources in 2025. Only North Queensland and Queensland's figures are based on two sources (Canstar and CHOICE).

There is also a recurring tension between the principles of *sound policy intervention* and the immediate *political pressures* that tend to drive governments to act in insurance markets. Political pressures often focus on the simple metric of affordability, without regard for the drivers of affordability concerns or potential solutions to address those drivers. However the principles of policy intervention according to which any action should be taken are subtler and more complex.

The historical record both in Australia and internationally demonstrates this. Where governments have acknowledged the tension between immediate political objectives and sound principles of public policy and carefully managed it, their interventions can help address affordability and coverage in a targeted way whilst improving the way markets work. But where the tension is handled badly, we often get the worst of both worlds.

At least in the short term, it is not difficult for governments to make high risk properties cheaper to insure. They can simply require market participants to cross-subsidise high risk customers. But that in turn increases costs to lower risk property owners. Cross-subsidies from low to high risk activities degrade the extent to which the market can do its job of understanding and pricing risk. It can also encourage high-risk activity and encourage more vulnerable people to move to higher risk areas which are often more affordable to live in. Alternatively, high premiums can be subsidised from the budget. But this builds up fiscal exposures for some much more dramatic reckoning in the future.

This report foregrounds this tension. It argues that, in addressing community concerns, governments should constrain themselves to two types of actions.

1. Interventions that strengthen resilience and mitigation, risk pooling, solvency, and long-term affordability; and
2. Interventions that acknowledge affordability as an explicit policy objective that is targeted towards those who could not otherwise afford insurance and commit to addressing it through explicit and transparent funding through the government budget.

The most immediate impact would come from the second type of intervention–e.g. by eliminating stamp duties on insurance premiums, which would bring down the average Tasmanian home and contents premium by $260.

In both cases, policy makers should seek to minimise the extent to which their policies undermine the natural incentives people have to situate and invest in housing at higher risk locations.

MAIB as a Benchmark

As the policy proposal relies on the Motor Accident Insurance Board's (MAIB) reserves to back TasInsure, we have made MAIB's financials central to our analysis. We adjust for two important factors:

1. **Insurance lines** – MAIB operates in compulsory third-party motor accident cover, a stable and narrow pool with limited catastrophe exposure. TasInsure, by contrast, would enter voluntary, catastrophe-exposed lines such as home and business property

insurance. Here, losses are more volatile and correlated and adverse selection can be an issue. ('Adverse selection arises where riskier customers are disproportionately attracted to purchase insurance, while less riskier customers opt out, thus undermining the process by which insurers can pool risks.)[2]

2. **Reserve adequacy** – MAIB's reserves are currently strong relative to its obligations.[3] But when pressed into service to underwrite a large expansion in premium revenue and associated risk under TasInsure, without further injection of reserves from the State Government budget, those reserves would be stretched beyond prudent levels.

MAIB's strength lies in compulsory participation and its narrow risk pool. Extending its reserves to support TasInsure would dilute these advantages, weaken its dividend contribution to the Government, and expose the revenue side of the State budget to materially higher volatility.

Financial Modelling of TasInsure

Under scenarios where TasInsure captures 10–30% of the Tasmanian market across all personal and commercial insurance lines (worth $1.2 billion annually):[4]

- **Losses mount quickly**: Annual operating deficits are projected at nearly $4 million for a 10% share and nearly $13 million for a 30% share. In effect, TasInsure will lose money on every policy written, and, as its business expands, its losses will increase.
- **Negative return on capital (ROC)**: TasInsure is expected to generate a negative ROC (-2.3% to -2.5%) across the different market share scenarios. This represents a poor and unnecessary investment of public capital.
- **Investment reliance is risky**: MAIB's float is steady, backed by predictable, long-tailed CTP claims and reliable investment income.[5] TasInsure's float would be more volatile because of its exposure to sudden catastrophe losses that could overwhelm reserves in one event.[6] MAIB's float is dependable; TasInsure's would rely on a higher level of reinsurance or government subsidies.

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[2] Adverse selection arises when those most likely to make a claim are also the most likely to buy—or to retain—insurance, while lower-risk customers opt out or underinsure. Because insurers cannot perfectly distinguish between high- and low-risk policyholders, or because they cannot price discriminate between customers to the extent necessary, the resulting imbalance pushes up average risk in the insured pool, raising premiums and potentially driving further withdrawals of low-risk customers.

[3] "EY notes that there are no indicators to suggest long-term sustainability concerns and that the dividend policy is sensible as it enables the MAIB to balance financial sufficiency with paying dividends to Government." Tasmanian Economic Regulator (2025), p.108.

[4] RACT (2025) Tasmanian Insurance Profile, p. 4.

[5] The term 'float' refers to the funds an insurance company holds on receiving premium payments from policyholders until they are paid out in claims.

[6] Appendix B provides an indicative assessment of the reserve and investment asset levels that TasInsure would need to maintain to meet prudential capital requirements under various market share scenarios.

- **Reserves will require ongoing top-up from the Government**: At most, $190 million can be transferred from MAIB's balance sheet to TasInsure without breaching its required funding ratio relating its financial assets to its liabilities.[7] This would be insufficient to absorb ongoing projected losses for TasInsure.
    - If annual operating losses are around $13 million, then the $190 million of reserves sourced from MAIB would last no more than 15 years.
    - Even if TasInsure broke even or was profitable, the available 'excess' reserves in MAIB could not comfortably support TasInsure achieving anything more than a 5-10% share of the Tasmanian market. If TasInsure were to achieve a 20-30% market share, it could require up to $600-900 million in reserves once it achieves this market share, well above what could be sourced from MAIB, meaning the Tasmanian Government would need to borrow the funds. This is a similar magnitude of funds to a major capital project, such as the Macquarie Point Stadium, which is currently budgeted to cost the Government $875 million.[8]
- **Reinsurance costs bite**: Covering correlated catastrophe risks would force TasInsure to cover more of its risks at materially higher reinsurance premiums than MAIB. Because the damages that TasInsure would insure are more unpredictable and potentially widespread and catastrophic (e.g. bushfires, floods, etc.) the annual cost of claims is far more volatile than the annual cost of claims generated by the less correlated risks covered by MAIB.

Overall, the negative financial results are driven by TasInsure having higher unit operating costs than private sector competitors for the following main reasons:

1. **Lack of Scale Economies**: Given the small size of the Tasmanian market, TasInsure would not benefit from the scale economies available to existing, larger general retail insurance providers, leading to a higher cost structure. One contributing factor is it will have to front up $150 million in start up costs that will require some borrowing to finance and hence ongoing debt servicing costs.
2. **Higher Risk of Adverse Selection, where riskier customers are disproportionately attracted to purchase insurance from TasInsure**: TasInsure is designed to plug affordability gaps, which means it will attract customers who face higher premiums or cannot obtain insurance elsewhere–i.e. high risk customers.

[7] This is based on MAIB's reported funding ratio of 133.7% as at 30 June 2024 and its net claims liability of $1.382 billion (MAIB 2024, p. 5 and p. 46). Given the minimum funding ratio of 120%, an estimated $189 million can be taken from MAIB reserves and transferred to TasInsure. This is calculated as follows: (133.7% funding ratio - 120% minimum ratio) x $1.382 billion in net claims liability.

[8] Holmes, A. (2025) "Tasmanian government looks to revenue raising and state business cutbacks to fund Hobart stadium", ABC News, https://www.abc.net.au/news/2025-12-04/cutbacks-revenue-raising-funding-for-hobart-afl-stadium/106099580

Hence, we expect that TasInsure will face significantly higher costs than private sector competitors. Though TasInsure can still access funds at a lower cost than commercial firms because it is a government-owned business, that advantage is eroding with Tasmania's declining credit rating and it will be substantially outweighed by the factors itemised above. This will ultimately cost Tasmanian taxpayers.

Start-up and Capital Demands

Initial establishment costs are estimated at $150 million, based on industry consultations. Prudential capital requirements would range from $170 million (assuming a 10% TasInsure market share) to $510 million (assuming a 30% TasInsure market share), the cost of a major capital works project, far beyond what could prudently be funded from MAIB reserves. By way of comparison, the upper range of this estimate is significantly higher than the Tasmanian Government's funding contribution to the Macquarie Point Stadium of $375 million.

Catastrophe Risk and Fiscal Exposure

Scenario modelling highlights the scale of exposure at the State level:

- Smaller floods could still cause $40–80 million in insured losses.
- Fires like the 2013 Dunalley event would produce $160–180 million in insured losses.
- A large bushfire in Hobart, such as the 1967 Black Tuesday bushfires, could produce insured losses exceeding $2 billion.[9] Incidentally, a cost of $2 billion would be an equivalent amount to around one fifth of Tasmania's annual budget, which comprises an estimated $10.5 billion of operating expenses in 2025-26.[10]

With 98% of Tasmania's land area designated as bushfire-prone, bushfire is the major risk from an insurance perspective.[11]

If there were a bushfire of a similar magnitude to the 1967 event, and if TasInsure enjoyed 30% market share, it may need to cover insured losses of $600 million. Even with reinsurance, extreme events would leave the State and ultimately Tasmanian taxpayers liable for hundreds of millions of dollars.

[9] RACT (2025) Tasmanian Insurance Profile - Key Insurance Risk, Hazard and PML Profile, July 2025, p. 3.
[10] Tasmanian Government (2025) Budget Paper no. 1, Table 5.1, p. 97, https://www.treasury.tas.gov.au/Documents/2025-26%20The%20Budget%2c%20Budget%20Paper%20No.%201.PDF
[11] Bushfire-Prone Areas.

Fiscal and Market Impacts

TasInsure would:

- Reduce state revenues by diverting MAIB dividends (currently $30–40 million annually).[12]
- Add volatile contingent liabilities to the budget, which, if they crystalise, could compromise the Government's ability to deliver public services. Furthermore, there could be a further downgrade of Tasmania's already comparatively low credit rating, further increasing borrowing costs. For instance, a 10-20 basis point increase in borrowing costs would increase the State Government's total interest expenses by $17-35 million annually.[13]
- Crowd out private insurers, threatening local jobs in general insurers, for limited to no value given there are likely better alternative policy measures to achieve desired outcomes.
- Potentially create regressive cross-subsidies, benefiting higher-value properties unless subsidies were tightly targeted.

Alternative Approaches

Tasmania's affordability and coverage concerns can be addressed more prudently through:

1. **Targeted subsidies** – Direct budget support for vulnerable households, avoiding hidden cross-subsidies.
2. **Resilience investment** – Linking affordability initiatives to mitigation to reduce long-term claims.
3. **Tax reform** – Remove stamp duty and the Fire Services Levy (which applies to commercial and industrial properties) on insurance and replace the lost revenue via a less distorting tax, such as land tax, as the Australian Capital Territory (ACT) did in 2016 and as the Victorian Government is progressively doing for stamp duty on commercial insurance policies.[14] The average Tasmanian household could save $260 in insurance premiums. While this would be substantially offset by the required increase in other taxes such as land tax, because insurance coverage is significantly

[12] MAIB (2024, p. 5)

[13] Based on the modelling for Gruen, N. (2025) Independent review of the Macquarie Point Stadium, p. 94.

[14] https://www.treasury.act.gov.au/__data/assets/pdf_file/0003/870168/Factsheet-Taxation-Reform.pdf and https://www.sro.vic.gov.au/businesses-and-organisations/insurance-duty/abolition-duty-business-insurance-premiums

less than 100%, the average required household property tax would be less than the average household currently pays in stamp duty on insurance.[15]

Conclusion

TasInsure would likely impose recurrent losses and expose the state to large fiscal risks, and it should not be established. If the Government feels it needs to address pressures arising from insurance affordability in high risk areas there are less costly options to address coverage and affordability concerns than TasInsure. Managed well, Government action can improve affordability while improving efficiency, but only to the extent that it brings the State's capacity to bear on addressing market failure. Beyond that point, assistance to those who cannot afford insurance should be explicitly and transparently funded from the budget.

To the extent that these principles are violated, policy action is likely to generate the worst of both worlds: degrading the extent to which the market can do its job of understanding, pricing, pooling and so avoiding risk where possible and bearing it where it's unavoidable. And fiscal exposures can accumulate for much more dramatic reckoning in the future.

Summary of Key Findings and Recommendations

Key Findings

- **No case for proceeding with TasInsure:**
  Tasmania faces challenges including significant correlated catastrophe risks and lower average household wealth than mainland states. This is particularly the case for bushfires, given 98% of Tasmania's land area is designated as bushfire-prone.[16] Despite the risk of future large catastrophes, government documentation has not provided credible estimates of the potential costs and benefits of intervention. In the absence of such evidence, there is no sound policy basis for establishing a government-run retail insurer such as TasInsure.
- **Substantial fiscal and prudential risks:**
  Modelling suggests that TasInsure will generate sustained operating deficits between $4 million and $13 million per year, depending on assumptions about market share and pricing behaviour. Ultimately, this will mean additional deficits and debt for the Tasmanian Government, which will need to provide TasInsure with budgetary support (i.e. a Community Service Obligation payment) of up to $13 million annually. That is,

[15] We have not quantified this impact in this report, but it would be desirable to undertake this modelling.
[16] Bushfire-Prone Areas.

losses from TasInsure could absorb up to 0.13% of Tasmania's total State Budget of around $10 billion.

