



2nd February 2024

Hon Shayne Neumann MP

By Email: Shayne.Neumann.MP@aph.gov.au

CC: floodinsurance.reps@aph.gov.au ; northernaustralia.joint@aph.gov.au ;

Stephen.Jones.MP@aph.gov.au

Re: Flood Reinsurance Pool - Inquiry into insurers' responses to the 2022 major flood claims

Dear Hon Shayne Neumann MP,

Thank you for raising important questions during yesterday's Inquiry into insurers' responses to the 2022 major flood claims (Inquiry).

During the Inquiry, you rightly voiced concerns about the idea of establishing a flood reinsurance pool in light of concerns we have raised with other government reinsurance pools moreover the Cyclone and Cyclone Reinsurance Pool. You referred to a report published by our organisation, ACIL's First Evaluation of the Cyclone and Cyclone-Related Flood Reinsurance Pool, in which we raised concern about the pool's effectiveness in lowering consumer premiums.

Our organisation's criticisms of the pool have been solely aimed at urging the government to enhance its effectiveness, ensuring it meets its intended purpose and serves consumers well. While our organisation believes the pool requires improvements, we have never suggested that it should be abandoned or deemed a failure.

While I endorsed the concept of a Flood Reinsurance Pool at the inquiry, I want to clarify that our organisation has proposed a comprehensive evaluation by the government to assess the feasibility of establishing a Federal Flood Reinsurance Pool. As stated in our submission, we believe this assessment, should either coincide with or follow the 2025 review of the Cyclone Reinsurance Pool to ensure a thorough understanding of its impacts and improvements.

We believe the government should immediately refine the modelling of the Cyclone Reinsurance Pool to enhance savings for consumers. This should be done immediately to allow for the implementation of version 2 and ensure there is adequate time to evaluate its consumer impact before the planned 2025 review.

At the inquiry, you asked "In terms of modelling, who should do that modelling?". ACIL proposes that the Assistant Treasurer, Stephen Jones MP, should instruct the ARPC to submit proposals for changing the modelling to incorporate key alterations:

- Extend the timeframe for cyclone-related flood claims from 48 hours to 7 days.
- Mandate contributions to the pool from residents in regions with a history of cyclones.



- Expand the model's geographic considerations to include areas previously unaffected by cyclones, assessing their potential risk.
- Implement greater cross-subsidisation, whereby policies in with a lower rated cyclone premiums contribute slightly more to support those with higher rated premiums.

Drawing an analogy, consider Elon Musk's ventures into space exploration. Despite early setbacks perceived as failures by many, Musk viewed them as valuable lessons, underscoring the importance of foresight and resilience. Similarly, although our organisation acknowledges the initial challenges faced by the reinsurance pool, we believe it is imperative for the government to exhibit the political will to refine and enhance the pool, ensuring it fulfills its intended objectives. Failure is not an option.

Considering the pool currently collects \$770 million in premiums for cyclone risks in Australia, a government subsidy could provide immediate relief and enhance insurance affordability in northern Australia during the pool's refinement phase.

We support the idea of an inquiry into creating a Flood Reinsurance Pool. However, it is imperative that improvements to make the Cyclone Reinsurance Pool more effective for consumers are prioritised before such consideration. I urge you to advocate for these immediate actions by the government.

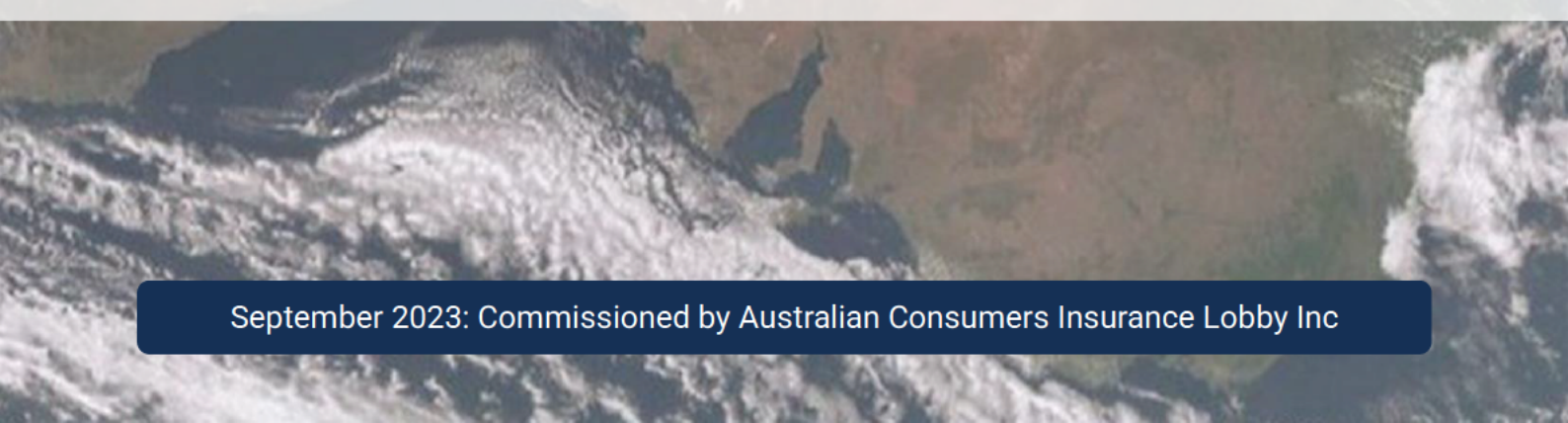
Thank you for your attention to these matters. I look forward to your support and action on behalf of Australian consumers.

Kind Regards.

Tyrone Shandiman
Chairperson



Under the Lens: ACIL's First Evaluation of the Cyclone and Cyclone-Related Flood Reinsurance Pool



September 2023: Commissioned by Australian Consumers Insurance Lobby Inc

Executive Summary

The Cyclone and Cyclone-Related Flood Reinsurance Pool (Pool) stands as a critical pillar in safeguarding the economic well-being of communities in Northern Australia. As dedicated advocates for affordable and available insurance in Northern Australia, our unwavering commitment propels us to continuously enhance the Pool's efficacy. This comprehensive report embarks on the imperative task of fortifying the foundation of the Pool, exploring avenues to amplify its impact and reinforce its reach.

In response to the evolving needs of Northern communities, this report navigates the complexities of bolstering the Pool. Through exhaustive consultations and valuable insights, we delve into the core strategies that pave the way for heightened consumer savings, a more expansive eligibility framework, and an overarching enhancement of the Pool's performance.

We extend our gratitude to several insurance brokers in Northern Australia, along with the Marina Industries Association, marinas and longtime consumer advocate and former ACIL Chairperson Margaret Shaw OAM. Their input has significantly enhanced the quality and depth of this report.

About ACIL

The Australian Consumers Insurance Lobby Inc (ACIL) is a leading consumer advocacy group focused on key issues in general insurance. Originally established as the Northern Australia Insurance Lobby Inc in February 2021, our organisation is a leading consumer group for insurance affordability and availability concerns in Northern Australia. In June 2022, we expanded our scope and renamed ourselves ACIL to advocate for consumers nationwide. Despite this expansion, our commitment to addressing challenges related to the Pool in Northern Australia remains a central part of our mission.

Our Mission



Advocate for affordable and accessible insurance.



Protect consumer rights and interests.



Influence positive change in the insurance industry.

Meet the Team

Our committee boasts a balanced mix of consumer representatives, who provide crucial insights into consumer needs, with consumer-centric insurance professionals, ensuring a comprehensive understanding of the insurance industry, to effectively advocate for consumer interests.

Insurance Professionals



Tyrone Shandiman
Chairperson



Eva Jones
Secretary



Peter Marer
General Committee Member

Consumer Representatives



Bradley von Xanten
Treasurer



Pamela Farrell
General Committee Member



Dawn Romanella
General Committee Member

ACIL's Verdict: Evaluating the Pool's Performance

ACIL's first evaluation of the Pool presents a "needs improvement" verdict. The Pool, as it stands, is observed to offer limited to no substantial savings for consumers. This assessment highlights a gap between the intended benefits and the actual impact experienced by those it aims to protect. Notwithstanding many of the stakeholders we spoke to believe the pool will work with enhancements.

In this report, we provide recommendations for enhancing the Pool's impact on consumers.



ASSESSMENT: NEEDS IMPROVEMENT

Message to Federal Politicians

Political considerations play a significant role in any government-run program. ACIL has formulated the following key messages for our elected representatives:



Proactive Changes Prior to the 2025 Review: ACIL advocates for a proactive approach in implementing necessary adjustments to the Pool. Waiting for the 2025 review might result in missed opportunities to enhance its functionality and effectiveness sooner.