- **Inappropriate use of MAIB reserves:**
  Drawing on the Motor Accidents Insurance Board's (MAIB's) reserves to fund TasInsure would be financially irresponsible. The MAIB operates in a compulsory and relatively stable line of business. Using its reserves for TasInsure, which would operate in competition with other insurers and be exposed to correlated risks could breach prudential norms, reduce dividend flows to Government, and increase budget volatility.
- **International evidence cautions against retail public insurance schemes:**
  International experience shows that government-run retail insurance schemes frequently experience financial distress when political considerations constrain pricing (e.g., the U.S. National Flood Insurance Program) or when exposure is concentrated in disaster-prone regions (e.g., US FAIR plans). More durable models—such as New Zealand's Earthquake Commission or Australia's Cyclone Reinsurance Pool—limit exposure, maintain actuarial discipline, and intervene upstream through reinsurance or pooling arrangements. However, even these schemes will not remain solvent if they are not paired with substantial mitigation investment to drive down underlying risk and inhibit new construction in high-risk zones. Insofar as TasInsure's operating model has been articulated, it does not reflect best-practice principles. This threatens its long-term sustainability.

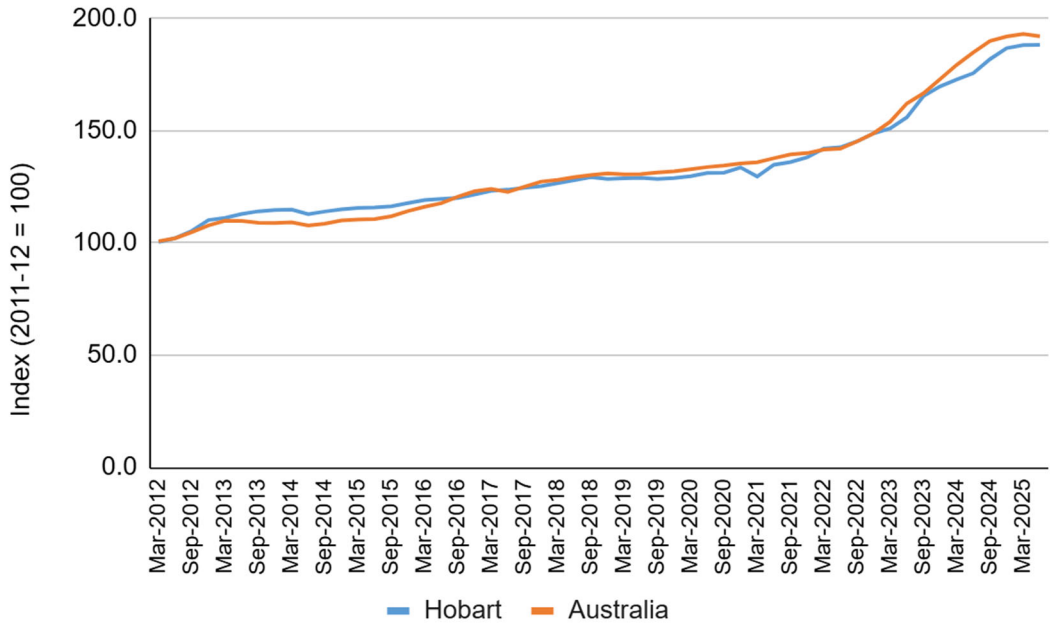
Recommendations

1. **Do not set up TasInsure as a retail insurer**: Doing so risks the worst of both worlds. It will be fiscally unsustainable and so will only meet political imperatives temporarily.
2. **Protect MAIB**: Safeguard its reserves and dividend flows by avoiding expansion into voluntary, catastrophe-exposed markets.
3. **Mitigation**: Consider investing in resilience to reduce long-term costs, fiscal exposure and pressure on insurance premiums where it is cost effective.
4. **Tax reform**: Remove stamp duty and the Fire Services Levy on insurance and replace the lost revenue via a less distorting tax, such as land tax.

1. Introduction

Australia is a relatively well insured nation. However in high-risk locations, particularly those exposed to floods, cyclones and bushfires, Australians have been experiencing ongoing pressures in the insurance market (Figure 1). Premiums are rising in higher-risk areas, and some households are finding it difficult to maintain cover. In the lead-up to its recent State election, the Tasmanian Government proposed establishing a new state-backed insurer, TasInsure. This was intended to improve access to insurance in places where private markets are weakest, while also aiming to keep costs sustainable for both households, businesses and the State. This report explores whether TasInsure could achieve those objectives and what factors would shape its success or failure in doing so.

Figure 1. Insurance CPI, quarterly



Source: ABS, Consumer Price Index, Australia.

The case for a public scheme rests on two main points. First, some argue there is market failure in some high-risk segments, where private insurers are less willing to provide cover.[17] Increasing catastrophic losses and rising construction and repair costs have put upward pressure on premiums, making affordability more difficult. Second, a State-backed entity might help to smooth volatility and stabilise access to cover, but the insured(s) would still need to meet the costs of the risks they are taking. However, there are also risks. International experience shows that public schemes can maintain insurance availability but, if poorly

[17] For example, the Chief Executive of the Tasmanian Hospitality Association mentioned "market failure" while providing comments supportive of TasInsure, as reported by ABC's Lucy MacDonald (2025).

designed, may also create persistent deficits, embed hidden subsidies, and/or reduce incentives to manage risk (Michel-Kerjan, 2010; FEMA, 2022; Kousky, 2020).

This report examines these issues step by step. It uses the Motor Accidents Insurance Board (MAIB) as a benchmark to provide context from an existing Tasmanian insurer. It develops indicative TasInsure cost scenarios at different market shares, highlighting the role of investment income, reinsurance, and claims volatility. It considers catastrophe exposure by drawing on Tasmania's historical loss experience to show potential government liabilities. It also reviews four case studies—the California FAIR Plan, the U.S. National Flood Insurance Program, New Zealand's Earthquake Commission, and Australia's Cyclone Reinsurance Pool—to identify practical lessons for scheme design. Finally, it looks at likely impacts on competition, pricing, equity, and fiscal sustainability.

The questions for Tasmania are practical.

- Will TasInsure target clear market gaps or will it replace private insurers?
- Can it set premiums that reflect underlying risks while still supporting households under pressure?
- Can it also manage the fiscal exposure that would arise from major catastrophe events?

Evidence suggests that success depends on careful design. Schemes tend to work best when their role is clearly defined, liabilities are capped, there is risk-based pricing, subsidies are made explicit and targeted, and reinsurance is used extensively to transfer some tail risks to reinsurers with better financial capacity to handle those risks.

The rest of this report proceeds as follows:

- **Section 2** tests the economic case for intervention, reviewing rationales, Government statements, alignment with policy objectives, and the robustness of the proposal.
- **Section 3** examines four international and Australian case studies, drawing comparative insights and highlighting lessons relevant to TasInsure.
- **Section 4** presents financial modelling, including start-up and capital requirements and operating scenarios.
- **Section 5** assesses catastrophe risk, using exposure baselines, historical anchors, and scenario modelling to frame potential liabilities.
- **Section 6** explores fiscal implications, considering budget impacts, revenue and expenditure flows, contingent liabilities, and long-term risks.
- **Section 7** analyses how TasInsure would affect market structure, competition, pricing, and innovation.
- **Section 8** draws together the key findings and implications for policy design.

The analysis is intended as a high-level, policy-focused assessment. It is not a substitute for full actuarial modelling or regulatory capital analysis, which would be needed before any final decision on implementation. Instead, the report provides a clear overview of the main issues, trade-offs, and design choices that Tasmania would face.

2. Economic Justification for TasInsure

Economic Rationales for Government Intervention

Catastrophe and correlated-risk exposure. Governments around the world have historically intervened in insurance markets to address real or perceived protection or coverage gaps and failures that private markets have struggled to resolve on their own. Large-scale, simultaneous losses from natural hazards such as bushfires, floods, or cyclones can overwhelm private insurance markets when risks are not able to be spread easily across unaffected policyholders. In these cases, cover can become prohibitively expensive for certain cohorts or can be withdrawn altogether. Public risk-sharing mechanisms, such as reinsurance pools or capped government guarantees, have been used to smooth volatility and sustain availability, reducing the impact on communities while maintaining private sector participation (Commonwealth Treasury, 2021; ARPC, 2025a).

Information failures. Incomplete or inconsistent data on hazards, exposure, and building costs can impair accurate pricing of risk and weaken household incentives to invest in resilience. Without reliable data, insurers may load premiums conservatively, while households may underestimate the risks they face. Governments can play a corrective role by funding hazard mapping, standardising data, and investing in climate and catastrophe modelling. Such interventions improve the accuracy of premiums and enhance both household decision-making and the ability of insurers to operate with confidence (Productivity Commission, 2015; Productivity Commission, 2025).

Coordination failures in mitigation. The private benefits from resilience measures, such as flood levees or bushfire-resistant building standards, may be smaller than the broader social benefits that accrue to whole communities. As a result, households and businesses often under-invest in mitigation relative to the optimal level for society. This is reinforced by the perceived free rider problem, where individuals may rely on others to bear the costs of protection while still benefiting from collective resilience. Governments can correct this underinvestment by funding or co-funding mitigation works, strengthening minimum building standards, and aligning insurance affordability measures with resilience initiatives. These activities serve to lower expected claims costs across the system and create long-term fiscal savings (Productivity Commission, 2015).

Thin markets. Where insurance markets are thin, with few providers and limited competition, consumers can face high premiums, limited choice, and exposure to market withdrawal. This may be relevant in smaller jurisdictions like Tasmania, where the scale of the market may reduce contestability

compared to larger mainland states, although we are unaware of evidence the Tasmanian market lacks sufficient competition (There are at least seven insurers offering general insurance coverage in Tasmania).[18]

Equity and social protection considerations. When premiums rise to the point that lower-income households can no longer afford insurance, the resulting underinsurance creates negative spillovers for governments and society. After disasters, the state often bears the cost of recovery through grants, welfare, and infrastructure rebuilding. By supporting affordability in a transparent and targeted manner, governments can reduce post-disaster fiscal exposure and improve social resilience. However, mainstream economists tend to emphasise the efficiency and accountability benefits of ensuring that subsidies are explicit, on-budget, and targeted, rather than hidden within distorted premiums (ACCC, 2020; Commonwealth Treasury, 2021).

Prudential stability and fiscal risk management. Any public insurer or risk-pooling mechanism should meet rigorous capital adequacy standards to ensure solvency. Without appropriate reserves, reinsurance, and governance, governments risk transferring open-ended liabilities onto their balance sheets, which can undermine fiscal stability. The Australian Prudential Regulation Authority (APRA) has clear requirements for insurers under General Insurance Prudential Standard (GPS) 110, which set the standard for managing these risks. Failure to meet such requirements could expose a government-backed insurer to inadequately acknowledged risks and, in the event of unexpectedly high claims, place further strain on public finances (APRA, 2023a; APRA, 2023b).

Tasmanian Government Position on TasInsure

The Tasmanian Government has proposed to establish a new Government-owned business to be called TasInsure. It would provide a range of retail and commercial insurance products. According to the Government's November 2025 discussion paper, TasInsure would offer home and contents insurance, small business insurance; community groups and event insurance (including public liability insurance); regional insurance (including potentially farms or regional dwelling risks) and workers' compensation insurance."[19]. The stated policy objective is to address affordability and availability gaps in the Tasmanian market. This aligns with the rationale of correcting for thin or concentrated markets, where competition is weak, and households face affordability stress. However, while the objectives are clear, the instrument chosen—a retail government insurer—would place significant administrative and financial burdens on the Tasmanian Government. Other measures which leverage existing market infrastructure, such as targeted premium subsidies, risk-sharing arrangements, or regulatory

[18] These include RACT, AAI (AAMI/GIO), Allianz, QBE, Youi, Budget Direct/Auto & General and IAL/Coles.
[19] Tasmanian Government (2025) TasInsure for Tasmania: Discussion Paper and Preliminary Draft Bill, p. 5.

adjustments are not considered in the discussion paper. However, these alternatives are likely to lower setup costs, reduce exposure to ongoing liabilities, and make fewer demands on public administration.

A central feature of the proposal is the intention to capitalise TasInsure by using reserves from the Motor Accidents Insurance Board (MAIB). The Tasmanian Treasury has explicitly warned that drawing down these reserves "could have an adverse impact on [MAIB's] returns to Government" and noted that it is unclear whether such reserves would be sufficient to fund both establishment costs and the liabilities that arise as insurance policies mature (Tasmanian Treasury, 2025). This introduces significant prudential and fiscal considerations. It raises the question of whether one government business (which protects all Tasmanians) should be weakened to establish another (which will not), and the extent to which the State budget might ultimately be exposed to higher risks. These concerns connect directly to broader fiscal sustainability issues identified in the Tasmanian Budget, which highlights the importance of returns from Government businesses and the risks attached to ownership (Tasmanian Budget, 2024).

Treasury's costing note further acknowledges a lack of critical information. It records that it was unable to cost the policy because of insufficient detail on TasInsure's structure, governance, legislative framework, and financing requirements (Tasmanian Treasury, 2025). This indicates that while the political announcement set out ambitions, the supporting business case has not been fully developed. The absence of a defined capital plan, governance framework, or pricing strategy represents a material gap. From an economic policy perspective, this highlights the need for more detailed design work before a retail state insurer could be responsibly established. This has not changed with the release of the Discussion paper. [20]

Government intervention in insurance can be politically very hard to resist where insurance is perceived to be unaffordable and/or unavailable. However, the pressures that create the political demand for intervention are imperfectly aligned with the policy principles that ensure that intervention will improve outcomes. Good policy therefore requires two things at once. Policy must respond as well as it can to community concerns but only to the extent that strengthens how the market bears and prices risk over time. History suggests that where this tension is managed well, interventions improve outcomes and endure; where it is not, short-term relief generates opaque cross-subsidies – usually from low risk to high risk activity – undermines private incentives to avoid or mitigate risk, and hides fiscal exposures while they accumulate for some much more dramatic reckoning in the future.

[20] As the Discussion Paper acknowledges "The Tasmanian Government is seeking advice from a highly specialised consultant to advise on TasInsure's development, governance, and operating model." Ibid., p. 3.

In this report we treat that tension as a design test. Concretely, any proposal should:

1. keep actuarial integrity intact, with any affordability support delivered as explicit, budget-funded subsidies;
2. pool correlated risks at the right level—typically via robust reinsurance or pooling arrangements—so that solvency does not depend on good luck;
3. cap and make transparent the State's exposure;
4. protect MAIB's prudential position, recognising that using its reserves for catastrophe-exposed voluntary lines will stretch them well beyond the point of prudence without further injections of reserves from the State Government balance sheet;
5. be operationally feasible at scale (governance, claims, data); and
6. report, each year, who benefits, who pays, and how risk is reduced (an Equity & Risk Statement).

The following table considers the alignment of announcements about TasInsure with economic rationales for intervention.

Table 1: Alignment of Policy Announcements with Economic Rationale

Economic Rationale for Intervention	TasInsure Announcement or Policy Element	Alignment / Commentary
Catastrophe and correlated-risk exposure	Government positions TasInsure as a way to address affordability and availability in high-risk regions).	Links to catastrophe rationale, but no detail on reinsurance program or exposure caps.
Information failures	No explicit reference to hazard mapping or data initiatives in Government announcements.	Weak alignment; intervention is framed around provision of insurance products, not correcting data gaps.
Coordination failures in mitigation	Announcements have not linked TasInsure directly to resilience or mitigation programs.	Opportunity missed: could align affordability with resilience, consistent with Productivity Commission guidance.
Thin markets	TasInsure to provide home, contents, small business, community/event and regional cover.	No alignment: there is no evidence the Tasmanian market lacks sufficient competition, with at least seven insurers offering general insurance coverage in Tasmania.
Equity and social protection	Government justification refers to perceived affordability and access pressures for Tasmanians.	Limited alignment as affordability and coverage concerns are often specific to high risk areas.
Prudential stability and fiscal risk management	Capitalisation from MAIB reserves flagged; Treasury warns of unclear adequacy and risks to MAIB returns .	Alignment is negative: policy raises prudential risks rather than demonstrating safeguards.

Source: Tasmanian Treasury, 2025.

The TasInsure proposal references some of the established rationales for government intervention at least implicitly. It connects to equity and thin market concerns, though it does not cite convincing evidence for this. It also references catastrophe exposure, but it is unclear whether it is intended to support properly priced catastrophe cover. It does not seek to address information failures and alignment with mitigation activity, where international guidance stresses this as a critical precursor to the success of any private/public partnership. The

weakest area is prudential stability, where reliance on MAIB reserves undermines fiscal safeguards rather than reinforcing them. The absence of a published business case, prudential capital framework, or subsidy strategy means that the proposal lacks the transparency and technical foundation required to evaluate its economic merits fully.

Box 1: Tail risk, correlation, and Probable Maximum Loss

Tail risk is the small probability of very large losses in the "tail" of an insurer's loss distribution. These losses matter disproportionately: they threaten solvency, drive capital needs, and shape reinsurance buying. When risks are weakly correlated, diversification works. With many independent policies (e.g., dispersed personal motor insurance), average losses are stable and pricing tends toward: expected loss + expenses + a modest risk margin. Capital still covers randomness and model error, but scales efficiently as the book grows.

When risks are correlated or systemic, diversification breaks down. Bushfire, flood, cyclone and earthquake can trigger many claims at once, producing clustered, heavy-tailed outcomes. Two price effects follow:

- Higher capital load: the firm must survive portfolio-wide shocks, so required capital (and its cost) rises non-linearly.
- Costlier reinsurance: reinsurers face the same correlation and must hold more capital, so rates harden and terms tighten (higher retentions, exclusions, sub-limits).

Probable Maximum Loss (PML). A key tail metric, PML estimates the largest loss an insurer is likely to incur at a specified confidence level and time horizon (e.g., a "1-in-200 year" event). PML is central to:

- Capital planning: sets the solvency stress the balance sheet must withstand.
- Reinsurance design: guides retention and limits for catastrophe excess-of-loss layers.
- Pricing: informs risk loads and rates-on-line, which increase with higher PML and stronger dependence across risks.

In books with little correlation, PML is low relative to premium volume, so risk loads are modest and capacity is ample. In catastrophe-exposed portfolios, PML can be large relative to premium, pushing up capital charges and reinsurance prices. After major events, updated models often lift PMLs and tighten capacity, further hardening terms.

Implications. Where correlation is limited, competition pushes premiums toward technical cost with modest margins. Where correlation/systemic drivers dominate, premiums must carry materially larger risk loads (capital + reinsurance). Availability improves when risks are pooled at wider scales, mitigation reduces hazard (lowering PML), and any affordability support is made explicit so solvency discipline is preserved.

While Tasmania's exposure to primary perils which drive tail risk and have the greatest loss potential (e.g. cyclones and earthquakes) is low, its exposure to secondary perils (e.g. bushfires, severe thunderstorms and flooding) is high (e.g bushfires) It is these secondary perils that are now driving the majority of losses globally over the last few years.[21] A secondary peril of a bushfire could pose a significant concentration risk for TasInsure and the State Government's budget. In insurance, concentration risk is the risk of outsized losses arising because an insurer's exposures are insufficiently diversified—e.g., too much exposure to a single peril, region, industry, policyholder, or reinsurer—so one event can materially impact results.

Broader Justifications for Intervention

While the Tasmanian Government has emphasised affordability and access, other economic issues—identified in national inquiries and policy papers—could provide further justification for government involvement. **Catastrophe exposure is a clear candidate.** Even though Tasmania experiences fewer large-scale disasters than some mainland states, the potential for bushfires or floods to create outsized economic losses remains.

Mitigation investment is another area where government intervention is well justified. The Productivity Commission (2015, 2025) has repeatedly recommended rebalancing policy efforts toward mitigation. This is consistent with a range of studies that have found high benefit-cost ratios (BCR) for investment in mitigation and resilience. For example, Finity Consulting (2022, p. 1) found BCRs of:

- 9.9 nationally for a five-year, $2 billion investment to protect Australians from cyclone, flood, bushfire and coastal risks; and
- 20 in Tasmania from an investment of $46 million (returning $940 million over 28 years), largely in fuel management and property-level flood resilience.

Aligning any TasInsure affordability measures with resilience programs could reduce long-term claims costs and strengthen scheme sustainability. Without this link, a Government-backed insurer risks entrenching exposure to high losses rather than using its resources not just to help the community manage its risk, but also to bear down on those risks over time.

Equity also warrants closer attention. National evidence from the ACCC shows that affordability stress and non-insurance disproportionately affect lower-income households in hazard-exposed regions (ACCC, 2020). This suggests that if TasInsure is designed to promote fairness, its subsidies or support measures should be carefully targeted. Without targeting, broad-based subsidies risk being regressive, delivering greater benefits to wealthier households with higher-value properties, while lower-income households may continue being underinsured. For Tasmania, this makes the design of subsidy delivery a central economic question.

[21] See Severe thunderstorms, wildfires, and flooding – losses from "non-peak perils" are on the rise | Munich Re and Insured Losses Could Hit $145B in 2025, Driven by Rising Claims From Secondary Perils.

3. International and Domestic Case Studies

The issues discussed in the previous section—particularly around catastrophe risk, cross-subsidisation, and market crowding out—are not unique to Tasmania. Several jurisdictions have introduced government-backed or government-directed insurance schemes to address similar problems, with mixed success.

This chapter reviews four relevant case studies: the California FAIR Plan, the U.S. National Flood Insurance Program (NFIP), New Zealand's Earthquake Commission (EQC), and Australia's Cyclone Reinsurance Pool. Each case provides insights into the design, operation, and risks of state-supported insurance initiatives, and together they highlight options and cautionary lessons that can inform policy design in Tasmania.

Rationale for Case Study Selection

The case studies were chosen because they capture a spectrum of international and domestic approaches to public intervention in high-risk insurance markets:

- **The California FAIR Plan** provides a long-standing example of an industry-wide pool mandated by government to maintain access to insurance where private insurers withdraw, particularly under worsening wildfire conditions (California Department of Insurance, 2023; Kousky, 2020).
- T**he U.S. NFIP** represents one of the largest government-run insurance programs worldwide and illustrates both the benefits of extending coverage and the fiscal risks of political constraints on risk-based pricing (Michel-Kerjan, 2010; FEMA, 2022).
- **New Zealand's EQC** demonstrates how capped, first-loss coverage layered with private insurance can spread risk, while also highlighting governance and administrative challenges following the Canterbury earthquakes (Cann, Donovan and Wright, 2016; Noy and Nualsri, 2011).
- **The Australian Cyclone Reinsurance Pool**, administered by the Australian Reinsurance Pool Corporation (ARPC), is a domestic risk pooling example that warrants examination (ARPC, 2022; Treasury, 2021).

Case Study 1: California Fair Access to Insurance Requirements (FAIR) Plan

Objectives and Structure

The FAIR Plan was introduced in 1968 to ensure that homeowners in wildfire-exposed or otherwise high-risk areas could access at least basic fire coverage when private insurers withdrew from the market. It operates as an insurer of last resort, with every admitted property

insurer in California required by law to participate in proportion to their market share. The California Department of Insurance provides oversight, but day-to-day operations are handled by the industry pool (California Department of Insurance, 2023).

A further consideration is that FAIR's structure allows for spreading catastrophic risk across the whole industry, but this does not eliminate systemic vulnerability. Participation requirements mean even insurers with limited exposure to high-risk areas must share losses, which has sometimes generated tension in the market (Kousky, 2020). This can arise where insurers with little direct exposure to high-risk areas are still required to contribute to pooled losses. This can create friction between fairness in sharing costs and the commercial interest of individual firms. For TasInsure, this highlights the importance of balancing fairness across contributors with proportionality in risk distribution.

Lessons

FAIR shows the limitations of pooling arrangements (Box 2). Catastrophic wildfire seasons have led to mounting claims, solvency pressures, and greater reliance on reinsurance. Without ongoing adjustments to exposure limits and pricing, deficits loom (Kousky, 2020). Importantly, the FAIR Plan restricts itself to basic coverage only[22], which limits the government's direct financial exposure and leaves space for private insurers to operate. For TasInsure, clear scope boundaries and robust reinsurance are critical design lessons.

Under the FAIR Plan, premiums can only be raised by the regulator (an elected position). Hence, there is the danger of allowing political pressure to delay necessary premium adjustments. In California, reluctance to raise premiums in line with wildfire risk has compounded FAIR's challenges (California Department of Insurance, 2023). This dynamic reflects a broader political tendency: affordability concerns often drive interventions, but these can lead to cross-subsidies where lower-risk households effectively shoulder costs for higher-risk properties. Such arrangements weaken price signals, reduce incentives for risk mitigation, and create long-term fiscal and economic distortions. Tasmania should ensure that any scheme design incorporates mechanisms for periodic actuarial review and adjustment, insulating pricing decisions from short-term political considerations. The lesson ultimately is to allow risk based pricing and peril modelling to determine premiums.

[22] The California FAIR Plan offers only limited, bare-bones protection. It covers fire, lightning, internal explosion, and smoke damage as standard. Policyholders can add optional coverage for wind, hail, vandalism, and malicious mischief, but even with these, the plan does not provide full homeowners' insurance.

Box 2. California's FAIR Plan failure

"In California, state government intervention has prevented the use of catastrophe modelling and kept premiums artificially low, which has contributed to many major insurers either pausing or scaling back their home insurance coverage. This has driven homeowners to a government-backed fire insurance pool, the FAIR plan, an insurer of last resort that has come under increasing pressure as bushfire risk climbs in the state. The FAIR plan has seen the number of policy holders more than double over the past five fiscal years, to 610,179 Californians as of June 2025. This in turn has seen the risk exposure of the government's balance sheet climb to US$650 billion. This meant that the record breaking 2025 LA Fires, which drove more than US$40 billion in insured losses, tested the solvency of the state's FAIR plan like never before. As of April 2025, the FAIR plan has paid out approximately
US$1.2 billion in claims related to the Palisades and Eaton Fires, but with total losses amounting to US$4.1 billion. As a result, for the first time in 30 years the FAIR plan has triggered the requirement for insurers to cover the outstanding fees based on their market share, a portion of these costs can then be passed onto policy holders by insurers. Risk has not been effectively reduced in the state, the insurance protection gap is continuing to widen and the FAIR plan now faces significant capital challenges."

Source: Pearce, A. (2024) Insuring Australia Tomorrow: Pathways to protecting communities in a new era of risk, Winston Churchill Memorial Trust report, p. 14.

Case Study 2: U.S. National Flood Insurance Program (NFIP)

Objectives and Structure

Run by the US Federal Emergency Management Agency (FEMA), the National Flood Insurance Program (NFIP) is the primary provider of flood insurance in the United States. It was established in 1968 in response to a perceived market gap: private insurers were not offering flood cover at scale.[23] Since inception, NFIP has taken on multiple mandates that extend beyond simply providing insurance—over time it has been tasked with maintaining affordable flood coverage, supporting comprehensive floodplain management, encouraging widespread participation, and limiting the US Treasury's exposure.

This structure matters because it embeds durable policy tensions: the program is expected to expand coverage and keep premiums manageable, while also reflecting risk and containing taxpayer liability. As disaster losses rise, these objectives can pull in different directions, making NFIP less a "clean" insurance mechanism and more a politically exposed instrument for balancing affordability, risk management, and fiscal sustainability.

[23] This case study is based on Pearce (2024).

Outcomes

NFIP has delivered wider access to flood cover, but its performance has been constrained by the multiple (and sometimes conflicting) mandates it has accumulated over time, as discussed above.

Financially, the program has repeatedly struggled to absorb catastrophic losses from major events (e.g. Hurricane Katrina) and has relied on significant borrowing from the US Treasury to cover deficits. A core structural weakness has been the persistent mismatch between policy rates and actuarial risk, exacerbated by political pressure to keep premiums affordable.

Reforms in 2012 and 2014 improved the extent to which pricing was risk-reflective, but the underlying bind remains: worsening flood losses combined with efforts to moderate premium increases continues to threaten solvency and shift residual risk to taxpayers. The depth of the fiscal exposure is highlighted by the fact that, even after Congress forgave US$16 billion of NFIP debt, the program still owed over US$20 billion to Treasury as of 2024. Looking forward, pressures are expected to intensify as flood risk increases and development expands into higher-risk areas, further testing the program's sustainability and its ability to align insurance with risk reduction.

Lessons

A key lesson from NFIP is to avoid masking risk signals. When premiums are constrained for affordability reasons without equally strong counterweights (planning controls, resilient building standards, mitigation measures), this mutes the price signals that would otherwise discourage additional exposure in high-risk locations. Any policy intervention by the Tasmanian Government must be designed so that risk is visible (through transparent risk-based pricing and property-level risk information), while affordability is addressed through separate, explicit measures rather than by systematically suppressing premiums.

Risk reduction must be "hard-wired" into eligibility and the growth of the scheme's balance-sheet exposure. NFIP shows that linking coverage to floodplain management helps, but it has not been sufficient to prevent expanding development into high-risk areas and rising fiscal strain. The strongest safeguard is to make access and/or pricing conditional on enforceable mitigation (e.g., minimum resilience measures, upgraded building standards, or property-level actions) and to ensure that state planning settings do not inadvertently expand the pool of high-risk properties the scheme must subsidise.

Affordability support should be explicit, targeted, and budget-funded. If any Tasmanian Government policy intervention is to achieve social objectives (keeping insurance attainable in vulnerable communities), the subsidy should be transparent—clearly appropriated, tightly

targeted (e.g., means-tested or capped), and reviewed periodically—rather than embedded as distorted pricing that quietly accumulates long-term liabilities.

Finally, governance should protect pricing integrity and fiscal discipline. NFIP's repeated solvency pressures illustrate what happens when schemes face sustained political pressure to keep premiums low while losses worsen. Any policy intervention must include institutional features that make it harder to override technical pricing (e.g., independent actuarial setting, published funding principles, clear triggers for premium adjustments, and regular public reporting of liabilities and adequacy), so taxpayers understand the cost of policy choices in real time—not years later through debt build-up.

Case Study 3: New Zealand Earthquake Commission (EQC)

Objectives and Structure

EQC was established in 1945 and provides statutory natural disaster cover for residential property, funded by a levy applied to private insurance policies. It covers perils such as earthquake, volcanic eruption, tsunami, and landslip, with capped first-loss limits per dwelling and event. Higher-value losses are the responsibility of private insurers. This design spreads risk across all insured households while preserving private market space (Earthquake Commission, 2021).

EQC's levy-funded structure ensures universal participation, creating a national pool for catastrophe coverage. For TasInsure, this raises the possibility of mandatory levies on all insured households (Cann, Donovan and Wright, 2016), or an increment on land tax as a mechanism to spread risk, although political feasibility would need careful consideration.

Performance

The Canterbury earthquakes of 2010–11 severely tested EQC. Over 460,000 claims were lodged, resulting in payouts exceeding NZD 12 billion. While EQC ultimately met obligations with the help of reserves, reinsurance, and government support, the scale of claims overwhelmed administrative systems, causing delays, disputes, and litigation (Cann, Donovan and Wright, 2016). Despite these challenges, EQC mobilised recovery capital quickly and demonstrated the importance of reinsurance in reducing Crown liabilities (Noy and Nualsri, 2011).

The Canterbury experience also highlighted how prolonged claims resolution can erode trust in public schemes, as many households perceived the processes as opaque and unfair. For

TasInsure, ensuring claims-handling capacity and governance frameworks are stress-tested in advance will be essential to maintaining credibility in a disaster scenario.

Lessons

EQC shows the importance of capped public exposure and private layering. It underscores the need for clear liability limits and robust governance. For Tasmania, the key lessons are to cap scheme liabilities, invest in governance capacity, and prepare claims systems in advance to avoid reputational damage during crises (Earthquake Commission, 2021).

In addition, EQC highlights the role of research and hazard mapping. By funding studies into seismic and volcanic risks, EQC has helped inform policy and building standards. Policy in Tasmania could adopt a similar function in supporting data-driven resilience initiatives for floods, bushfires, and coastal hazards.

Case Study 4: Australian Cyclone Reinsurance Pool

Objectives and Structure

Launched in 2022, this pool targets affordability pressures in northern Australia, where cyclone and cyclone-related flood risks drove premiums to unsustainable levels for some consumers. Administered by the Australian Reinsurance Pool Corporation (ARPC), participation by insurers over a certain market share is mandatory, and the scheme is backed by an unlimited Commonwealth guarantee (ARPC, 2022). Unlike NFIP, it does not provide retail insurance; instead, it acts at the reinsurance level, lowering costs for insurers and policyholders (Treasury, 2021).

This upstream structure reduces political exposure and administrative complexity compared to direct provision.

Outcomes

Initial modelling forecast premium reductions of 20–58% for high-risk properties. Insurers must pass on savings to customers. Early challenges included aligning insurer systems with ARPC processes and ensuring accurate risk data (ARPC, 2023). The scheme also ties into broader risk reduction frameworks such as the National Disaster Risk Reduction Framework (Productivity Commission, 2022).

The ARPC was intended to encourage insurers to enter or expand in northern Australian markets by providing a more stable and lower-cost way to manage cyclone risk. However, the ACCC's monitoring to date indicates that this outcome has not materialised in any meaningful way: insurance availability has been relatively unchanged since the pool's introduction, no new

insurers have entered northern Australian markets, and there has been only limited appetite from existing insurers to expand or increase exposure.[24] The ACCC observes some small underwriting changes by incumbents (e.g. adjustments to embargoes, underwriting guidelines, or exposure limits), but emphasises these changes have not been substantial.[25] Accordingly, the pool should be treated as an affordability/volatility intervention rather than evidence that government-backed reinsurance will reliably attract new entry.

Lessons

The Australian pool demonstrates how upstream interventions can improve affordability while minimising the extent to which government must assume the operational burdens and financial risks of retail insurance. It also highlights the importance of integrating affordability initiatives with resilience investments. For Tasmania, a reinsurance model may offer a pragmatic alternative to direct state provision (Treasury, 2021).

It also demonstrates the limitations of such interventions, with the benefits of the Pool being washed out for many consumers by upward pressure on policy prices across the market, driven by increased exposure to and cost of extreme weather events and inflation in the building and motor repair sectors.

Equally, the unlimited Commonwealth guarantee raises questions about the potential magnitude of contingent liabilities. Tasmania would need to define clear limits on exposure given its smaller fiscal base and its already strained government balance sheet. This could be achieved through capped state guarantees combined with global reinsurance purchases (ARPC, 2022).

[24] ACCC (2025) Insurance monitoring July 2025: Fourth report following the introduction of a cyclone and cyclone-related flood damage reinsurance pool, p. 1.
[25] Ibid., p. 6.

Comparative Insights Across Case Studies

The following table provides a summary comparison of the schemes.

Table 2: Comparative Summary of Case Studies

Scheme	Objectives and Structure	Outcomes	Lessons/Relevance to TasInsure
California FAIR Plan	Insurer of last resort; mandatory industry pool; limited/basic cover; regulator-constrained pricing.	Access preserved but rapid growth in exposure; severe solvency/capital pressure after extreme wildfires when pricing/model use is constrained.	Pooling can stabilise access, but requires narrow scope, strong reinsurance, and insulation from political constraints on risk-based pricing.
NFIP (USA)	Federally backed direct insurer; tied to floodplain rules.	>USD 20bn debt; repeated borrowing after catastrophes;underpriced premiums; affordability pressure + premium rate-risk mismatch continues to threaten solvency; moral hazard persists.	Keep risk signals visible (risk-based pricing); if subsidising, do it explicitly and budget-funded; hard-wire enforceable mitigation/land-use constraints; protect pricing integrity via governance.
EQC (NZ)	Statutory insurer; levy-funded, capped first-loss cover.	>NZD 12bn in payouts; administrative and capacity issues.	Capped exposure protects Crown; governance and claims system critical.
Cyclone & Flood Pool (AUS)	Government reinsurance pool by ARPC; mandatory participation; Commonwealth guarantee; aims to lower premiums for high cyclone risk and promote competition via greater insurer participation.	Premium relief concentrated in medium–high cyclone-risk areas (per $100k sum insured: -11% home and contents, -7% strata, -24% SME); but premiums remain high/rising overall and availability/entry largely unchanged (no new insurers; limited expansion).[26]	Treat as an affordability/volatility tool, not evidence it will attract new entrants; other barriers to entry persist; pair with risk reduction and clearer mitigation incentives; cap/price guarantees to manage contingent liabilities.

Market Gaps vs. Market Crowding Out

Schemes such as FAIR and NFIP demonstrate how government intervention can ensure minimum coverage where private markets withdraw. However, if designed too broadly, they risk displacing private insurers altogether. EQC's capped model and the Australian pool's upstream design illustrate ways of targeting gaps without undermining private participation (Kousky, 2020). In the Tasmanian context , striking the right balance will determine whether policy interventions improve or impair market outcomes.

[26] ACCC (2025, p. 8).

In Tasmania, the relatively small insurance market magnifies the risk of crowding out. The Tasmanian Government should therefore prioritise areas of genuine market failure, ensuring that private capacity is not unnecessarily displaced.

Pricing Integrity

The case studies show pricing design drives long-term viability. NFIP reveals how political pricing creates deficits, while EQC's levy and caps spread costs, and the Australian pool smooths risks via reinsurance. The lesson is clear: actuarial soundness must anchor any public scheme. Where social goals are pursued, explicit subsidies, not hidden cross-subsidies, work best. Schemes that combine risk-reflective pricing with transparent support mechanisms are best positioned to avoid structural deficits, maintain financial stability and community support.

Fiscal Exposure

All schemes show that governments remain exposed, directly or indirectly. NFIP's debt burden, FAIR's wildfire liabilities, EQC's reliance on Crown support, and the Commonwealth guarantee for the ARPC illustrate different fiscal models. Any policy intervention must feature capped exposure and robust reinsurance which are essential to prevent open-ended commitments. Tasmania's limited fiscal capacity (see Eslake, 2024) makes managing contingent liabilities especially important. Embedding obligations transparently in budget frameworks and adopting conservative risk-transfer strategies will help preserve fiscal sustainability (Noy and Nualsri, 2011).

Governance and Capacity

EQC's administrative difficulties in responding to the Christchurch earthquake highlight how governance can make or break a scheme. Claims delays and poor communication eroded trust despite eventual financial solvency. FAIR and NFIP have also struggled with consumer satisfaction and political interference (Cann, Donovan and Wright, 2016). The Australian Cyclone Reinsurance Pool avoids many retail-level complexities but still depends on strong oversight (ARPC, 2023). Insurers need to invest in governance, accountability, and claims-handling capacity from inception. Independent boards, transparent reporting, and contingency planning for surge claims volumes are critical to scheme credibility.

Why the Implications Matter for TasInsure

International evidence shows that poor pricing, excessive government liability, and weak governance undermine schemes (Michel-Kerjan, 2010; Cann, Donovan and Wright, 2016). Conversely, targeted, capped, and well-governed interventions—such as EQC's capped model

or the ARPC —offer sustainable approaches. Tasmania's small fiscal base cannot absorb open-ended liabilities, making careful design essential (ARPC, 2022; Treasury, 2021).

Limit Coverage Scope

Any policy intervention by the Tasmanian Government must define a narrow remit to avoid excessive fiscal exposure. Only by focusing only on specific perils or regions where private markets demonstrably fail (which has not been demonstrated in Tasmania) can any scheme remain targeted and efficient.

In Tasmania, restricting coverage to events or regions of clear market failure would also prevent unnecessary competition with private insurers. This ensures that any intervention would complement rather than replace the private sector, preserving market diversity and innovation (Kousky, 2020).

Establish Robust Reinsurance Arrangements

Reinsurance is essential to absorbing catastrophic shocks and protecting government balance sheets. EQC's reliance on global reinsurance markets significantly reduced Crown liabilities after the Canterbury earthquakes. Similarly, the ARPC is underpinned by government-backed reinsurance, spreading risk internationally (ARPC, 2022).

In any sound policy intervention, building strong reinsurance partnerships from the outset is critical. This includes purchasing sufficient cover for extreme events and ensuring access to catastrophe bonds or alternative risk-transfer instruments. Doing so helps schemes remain solvent even after severe disasters, although the cost of reinsurance will be significant and will in turn need to be funded from government subsidies or higher premiums (Noy and Nualsri, 2011).

Ensure Premiums Are Risk-Reflective

In any policy intervention, risk-reflective pricing is vital to protect sustainability, particularly in a small market like Tasmania. Without it, affordability pressures risk NFIP-style deficits. Transparent, budget-funded subsidies can support vulnerable households while preserving incentives for risk reduction. By separating scheme finances from affordability policy, Tasmania can safeguard solvency, maintain fiscal discipline, and target limited funds where they matter most. (Kousky and Shabman, 2017).

Box 2: "Complement, don't compete"

Any policy intervention by the Tasmanian Government should be an enabler of coverage, not a rival to private insurers. The aim should be to close genuine market gaps while preserving competition, incentives for mitigation, and actuarial discipline.

This means intervening only where cover is unavailable or unaffordable at risk-reflective prices and requiring a documented "declined/quoted" record or a model-based affordability gap test.

Clear operational boundaries.

- *Coverage caps*: Limit to capped first-loss or last-loss layers so routine, attritional risk remains with private carriers.
- *Mandatory layering*: Define attach/detach points *ex ante*; private insurers handle working layers, government schemes sit only on peak catastrophe layers.
- *Reinsurance-only default*: Prefer upstream support (scheme takes a fixed share of premiums and claims; and/or provides a catastrophe safety-net above a threshold of loss). This crowds-in private capacity, caps State exposure and cuts TasInsure administration.

Non-distortion pricing. Keep premiums risk-based. If government chooses to improve affordability, deliver it as an explicit, on-budget subsidy, not by underpricing insurance. This protects incentives to reduce risk and avoids crowding out private insurers.

Contestability and crowd-in. Use panels and open tenders so private carriers and reinsurers supply capacity alongside any government scheme. Where the scheme participates, require co-insurance or fronting structures that leave private capital in the game.

Capital prudence and MAIB protection. Ring-fence MAIB's reserves and set conservative retention/limits so the State's balance-sheet exposure is capped and transparent.

Transparency and accountability. Publish an annual Equity & Risk Statement showing who benefits, who pays, and how risk is reduced; disclose attachment points, limits, and reinsurance costs.

Time consistency. Include sunset/review clauses tied to objective market-depth metrics, so any scheme exits or scales back as private capacity returns.

Together, these principles will ensure any government scheme complements the market, expands sustainable capacity, and avoids the "worst of both worlds" of fiscal risk and reduced competition.

Invest in Mitigation and Improving Hazard Data

EQC has shown the value of linking insurance schemes to resilience initiatives, including hazard mapping and building standards. The Australian Cyclone Reinsurance Pool also integrates affordability with broader risk reduction frameworks. Any policy intervention by the

Tasmanian Government must include investment in hazard data, modelling, and resilience measures to reduce long-term claims costs and enhance community preparedness (Earthquake Commission, 2021).

By funding research into Tasmania's flood, bushfire, and coastal risks, the Government could support improved land-use planning and better building regulations. This would create a virtuous cycle, where reduced risk leads to lower claims, which in turn would support the sustainability and affordability of any scheme.

4. Financial Modelling of TasInsure

This chapter presents financial modelling to test the feasibility of TasInsure and the fiscal risks it may introduce. We begin by establishing a cost baseline using publicly available MAIB financials and operating metrics, then adjust for the different nature of the TasInsure business. The model scales key components of costs—claims, reinsurance, administration, premium collection, and investment income—under three market-share scenarios. The market share scenarios reflect the proportion of Tasmanian gross written premium that TasInsure secures (10, 20 and 30 per cent of Tasmanian gross written premium (GWP)). For simplicity, we assume TasInsure's market share comes at the expense of other insurers. In fact, if it is to have any impact on the market, it will attract previously uninsured or underinsured customers, but the effect would be small and we judge it most unlikely that it would change our findings in any substantive way. Indeed, as we have shown, if TasInsure's entry would substantially expand the size of the market, it would do so by lowering prices and this would lead to larger losses for TasInsure than we have modelled.

Sensitivity tests are applied to expected reductions in prices for insurance policies to assess how operating profit is affected. We also examine catastrophe exposure and alternative financing structures to trace how losses would flow to the State balance sheet. Assumptions are deliberately simple to allow replication and policy testing; they are not a substitute for actuarial pricing or APRA-standard capital modelling. The aim is to show indicative magnitudes, highlight the levers that most affect outcomes, and identify where further data and due diligence are required.

Establishment and Start-up Costs

The Tasmanian Government has proposed establishing an insurance business, TasInsure. Details about the nature and scope of this business have not been made public. However, there is an intention to leverage experience from the MAIB and use some of the income from the investment portfolio held by the MAIB for TasInsure's operations. A high-level review of the costs of MAIB's operations was undertaken using publicly available financial data about MAIB. This data focuses on the insurance arrangements of a compulsory third-party scheme. This data has been used as a baseline against which adjustments have been made to make an estimate of potential TasInsure operations. We also consulted with insurance companies that are members of ICA in developing our assumption that start-up costs (excluding prudential capital requirements) will conservatively be around $150 million. TasInsure's operating costs were then estimated under a set of market share assumptions described above to assess the extent of TasInsure's profitability.

Benchmarking Against MAIB

MAIB operates as a compulsory third-party motor vehicle insurer. TasInsure is proposed to operate in other, discretionary parts of the Tasmanian insurance market. Benchmarking the MAIB against these other lines provides some insights into cost differences that TasInsure will face. This analysis draws on the MAIB Annual Report (MAIB 2024), the Tasmanian Economic Regulator's MAIB Pricing Investigation Final Report (TER 2025), the Tasmanian Insurance Risk, Hazard and PML Profile (ICA 2025), Taylor Fry's RADAR FY2024 (Taylor Fry 2024), and industry insights from IBISWorld (IBISWorld 2024) and Finity's Optima report (Finity 2024).

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Claims and Cost Dynamics

MAIB's claims ratio ranges between 67–80%, depending on the premium base (MAIB 2024; TER 2025).[27] This is higher than most property classes (55–65%) but consistent with professional indemnity (~67%) (Finity 2024; IBISWorld 2024). Ratios at this level suggest MAIB returns most premium revenue back to claimants, strengthening affordability but limiting reserves. The table below summarises the comparative performance across insurance lines in Tasmania, highlighting claims ratios, payout ratios, and average cost per claim.

[27] The claims ratio is the ratio of insurance payouts to premiums paid over a period of time.

Table 3: Comparative Performance of Insurance Lines

Insurance Line	Claims Ratio (%)	Payout Ratio (%)	Avg. Cost per Claim
MAIB CTP (2025–26)	67–80	100 (no-fault) / 69 (common law)	$56,000
Home & Contents	65	95	$11,500
Commercial Property	60	90	$30,000
Industrial Property	60	90	$30,000
Rural Production / Crop	85	85	$20,000
Public Liability	55	80	$15,000
Professional Indemnity	67	75	40,000

Source: MAIB (2024); TER (2025); ICA (2025); IBISWorld (2024); Finity (2024).

Payout ratios[28] further distinguish MAIB. It pays 100% of accepted no-fault claims and 69% of lodged common law claims (MAIB 2024). In comparison, private insurance payout rates sit between 75–95% depending on class (Finity 2024; IBISWorld 2024). This highlights MAIB's greater coverage certainty under its no-fault design, compared with the conditional nature of liability and indemnity insurance.

The average cost per claim for MAIB is around $56,000 (MAIB 2024). There is significant variation among different types of claims. Standard (i.e. statutory or scheduled benefit) claims average $24,000, common law claims average $315,000, and claims for future care, in cases of catastrophic injuries, average $5.5 million (MAIB 2024). This is substantially higher than the averages observed in property and liability lines. The comparison confirms MAIB's unique exposure to catastrophic, high-severity claims. It highlights a key issue for TasInsure's policy design.

Catastrophe Risk and Financial Resilience

MAIB's exposure is concentrated in low-frequency, high-severity catastrophic injuries. Five future care claims alone can account for over $25 million in costs annually (MAIB 2024). MAIB's 2023–24 reinsurance review confirmed that full self-insurance would expose the scheme to unsustainable volatility (TER 2025). The Regulator found Treasury's risk appetite did not support higher retention of risk or full self-insurance models.

[28] The proportion of lodged claims that are actually paid.

Fiscal Implications of MAIB Funding Diversion

MAIB premiums include a profit margin of 7.5–10%, generating steady dividends of between $30 million and $40 million a year for the Government (MAIB 2024). Treasury warned that using MAIB reserves to capitalise TasInsure could be fiscally risky and would weaken MAIB's balance sheet (TER 2025). Such diversion would compromise MAIB's ability to withstand shocks and expose the budget to contingent liabilities.

Benchmarking the performance of MAIB highlights its strength as a revenue source for government, but also the risks if reserves are diverted into broader market interventions. This reflects debates on the balance between fiscal expediency and insurer stability.

Policy Lessons from MAIB Benchmarking

MAIB shows a state-owned insurer can deliver low, stable premiums with universal coverage in a compulsory line (MAIB 2024). Its narrow scope and universal participation underpin its success, unlike voluntary markets, which face adverse selection (Finity 2024).[29]

The risks to a state government insurance business are clear: dependence on investment income, concentration of high-severity claims, and catastrophic shocks (TER 2025). Private insurers diversify across geographies and products, but MAIB cannot do so, leaving it exposed to volatility.

Extending the MAIB model into voluntary lines—as with TasInsure—would risk crowding out competition, increasing volatility, and eroding sustainability. The stability observed in MAIB does not automatically translate to broader markets.

Benchmarking shows MAIB premiums are the lowest nationally, with universal coverage and stable claims ratios (TER 2025; MAIB 2024). The scheme delivers affordability and fiscal dividends while sustaining solvency under current conditions.

However, volatility from catastrophic injuries underscores the need for reinsurance and prudent reserve management (TER 2025). Policymakers should recognise MAIB's success rests on its compulsory design and narrow scope, which cannot be assumed for broader interventions.

Scenario Modelling of TasInsure Costs

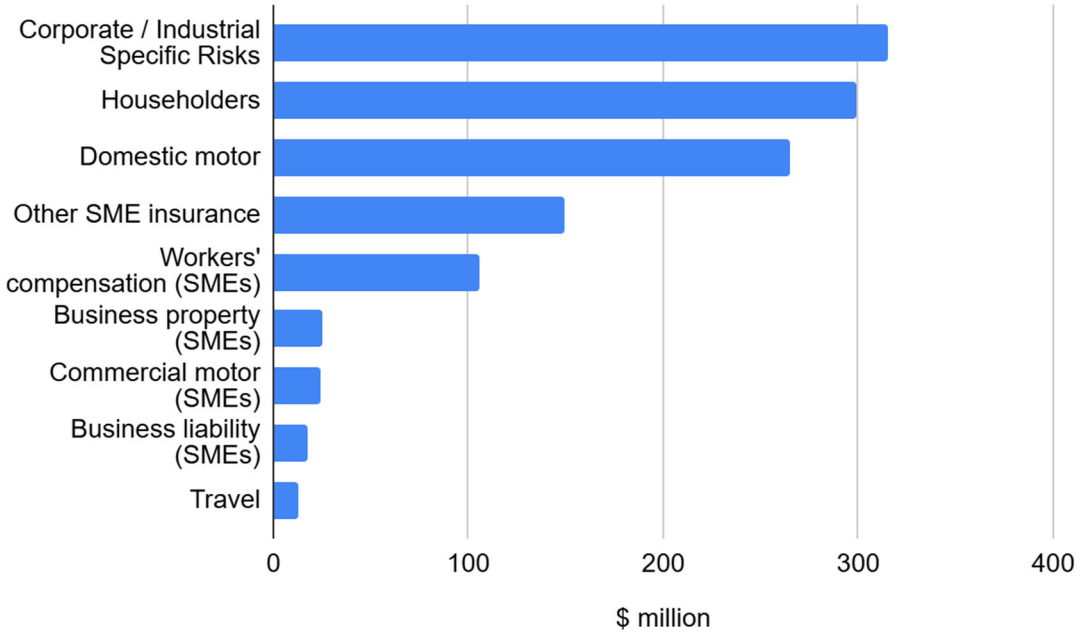
We estimated TasInsure's operating costs by comparing them with the Motor Accidents Insurance Board (MAIB) baseline. MAIB provides a useful reference point given its established presence as a state-based insurer and the availability of detailed financial data through its published annual reports. Adjustments were applied to reflect the likely operational context of

[29] Adverse selection arises when higher-risk individuals are more likely to seek or retain insurance than lower-risk individuals, leading to an insured pool that is costlier than the general population and threatening affordability and sustainability. It reflects an imbalance of information between insurer and customer, where those with greater risk are more motivated to purchase cover, raising premiums and potentially driving out lower-risk participants.

TasInsure, recognising that a new entrant would likely face higher proportional costs than MAIB across several categories.

Tasmania's insurance market is estimated at $1.214 billion in gross written premiums, across a range of household and business insurance lines, including property, motor vehicles and workers' compensation, among others (Figure 2). We assume TasInsure captures 10, 20, or 30 per cent, generating baseline premium revenues of $121.4 million, $242.8 million, and $364.2 million, respectively.

Figure 2. Composition of Tasmania's general insurance premium pool, FY24



Source: Royal Automobile Club of Tasmania, 2025, p. 4,. based on APRA general insurance data, and excluding life insurance.

Cost Components (Reinsurance, Claims, Collection, Investment, General and Administrative)

The following table summarises the cost components considered in this cost modelling. MAIB's costcosts components are used as a benchmark against which a series of estimates for TasInsure costs were made (Table 4). TasInsure costs were adjusted according to the three market scenarios outlined above. A discussion of how each estimate was determined follows the table.

Table 4: MAIB Benchmark Annual Costs and estimated TasInsure Costs by Market Share ($ million)

Item	MAIB	TasInsure 10 percent	TasInsure 20 percent	TasInsure 30 percent
Premium revenue	150.4	121.4	242.8	364.2
Outwards reinsurance expense	-7.5	-24.3	-48.6	-72.8
Gross claims incurred	-172.8	-97.1	-194.2	-291.4
Claims recovery revenue	2.8	6.1	12.1	18.2
Premium collection costs	-3.3	-3.2	-6.4	-9.6
Net investment income (less cost of capital & investment expenses)	143.4	5.5	11.0	15.6
General and administration expenses	-10.8	-10.4	-20.9	-31.3
Other expenses	-2.0	-1.9	-3.8	-5.7

Items in the above table are explained below.

Outwards Reinsurance Expense

The cession ratio—defined as outward reinsurance expense divided by gross written premium—is assumed to be 20%. This estimate is in line with the ACCC (2023, p. 108) which notes that most insurers had cession ratios above 10% and below 35% between 2010-11 and 2022-23, suggesting that they retained the majority of risk on their own balance sheets.[30] It is also based on our consultations with insurers.

Gross Claims Incurred and Recovery Revenue

The gross loss ratio (GLR) —the gross incurred claims (net of non-reinsurance recoveries revenue) divided by gross earned premiums—is assumed to be 80%. This assumption is consistent with ACCC (2025, pp. 103-104) which indicates that GLR for Australia (excluding Northern Australia) ranged between 45% and 99% over 2010-11 and 2023-24. The average GLR was 67% over this period. We assume a higher GLR of 80% for TasInsure because we expect it will take on riskier customers and be constrained on its premium pricing by political considerations. Claims recovery revenue was assumed to be 25% of the outwards reinsurance expense. This is in line with the same ratio for Suncorp (reinsurance recoveries over reinsurance premium expense), averaged over 2023-24 and 2024-25.[31]

[30] Cession ratios vary widely across insurers, reflecting differences in risk appetite and reinsurance strategies.
[31] Suncorp (2025, p. 80).

Premium Collection Costs

Premium collection costs were derived from MAIB data and uplifted by 1.2 to account for TasInsure's higher unit cost of policy administration and premium collection systems relative to an established insurer.

Investment Income and Expenses

For the purposes of this modelling, TasInsure was allocated $189 million of MAIB's existing investment portfolio, based on our calculation of the headroom in MAIB reserves.[32] Investment expenses were allocated proportionately based on the estimated levels of reserves in the different scenarios relative to MAIB's reserves. Our assumptions regarding rates of return and the cost of capital are:

- Investment returns of 7.8% based on MAIB; and
- borrowing rate of 5%.[33]

In the modelling, we assumed that TasInsure will need to borrow sufficient funds to cover:

- the gap between $189 million contribution from MAIB and required prudential capital requirements (calculated in Appendix B); and
- start-up expenses of $150 million.

We assume that TasInsure will earn a rate of return (7.8%) on its reserves while having to pay 5% on its borrowings.

General and Administration Expenses and Other Expenses

General and administration (G&A) expenses were pro-rated from MAIB levels according to TasInsure's assumed market share. These were then increased by a factor of 1.2 to reflect the higher costs associated with establishing new systems, governance frameworks, and staffing structures (IBISWorld, 2025). Other expenses were modelled as proportional to G&A expenses, reflecting their nature as secondary operating costs.

Tax Rate

For all scenarios, a 30 per cent corporate tax rate was applied, consistent with both MAIB's tax profile and the prevailing national company tax rate. Note that, as a state-owned business, TasInsure would not pay federal company tax, but would instead pay a tax-equivalent payment to the State Government.

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[32] This is based on MAIB's reported funding ratio of 133.7% as at 30 June 2024 and its net claims liability of $1.382 billion (MAIB 2024, p. 5 and p. 46). Given the minimum funding ratio of 120%, an estimated $189 million can be taken from MAIB reserves and transferred to TasInsure. This is calculated as follows: (133.7% funding ratio - 120% minimum ratio) x $1.382 billion in net claims liability.

[33] This is based on the cost of capital for IAG: https://valueinvesting.io/IAG.AX/valuation/wacc

Overall, the cost estimation process adapts MAIB's operating profile as a baseline while applying scaling and adjustment factors that recognise TasInsure's relative immaturity, smaller scale, and less favourable reinsurance terms. This structured approach ensures internal consistency across scenarios while grounding the estimates in established financial benchmarks.

Cost Calculations

A series of cost calculations were undertaken to compare estimated TasInsure costs with the three market share scenarios assumed in this analysis. These cost calculations are based on cost categorisations used by MAIB, with the assumptions developed earlier. The following table shows how these estimates have been used to make the following cost calculations.

Table 5: Cost Item Calculation Method

Cost Item	Calculation Method
Net premium revenue	Premium revenue - Outward reinsurance expense
Net claims incurred	Gross claims incurred - Claims recovery revenue
Underwriting result	Net premium revenue - Net claims incurred - Premium collection costs
Net investment income	Investment income - Investment expenses
Operating result before tax	Underwriting result + Net investment income - General and administration expenses - Other expenses

Note: Cost item terminology derived from MAIB Annual Report.

Results are shown in the following table.

Table 6: Cost estimates for MAIB and TasInsure scenarios ($ million)

Description	MAIB	TasInsure 10 percent	TasInsure 20 percent	TasInsure 30 percent
Net premium revenue	142.9	97.1	194.2	291.4
Net claims incurred	-170.0	-91.1	-182.1	-273.2
Underwriting result	-30.4	2.9	5.7	8.6
Net investment income	141.6	5.5	11.0	15.6
Other expenses	-123.7	6.8	13.7	21.5
Operating result before tax	93.3	-3.9	-7.9	-12.9

With a 10% share of the market, TasInsure makes an estimated operating loss of $4 million a year. This corresponds to a return on capital (ROC) of -2.3% at 10% market share. Given that revenues and costs scale closely with market share, the ROC at larger market shares are marginally higher, increasing to -2.5% for a 30% market share.[34]

Increasing market share introduces larger operating losses. For example, if TasInsure achieved a 30% market share, the estimated operating loss would be $13 million a year. The critical differences between MAIB, which generates profits, and TasInsure which generates large losses for the State, include:

- MAIB operates a compulsory scheme with stable premium flows and predictable participation. TasInsure would compete in discretionary markets with declining household penetration.

[34] The ROC was estimated as the operating result pre-tax divided by the required reserves–i.e. for a 10% market share, -$29.3 million/$170.0 million = 17.2%.

- MAIB's claims are high-severity but low-frequency, whereas TasInsure would face broader, less predictable exposures with higher volatility (Finity, 2024; IBISWorld, 2024).
- MAIB can generate dividends for the State, whereas TasInsure is more likely to impose recurrent fiscal liabilities, especially if tasked with lowering premiums through cross-subsidies.

While MAIB demonstrates that a state-owned insurer can deliver affordability and stability in a compulsory line, the financial analysis shows TasInsure would struggle to replicate this in discretionary markets. Ongoing operating deficits imply recurrent government support would be necessary. Policymakers should carefully weigh the fiscal and market risks before diverting MAIB reserves or launching TasInsure without a clear path to long-term financial sustainability.

Start Up and Capital Requirements for TasInsure

Establishing TasInsure would require significant upfront investment to meet prudential, operational, and governance standards expected of an APRA-authorised insurer. Unlike the MAIB, which benefits from compulsory participation and narrow scope, TasInsure would operate in discretionary markets with greater volatility, broader underwriting requirements, and higher acquisition costs. MAIB also insure against largely idiosyncratic risk, whereas TasInsure will insure against highly correlated risks. These structural differences mean TasInsure is likely to face a materially higher cost base, with start-up and capital needs extending well beyond MAIB's profile and requiring a plausible cost uplift range of 20–50 per cent.

- **One-off establishment and licensing.** Establishing a new multi-line insurer in Tasmania would involve building a full APRA-authorised operating platform: governance and risk functions, Internal Capital Adequacy Assessment Process (ICAAP) processes, audit and compliance, actuarial pricing and reserving, policy administration and claims systems, finance, distribution, and customer support (APRA, 2023a). On a greenfield basis, one-off spend is typically a multiple of recurrent general and administration G&A expenses. MAIB's recent G&A expenses were about $10.8 million. A discretionary insurer would face higher proportional costs, with more complex claims, more diverse underwriting, and customer acquisition expenses absent in MAIB's compulsory model. A reasonable uplift factor of 1.5–2.5 times MAIB's G&A suggests indicative establishment costs of $16–27 million, spread across systems, recruitment, and governance. This aligns with Tasmanian Treasury's caution that TasInsure would involve "additional costs… not able to be costed with current information" (Tasmanian Treasury, 2025).
- **Foundational capability, reinsurance placement, and first-year ramp.** Beyond internal build to establish its operations, TasInsure would require specialist actuarial

services, catastrophe modelling, and reinsurance program placement, plus first-year staffing and training to meet APRA readiness. External service spend for legal, actuarial, audit, reinsurance broking and IT integration is likely to cost between $8–12 million, while technology licences and data migration could add $6–10 million (APRA, 2023a; MAIB, 2024). Reinsurance costs at inception, even at a modest 5% market share ($60.7m GWP), would require at least $12 million in up-front payments and brokerage, reflecting Commonwealth Treasury's acknowledgement that reinsurance is a "significant cost component" of property insurance (Commonwealth Treasury, 2021; ARPC, 2025a).

In total, based on our consultations with insurance companies, one-off and ramp costs are assumed to be at least $150 million.

Initial prudential capital and liquidity. Separate from operating start-up, TasInsure would need prudential capital buffers consistent with APRA's GPS 110 standard, which requires coverage at a 99.5% confidence level (capacity to address a 1-in-200 year event) and an Internal Capital Adequacy Assessment Process (ICAAP) buffer on top (APRA, 2023a). Treasury has already cautioned that it was unable to cost the policy and warned of risks if MAIB reserves were diverted (Tasmanian Treasury, 2025). Given the capital intensity of a discretionary insurer and a higher cost base than MAIB, TasInsure would need robust capitalisation to absorb underwriting volatility and acquisition costs while the portfolio matures. Liquidity would also be necessary to meet near-term obligations before reinsurance recoveries arrive, reinforcing the scale of prudential resources required. We estimate TasInsure's capital requirements in Appendix B. Depending on the market share TasInsure achieves, these capital requirements can range from around $100 million to $600 million.

5. Catastrophe Risk Modelling

Catastrophe risk is a defining feature of the Australian general insurance market. While Tasmania has historically experienced fewer and less severe natural peril losses than mainland states, the State remains exposed to significant shocks from bushfires, floods, and severe storms. The creation of TasInsure raises fundamental questions about how such catastrophe exposures are modelled and, more importantly, how contingent liabilities should be managed by insurers whether in government or the private sector.

Nationally, the insurance industry recorded gross catastrophe costs of $2.4 billion in FY2024, slightly above the $2.1 billion recorded in FY2023 but below the long-term normalised average of $2.9 billion (Finity Consulting, 2024a). Insurers have responded by raising premiums, lifting natural hazard allowances, and transferring greater shares of risk into the global reinsurance market (IBISWorld, 2025). For Tasmania, the challenge is not only technical, estimating the

frequency and severity of catastrophic losses, but also fiscal and political, as the Government may be required to step in where private insurers retreat.

Exposure Baseline

Tasmania has approximately 220,000 privately insurable dwellings, with around 195,000 building insurance policies in force as at March 2025 (penetration rate of 85%) (Tasmanian Insurance Profile, 2025). Median sums insured range from $643,750 to $799,000 across electorates, with an average of about $707,000 per dwelling, equating to a total residential sum insured of $138 billion (Tasmanian Insurance Profile, 2025).

Historical events illustrate the scale of potential shocks. The 2013 Dunalley bushfire caused $88.9 million in insured losses and an estimated $500 million economic impact. The 2016 Launceston and Latrobe floods generated $60 million in insured claims and $400 million in economic costs. More recently, the 2018 Hobart floods produced $99.6 million in insured losses alongside a 7.5% contraction in GDP in the affected quarter (Tasmanian Insurance Profile, 2025). These precedents demonstrate that even relatively contained events can impose significant costs on the Tasmanian economy.

Scenario Modelling

The following analysis shows the scale of insured losses and the contingent liabilities that could accrue to the Tasmanian Government if it proceeds with establishing TasInsure. The analysis draws on historical event experience, insured dwelling exposure data, and catastrophe modelling principles used in the insurance sector (Tasmanian Insurance Profile, 2025).[35] It is designed for policy discussion and advocacy purposes only, and does not constitute actuarial advice.

Exposure Baseline

An exposure baseline is a starting reference that defines the current level and distribution of insured assets, against which changes in risk or portfolio growth can be measured. It complements stochastic analysis by providing the raw foundation on which probability models are built, ensuring losses are scaled to actual exposures. As an early-stage tool, it offers a straightforward way to map risk concentration, highlight data gaps, and frame discussions before deeper modelling is undertaken. The exposure baseline for this analysis rests on the following assumptions:

[35] However, unlike the Tasmanian Disaster Risk Assessment (2022), this analysis does not cover extra hazards, exposures and vulnerabilities beyond the 'natural' hazards of bushfire, flood, weather and geological events.

- Dwelling stock: 220,000 privately insurable dwellings (Tasmanian Insurance Profile, 2025).
- Insurance penetration: 195,000 building policies in force as at March 2025 (85%) (Tasmanian Insurance Profile, 2025).
- Average sum insured: $707,000 per dwelling (Tasmanian Insurance Profile, 2025).
- Total sum insured: $138 billion across residential buildings (Tasmanian Insurance Profile, 2025).

Historical Loss Anchors

A historical loss anchor complements stochastic analysis[36] by grounding simulated outcomes in real-world events, making results more credible. It also serves as an early-stage tool, offering a simple way to gauge exposure, test assumptions, and communicate risks before full modelling is available. Tasmania has experienced a number of historic catastrophe events that inform scenario calibration. These catastrophes relate to bushfire and flood events and are shown in the following table.

[36] In an insurance context, stochastic analysis refers to the use of probability distributions and random simulations (rather than single-point estimates) to model the uncertainty of future events such as claims, investment returns, or policyholder behavior, allowing insurers to better assess risk and financial resilience under a wide range of possible scenarios.

Table 8: Indicative Historical Loss Anchors

Event	Original Asset Impact	2025 Normalised Insured Loss	Event Likelihood
1967 - Hobart Bushfire	1085 homes destroyed and CBD impact	~ $1.7b - $2.5b	1 in 200 years
1929 - Launceston Flood	100 homes destroyed, 2000 damaged, CBD impact	~ $0.3b - $0.5b	1 in 100 years
1898 - Oyster Cove Bushfire	43 destroyed	~ $0.2b - $0.4b	1 in 100 years
2013 - Dunalley Bushfire (CAT131)	203 homes destroyed	~ $180m	1 in 50 years
2018 - Hobart Flood (CAT184)	~ 5894 homes damaged, CBD impact	~ $160m	
1954 - Hobart Floods	Rivulate and CBD inundation	~ $120m	
2016 - Launceston and Latrobe Floods (CAT162)	~1,700 homes impacted, CBD impact	~ $80m	1 in 10 years
1960 - New Norfolk Flooding	12 homes destroyed, ~ 300 damaged	~ $40m	Annual

Source: RACT (2025) Tasmanian Insurance Profile - Key Insurance Risk, Hazard and PML Profile, July 2025; Lateral Economics analysis.

Scenario Narratives

In the context of TasInsure, scenario modelling has been chosen over a formal actuarial or stochastic analysis because the purpose at this stage is to illustrate potential fiscal exposures rather than to produce actuarially precise pricing or capital adequacy calculations. Scenario modelling provides a transparent, policy-focused framework that draws on Tasmania's exposure baseline and historical loss experience to test a range of plausible outcomes. It allows policymakers to visualise the order of magnitude of contingent liabilities under different event severities without the complexity of stochastic simulations, actuarial reserving, or APRA-standard solvency modelling.

This approach is sufficient for high-level policy discussions and advocacy, but would need to be complemented by actuarial advice before final scheme design or regulatory approval. To assess potential liabilities for TasInsure, four representative catastrophe scenarios have been developed based on historical precedent and exposure data (refer to the above Table). These are set out in a series of descriptive narratives.

Scenario 1 – Frequent, Low-Severity Flooding

Each year or two, heavy rainfall over Tasmania's catchments pushes rivers and rivulets past their banks. Streets in towns like Launceston, Latrobe, and New Norfolk become inundated. A dozen homes may be destroyed and several hundred damaged, forcing families into temporary accommodation. The insured losses typically sit between $40 million and $80 million in today's dollars. These events are not catastrophic on their own, but they accumulate. They create a steady drain on insurer claim costs, unsettle household budgets, and put councils under pressure to fund repairs to local infrastructure. For TasInsure, this is the baseline stress—frequent enough to affect annual results but not large enough to threaten solvency.

Scenario 2 – Moderate Bushfire or Flood

Every few years, the state experiences an event of a different scale. A hot, dry summer can bring bushfires into settled areas, as it did in Dunalley in 2013, destroying over 200 homes. Alternatively, an intense rainfall cell can stall over Hobart, flooding thousands of homes and cutting through the CBD, as in 2018. Insured losses run into the range of $160–180 million. The impact is visible at a community level—whole streets blackened or inundated, local businesses closed for weeks, insurance assessors stretched to capacity. Recovery is possible but prolonged, and stories of underinsurance emerge. For TasInsure, this scenario is the proving ground: an event that tests claims-handling capacity and challenges the financial buffers designed for medium-sized catastrophes.

Scenario 3 – Major Urban-CBD Loss

Once or twice in a generation, Tasmania sees a disaster that fundamentally disrupts one of its cities. The Launceston flood of 1929 destroyed 100 homes, damaged 2,000 more, and swamped the CBD. Normalised insured losses would fall in the $300–400 million range today. Beyond the household devastation, these events cripple local economies—central business districts grind to a halt, retail and services collapse temporarily, and regional infrastructure is thrown out of service. The State Government and Commonwealth Government are forced into large-scale relief spending. Reinsurers are heavily drawn upon, premiums rise, and the affordability of coverage is questioned. For TasInsure, this kind of event redefines its role: not only paying claims but stabilising a shaken market.

Scenario 4 – Catastrophic Hobart Bushfire

At the far end of the risk spectrum sits an event like the 1967 Hobart bushfire. On a single day, 1,085 homes were destroyed, dozens of lives were lost, and Hobart's CBD was scarred. Normalised to today's conditions, the insured loss is over $2 billion. Such an event reshapes Tasmania's economy and society. The housing market contracts, public infrastructure is crippled, and recovery requires not just insurance payouts but extraordinary State and Federal support. For insurers, such a disaster could overwhelm reinsurance protections and

substantially impact their bottom line, posing particular risks for a stand-alone state entity. It represents an exceptional event that tests financial viability and institutional credibility.

Annual Exceedance Probabilities

Based on the identified historical loss anchors and the scenario narratives above, indicative estimates of the annual exceedance probabilities for each narrative were determined.[37] These are summarised below. The annual exceedance probability (AEP) is a measure used in risk assessment—especially in insurance, engineering, and natural hazard analysis—to express the likelihood of a particular event being exceeded in any given year. For example, A 1% AEP flood means there is a 1 in 100 chance (1% probability) that a flood of at least that size will occur in any given year. This is the same as what is often called a "100-year flood", though that term can be misleading because such an event can occur more than once within a century.

Table 9: Indicative Annual Exceedance Probabilities

Scenario	AEP range (judgement)	Assumed AEP (point)	Implied Return Period
Scenario 1 – Frequent, Low-Severity Flooding	50% - 80%	65%	~1 in 1.5 years
Scenario 2 – Moderate Bushfire or Flood	12.5% - 33%	20%	~1 in 5 years
Scenario 3 – Major Urban-CBD Loss	4% - 10%	7%	~1 in 14 years
Scenario 4 – Catastrophic Hobart Bushfire	0.5% - 2%	1%	~1 in 100 years

Source: Lateral Economics.

Financing Structures

The choice between a fully self-insured scheme and the purchase of catastrophe reinsurance is fundamental to the design of TasInsure. Under a self-insured model, the Tasmanian Government would assume the entire gross loss of any catastrophe.

This exposes government finances to large contingent liabilities and raises broader economic issues. By contrast, catastrophe reinsurance transfers part of the risk to global capital markets, stabilising public finances and providing predictability in the event of major shocks. However, it comes at a cost in the form of reinsurance premiums. While further reliance on external cover may limit incentives for the state to invest in long-term resilience measures, any investment in

[37] Annual exceedance probabilities were based on an indicative range which was used to develop an assumed single point value.

such measures should consider the extent to which the cost of self-insurance or reinsurance is reduced.

Policymakers must weigh these trade-offs carefully, as they determine both the fiscal sustainability of TasInsure and the behavioural responses of households, insurers, and the wider community. Actuarial analysis (which is outside scope of this report) may reveal an optimal choice between self-insurance and reinsurance, and of the terms of reinsurance, such as the retention level (i.e. excess). A higher retention level would mean a lower reinsurance premium.

Net Government Exposure

Government exposure to the insurance loss in each scenario is shown in the following table based on the two financial structures. This is the total amount of insured losses that TasInsure could be exposed to, rather than an estimate of what it will actually lose. To illustrate, If there were a bushfire of a similar magnitude to the 1967 event, and if TasInsure was at 30% market share, it would need to cover insured losses of $510-750 million. Again, detailed actuarial analysis, outside the scope of this report, would be necessary here.

Table 10 : Insured losses–TasInsure's potential exposure per event

Scenario	Insured Loss (Range)	Planning AEP	TasInsure at 10% market share	TasInsure at 20% market share	TasInsure at 30% market share
1. Frequent, Low-Severity Flooding	$40m – $80m	1 in 1.5 yrs	$4m – $8m	$8m – $16m	$12m – $24m
2. Moderate Bushfire or Flood	$160m – $180m	1 in 5 yrs	$16m – $18m	$32m – $36m	$48m – $54m
3. Major Urban-CBD Loss	$300m – $400m	1 in 14 yrs	$30m – $40m	$60m – $80m	$90m – $120m
4. Catastrophic Hobart Bushfire	$1.7b – $2.5b	1 in 100 yrs	$170m – $250m	$340m – $500m	$510m – $750m

Source: Lateral Economics analysis.

Policy Implications of Catastrophe Modelling

The catastrophe modelling results set out above demonstrate that Tasmania faces manageable but material risks from natural disasters. Under a government-backed insurance scheme, reinsurance could only partially shield the state from extreme losses, leaving contingent liabilities in the hundreds of millions of dollars. If the Government self-insured TasInsure, it would be even more exposed. These findings highlight the need for clear policy choices that balance affordability for households, fiscal sustainability for government, and incentives for long-term risk reduction. The following implications outline the major considerations that must inform the design and operation of TasInsure.

Affordability Pressures. The results confirm that even relatively modest catastrophes would impose large fiscal liabilities under a self-insured model. Nationally, home insurance premiums rose by an average of 13.9% in FY2023–24, driven by re-pricing for natural disaster risk (IBISWorld, 2025). TasInsure could counteract declining insurance penetration in Tasmania by stabilising coverage, but this would transfer volatility directly to the State budget. Government must weigh whether the social benefits of maintaining high coverage outweigh these fiscal risks.

Reinsurance Market Dynamics. The calculations show that catastrophe reinsurance reduces exposure to small and average events but leaves significant tail risk liabilities. Finity's Optima 2024 notes that the June 2024 renewal season was more favourable than recent years, with

reinsurers more willing to negotiate structures such as multi-year programs (Finity Consulting, 2024b). This creates an opportunity for TasInsure to secure protection under advantageous conditions. However, reliance on favourable cycles is risky; long-term contracts or aggregate protections may be required to ensure budget stability.

Capital Management. The modelling demonstrates that even with reinsurance, TasInsure faces potential liabilities in the hundreds of millions of dollars. A disciplined capital policy, similar to that of MAIB, is therefore essential. This would include funding ratio targets and dividend policies aligned to Treasury's risk appetite (Finity Consulting, 2024a). Without such a framework, there is a risk of either under-capitalisation and exposure to shocks, or over-capitalisation that ties up taxpayer resources inefficiently. Neither outcome would be welcome given the strains on the Tasmanian Government's balance sheet.

Mitigation Investments. The modelling highlights that losses of $500m or more can occur in average events. Reducing underlying exposure through mitigation is therefore critical. Investments such as the Launceston flood levee, credited with annual savings of $10–14m in insurance premiums, demonstrate how resilience spending can shift the entire loss curve downwards (Tasmanian Insurance Profile, 2025).

The catastrophe modelling presented above suggests that while Tasmania's aggregate exposure is lower than the mainland, even moderate events can impose large fiscal burdens. TasInsure has the potential to stabilise affordability for households but will expose the Government to contingent liabilities of up to $2.5 billion under extreme scenarios. Without disciplined capital management, effective reinsurance, and targeted mitigation investments, TasInsure will not be able to address both affordability and fiscal sustainability objectives of the Government.

6. Fiscal Implications of TasInsure

This chapter presents a high-level budget analysis of TasInsure. It covers establishment financing, the effect of potential losses on the state budget, concurrent disaster recovery costs, impacts on the state balance sheet, and possible flow-on effects for MAIB. It is important to consider the fiscal implications of TasInsure given Tasmania's significant operating deficit ($489 million in September quarter 2025 and rising net debt. This stood at $5.84 billion in the same quarter—an increase of $1.6 billion compared with the previous September quarter.[38]

[38] Eslake (2025) and Department of Treasury and Finance (2025).

Fiscal context

The MAIB provides regular dividends and tax-equivalent payments to Tasmania's budget revenue. These payments are contingent on maintaining solvency and sufficient investment earnings, with Budget Papers noting that fluctuations in investment returns from government businesses, including MAIB, directly affect general government revenue (Tasmanian Department of Treasury and Finance, 2023a). During the election period, Treasury assessed the TasInsure proposal and expressed concern that using MAIB reserves to capitalise a new insurer could undermine MAIB's financial stability. Treasury noted that it was unclear whether MAIB reserves would be sufficient to cover both the costs of establishing TasInsure and the liabilities of ongoing insurance operations (Tasmanian Treasury, 2025). This concern directly links TasInsure's potential deficits to state fiscal exposure. If TasInsure runs persistent operating losses, these would flow through to the Budget, compounding pressure already identified by Treasury from rising debt service and structural spending pressures (Tasmanian Department of Treasury and Finance, 2023b).

Government revenue and expenditure implications

Establishing TasInsure would require significant capital, including equity injections to satisfy prudential requirements. Under APRA's Prudential Standard GPS 110, general insurers must maintain capital to withstand losses at a 99.5% confidence level. This requires them to hold enough capital to absorb losses in 199 years in 200.[39] This implies sizable upfront funding and ongoing regulatory buffers (APRA, 2023a). Beyond start-up costs, recurrent fiscal risks would emerge from operating deficits, premium subsidies, and disaster recovery outlays. The Productivity Commission has shown that government spending on natural disasters is both large and persistent, particularly when insurance schemes are not self-sustaining (Productivity Commission, 2015). International evidence reinforces the risks of subsidy settings: the U.S. National Flood Insurance Program (NFIP) has accumulated over USD 20 billion in Treasury debt, largely because premiums were kept below actuarially fair levels for political reasons, with annual interest costs borne by taxpayers (FEMA, 2022; FEMA, 2023). These lessons show how fiscal exposure depends heavily on TasInsure's subsidy design.

Contingent liabilities

The choice between self-insurance and reinsurance would shape Tasmania's exposure to catastrophic losses. The Commonwealth's Cyclone Reinsurance Pool, for example, required a $10 billion government guarantee to cover tail risks, highlighting how public insurers depend on government backstops to remain solvent after extreme events (Treasury, 2021). For Tasmania,

[39] i.e. in 99.5% of the years in the 200 year sample used in this illustration.

scenario analysis suggests insured losses could range from tens of millions in minor floods to billions in catastrophic bushfires, which, without reinsurance, would become direct liabilities of the State budget (Productivity Commission, 2015). These risks compound existing fiscal challenges: the Tasmanian Treasury projects net debt to continue rising, and additional contingent liabilities would be closely watched by credit rating agencies, which assess fiscal sustainability partly on governments' ability to manage risk exposure (Tasmanian Department of Treasury and Finance, 2023b). In short, TasInsure could increase the State's vulnerability to credit downgrades–increasing borrowing costs–if catastrophe exposures are not carefully capped and transferred.

7. Market Structure and Competitive Impacts

Evaluating the market impacts of TasInsure is essential because its entry has the potential to reshape competition, pricing, and long-term industry behaviour in Tasmania. The addition of a Government-backed insurer is likely to have two effects - its intended effect of expanding coverage in under-served segments and what is likely to be an unintended effect of displacing existing providers. The extent of each of these effects will be a product of the design of the scheme and the structure of the insurance market (ACCC, 2020).

Market structure and competition

Tasmania's insurance market is small, but, because it is part of a larger, national market which itself is funded by national and international investors, it includes at least seven insurers offering general insurance coverage. If a Government-backed insurer enters, it is more likely to take market share from the few existing players than to attract new competitors. Indeed, it could deter entry by other competitors, which may reduce competition. This means the market may simply reshuffle between public and private providers, rather than becoming larger or more competitive. Evidence from northern Australia shows what happens in regional markets with few active underwriters and "soft competition" where firms limit exposure instead of chasing market share: concentration grows and consumers lose choice. (ACCC, 2020; ACCC, 2019). National data confirm that a handful of authorised insurers, plus Lloyd's and some unauthorised foreign insurers, dominate intermediated placement by insurance brokers or agents, underscoring structural limits to rivalry in thin sub-markets (APRA, 2025; APRA, 2023). In comparable "residual market" settings, such as California's FAIR Plan, rapid growth of a public option has coincided with private sector retreat and special assessments on member insurers, signalling strain rather than deeper competition (Reuters, 2025; San Francisco Chronicle, 2025).

Pricing and premium dynamics

If TasInsure underprices risk, it will lift market share by displacing private supply rather than growing coverage; international experience shows that sustained underpricing creates fiscal liabilities and adverse selection that private writers avoid (Cato Institute, 2017; CRS, 2019). Conversely, risk-based pricing with transparent, on-budget subsidies is less distortionary and more defensible. Australia's Cyclone Reinsurance Pool illustrates a design that reduces upstream reinsurance costs for high-risk areas while preserving retail price signals, backed by an explicit $10 billion guarantee and monitored pass-through (Treasury, 2021; ARPC, 2025). ACCC tracking indicates Pool participation has delivered reductions for the highest wind-risk regions, although broader premium pressures remain—so headline price effects depend on global reinsurance and cost trends (ACCC, 2020; Courier-Mail, 2024). Policy design can

influence how costs are shared or subsidised, but they cannot shield policy holders from movements in international reinsurance markets or the impacts of inflation.

Innovation and market behaviour

Crowding out can stifle innovation if a public insurer becomes the default and private carriers scale back. The international literature stresses that competition rules can push insurers to lower costs, innovate and expand consumer choice. Proportionate conduct rules ensure fair treatment of customers while scaling compliance to the size and risk of each insurer, lowering barriers for smaller players. Supervisory priorities now emphasise climate risk, data analytics and fair treatment rather than direct retail market participation by governments (IAIS, 2024; IAIS, 2025a; IAIS, 2025b; BIS/FSI, 2021). Where a public scheme absorbs tail risk by buying reinsurance cover, private writers still have incentives to innovate at the retail layer—bundling cover, refining address-level pricing, and investing in mitigation-linked discounts—whereas a dominant public retail writer can dampen these dynamics (ARPC, 2025; ACCC, 2020).

8. Key Findings and Policy Implications

Key Findings

- **No case for proceeding with TasInsure:**
  Tasmania faces challenges including significant correlated catastrophe risks and lower average household wealth than mainland states. This is particularly the case for bushfires. As noted above, 98% of Tasmania's land area is designated as bushfire-prone.[40] Despite the risk of future large catastrophes, government documentation has not provided credible estimates of the potential costs and benefits of intervention. In the absence of such evidence, there is no sound policy basis for establishing a government-run retail insurer such as TasInsure.

- **Substantial fiscal and prudential risks:**
  Modelling suggests that TasInsure will generate sustained operating deficits of between $29 million and $89 million per year, depending on assumptions about market share and pricing behaviour. Ultimately, this will mean additional deficits and debt for the Tasmanian Government, which will need to provide TasInsure with budgetary support (i.e. a Community Service Obligation payment) of up to $90 million annually. That is, losses from TasInsure could absorb up to 0.9% of Tasmania's total State Budget of around $10 billion.

- **Inappropriate use of MAIB reserves:**
  Drawing on the Motor Accidents Insurance Board's (MAIB's) reserves to fund TasInsure would be financially irresponsible. The MAIB operates in a compulsory and relatively stable line of business. Using its reserves for TasInsure, which would operate in competition with other insurers and be exposed to correlated risks could breach prudential norms, reduce dividend flows to Government, and increase budget volatility.

- **International evidence cautions against retail public insurance schemes:**
  International experience shows that government-run retail insurance schemes frequently experience financial distress when political considerations constrain pricing (e.g., the U.S. National Flood Insurance Program) or when exposure is concentrated in disaster-prone regions (e.g., US FAIR plans). More durable models—such as New Zealand's Earthquake Commission or Australia's Cyclone Reinsurance Pool—limit exposure, maintain actuarial discipline, and intervene upstream through reinsurance or pooling arrangements. However, even these schemes will not remain solvent if they are not paired with substantial mitigation investment to drive down underlying risk and inhibit new construction in high-risk zones. Insofar as TasInsure's operating model has

[40] Bushfire-Prone Areas.

been articulated, it does not reflect best-practice principles. This threatens its long-term sustainability.

Recommendations

5. **Do not set up TasInsure as a retail insurer**: Doing so risks the worst of both worlds. It will be fiscally unsustainable and so will only meet political imperatives temporarily.
6. **Protect MAIB**: Safeguard its reserves and dividend flows by avoiding expansion into voluntary, catastrophe-exposed markets.
7. **Mitigation**: Consider investing in resilience to reduce long-term costs, fiscal exposure and pressure on insurance premiums where it is cost effective.
8. **Tax reform**: Remove stamp duty and the Fire Services Levy on insurance and replace the lost revenue via a less distorting tax, such as land tax.

Appendix A: Glossary of Terms

Table 11: Glossary of Terms

Term	Description
Actuarial Pricing	Setting premiums based on risk-reflective statistical and probability models.
Adverse Selection	When higher-risk customers are more likely to buy insurance, raising costs for the pool.
Affordability Stress	When rising premiums make it hard for households or businesses to maintain cover.
Annual Exceedance Probability	The chance of a given size loss being exceeded in any year.
Average Cost per Claim	The mean financial payout per claim across a portfolio.
Capital Adequacy	The level of financial capital insurers must maintain to withstand shocks, regulated by APRA standards.
Catastrophe Risk	The danger of rare, extreme events causing very large losses.
Claims	Requests made by policyholders for compensation following a covered loss.
Claims Ratio	The ratio of claims payouts to premiums received, showing how much revenue goes back to policyholders.
Compulsory Insurance	Insurance mandated by law, such as CTP motor insurance.
Contingent Liability	A potential obligation triggered only by a future event, such as catastrophe payouts.
Coverage Caps	Limits placed on the amount or scope of insurance protection available.
Cross-subsidisation	Premium structures where low-risk policyholders effectively subsidise higher-risk ones.
Gross Written Premium (GWP)	The total premium income an insurer records before reinsurance or expenses.
Hazard Mapping	The use of data to identify and model exposure to natural disaster risks for insurance pricing and planning.
Insurer of Last Resort	A government-backed or statutory insurer providing coverage when private insurers withdraw.
Investment Income	Returns from investing premiums and reserves, supplementing underwriting results.

Levy-funded Cover	Insurance protection financed by mandatory levies on policies.
Limit	The maximum payout by an insurer or reinsurer under a policy.
Moral Hazard	The tendency for insured parties to take greater risks because they do not bear the full consequences.
Outwards Reinsurance Expense	The cost incurred by insurers to purchase reinsurance protection.
Payout Ratio	The proportion of lodged claims that are actually paid.
Premium	The amount paid by policyholders to an insurer in exchange for coverage.
Reinsurance	Insurance purchased by insurers to spread risk and reduce exposure to large losses.
Reinsurance-only Intervention	A government support model that operates at the reinsurance level without providing direct retail insurance.
Reserves	Funds insurers hold to meet expected and future claims obligations.
Retention	The share of loss the insurer keeps before reinsurance applies.
Self-Insurance	When an entity (such as a government) retains full responsibility for losses instead of buying reinsurance.
Stochastic Analysis	The use of probability distributions and random simulations to model uncertain future outcomes.
Tail Risk	The risk of extreme, low-probability losses at the far end of the loss distribution.
Underwriting	The process of evaluating and pricing insurance risks.

Appendix B: Prudential Reserve and Investment Asset Requirements for TasInsure

This appendix provides an indicative assessment of the reserve and investment asset levels that TasInsure would need to maintain to meet prudential capital requirements under various market share scenarios. The analysis is illustrative only and based on broad parameters drawn from available financial data for insurers. It is not a substitute for a formal actuarial valuation.

We investigated estimating the required reserves in a similar way to MAIB, for which a target funding ratio (Box 3) determines the level of investment assets required to maintain solvency. However, we could not replicate the reported funding ratios based on publicly available financial data for MAIB. Hence, we have chosen to use a simpler method for estimating required reserves, based on available data for insurers, and estimating a multiple of investment assets to GWP. While simpler, the method should nonetheless give reasonable estimates of required reserves.

Box 3. The funding ratio

The funding ratio is used as a measure of solvency of MAIB and other motor accident third party insurance schemes across Australia. It is defined as:

$$\textit{Funding ratio} = \frac{\textit{Assets (less deferred dividends and tax)}}{\textit{Net outstanding claims and premium liabilities inclusive of risk margins}}$$

It compares the assets the insurance scheme has available to cover its expected liabilities, inclusive of a risk margin to cover uncertainty around premium liabilities.

To provide a buffer or margin of safety, funding ratios are typically above 100%, and indeed MAIB's is 120-145%.

Source: Office of the Tasmanian Economic Regulator (2025, p. 93 and p. 101).

The following table sets out the parameter assumptions for these estimates and the formula used to calculate the potential asset requirement.

Table 12: Parameter Assumptions and Calculation Formula

Parameter	Symbol	Value / Range	Comment
Required investment assets	IA = GWP x s x M	Calculated based on the formula in the second column for different assumptions in Table 13 below	Components of the formula are described below
Gross written Premium - Tasmanian insurance market	GWP	$1.24–1.56 billion	Based on Tasmanian Budget, SRO data and RACT data [41]
TasInsure market share	s	5%, 10%, 20%, 30%	Scenario range
Multiple of investment assets to GWP	M	1.4–2.0	We compared investment assets with premium revenues for a range of insurance companies, including one major insurer, one mid-range insurer and a smaller insurer to determine the range for the multiple.

The following table estimates the required investment assets required under the range of scenarios and parameters set out in the preceding table. It looks at the level of required investment assets that TasInsure is likely to require depending on both the share of market TasInsure might secure, and the type of insurance (short-tail or long-tail) that TasInsure may provide. We show the results for two different estimates of the size of Tasmania's general insurance market: $1.214 billion estimated by RACT and $1.54 billion implicitly assumed by Treasury's insurance duty revenue estimates. The Treasury estimate is an upper bound because it would include some revenue from stamp duty on life insurance which is not considered general insurance. As noted above, life insurance is not within the scope of TasInsure.[42]

[41] Based on Treasury (2025) 2024-25 Revised Estimates Report (including December Quarterly Report), p.39
State Revenue Office (2025), Insurance Duty Calculator and
RACT (2025) Tasmanian Insurance Profile – Key Insurance Risk, Hazard and PML Profile, July 2025
[42] Tasmanian Government (2025, p. 5).

Table 13: Required Investment Assets under Alternative Scenarios

Market GWP (A$ m)	TasInsure Share (%)	TasInsure GWP (A$ m)	Lower bound (Multiple of GWP=1.4)	Upper bound (Multiple of GWP=2.0)
1,214	5%	60.7	85	121
1,214	10%	121.4	170	243
1,214	20%	242.8	340	486
1,214	30%	364.2	510	728
1,540	5%	77	108	154
1,540	10%	154	216	308
1,540	20%	308	431	616
1,540	30%	462	647	924

These results illustrate the broad range of potential investment requirements depending on TasInsure's business mix and prudential target. If TasInsure becomes only a small market player, with 5% of the Tasmanian market, it may only require $85-154 million of investment assets. The Government may intend that TasInsure remains a relatively small player (i.e. 5% or smaller market share), focusing on the highest risk properties. If so, this would make TasInsure a higher risk, less diversified insurer than its competitors. In this case it is likely to need more capital than the calculations in Table 13 indicate.

If TasInsure seeks a larger market share and a more diversified customer base it will need even more capital. If TasInsure gains 20% of the market, which is plausible, then it would require $340-616 million in investment assets. Based on this modelling, only if TasInsure becomes a relatively small market player, with much less than 10% of the market, is there confidence that TasInsure's reserves can be sourced from excess reserves for MAIB, which amount to no more than around $190 million.[43]

Limitations

This analysis is indicative only and is not a formal actuarial or prudential assessment. The ranges provided for required investment assets provide a reasonable indication of the reserves that TasInsure would need to operate prudently in the Tasmanian market. The precise requirement will depend on product mix, reinsurance structure, and catastrophe exposure. A

[43] This is based on MAIB's reported funding ratio of 133.7% as at 30 June 2024 and its net claims liability of $1.382 billion (MAIB 2024, p. 5 and p. 46). Given the minimum funding ratio of 120%, an estimated $189 million can be taken from MAIB reserves and transferred to TasInsure. This is calculated as follows: (133.7% funding ratio - 120% minimum ratio) x $1.382 billion in net claims liability.

detailed actuarial valuation would be required prior to setting any statutory capital target or allocating equity transfers from existing government funds.

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