Prioritise Effectiveness, Not Politics: The government should avoid perceptions of allowing short-term ineffectiveness of the Pool (designed during LNP term), potentially with the aim of introducing enhancements around election time for strategic reasons. It's advised that the government remains focused on the Pool's effectiveness, this approach is crucial to maintain positive sentiment among consumers (voters) and uphold the Pool's credibility.

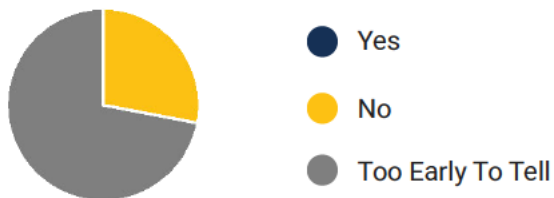


Stay the Course: Despite ACIL's initial underwhelming assessment, a consensus among the majority of stakeholders we engaged with reveals their belief in the Pool's capacity to effectively reduce premiums. The prevailing sentiment suggests that while the current state may require adjustments, the Pool fundamentally holds promise for positive change.

Broker Insights

ACIL believes insurance brokers have a broad and unique perspective of insurance matters in Northern Australia. To assist us in evaluating the impact of the Pool, ACIL contacted several insurance brokers in Northern Australia regions Cairns, Townsville, Mackay & Broome to get a better understanding on key aspects of the rollout of the Pool.

Brokers were specifically requested to share their perspectives solely based on policies that fell within the scope of the Pool. In this context, certain brokers conveyed that it might be premature to definitively assess the efficacy of the Pool at this point in time.



Do you believe the Pool is working?



Do you believe the savings are enough for consumers?



Do you believe the Pool is the most effective way of achieving greater affordability and availability of insurance in Northern Australia?



Do you believe the Pool will work with changes or enhancements?



Impact on Premiums: When engaging with brokers in Northern Australia, a prevailing sense of disappointment and pessimism emerged regarding the Pool's effectiveness in achieving its goal of reducing insurance premiums. The majority of brokers expressed that there had been minimal, if any, discernible changes in insurance premiums. Some brokers even reported witnessing premium increases for policies within the pool.



Excess and Insurer Appetite: Despite the Pool's existence, improvements in excess for consumers remained unchanged. Additionally, the Pool hasn't led to an increased appetite among insurers for business.



Market Entry: There was little to no noticeable change in the number of insurers entering the market as a result of the Pool. Only one major insurer Allianz entered the market, but according to most brokers, they're not considered competitive.



Promising Insights: A minority of expressed that the Pool was providing modest savings for their clients for certain classes of business. Among those who found savings, for different insurance types:

- Strata Insurance showed reasonable savings, with reductions of up to 40% and even 50% in some instances. The lack of insurers such as SUU (IAG), SCI (Allianz) & Longitude (Chubb) meant that it was too early to tell the final impacts.
- Home Insurance displayed modest savings, falling within the range of 10% to 20%.
- Business Insurance yielded no savings, as brokers reported either no difference or an increase in premiums.



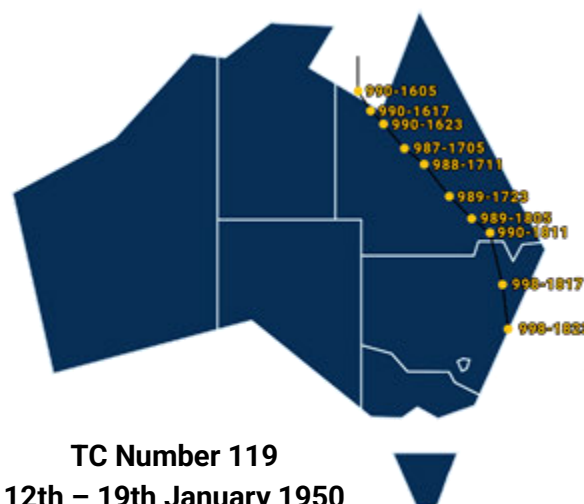
Unintended Consequences: The unintended consequences were not deemed to be major. Some brokers noted a shift from insurers in dealing with business customers whose asset values exceed \$5 million, suggesting insurers were being more selective with this business risk. Notably, one insurer, previously providing commercial strata coverage under a business package, has opted to discontinue doing so. The extent to which this decision is influenced by the introduction of the Pool or other factors remains unclear. Additionally, certain inland risks (properties situated 50km inland from the coastline) have experienced premium increases. ACIL has also been informed of significant discounts associated with the Pool occurring in unintended areas, including strata buildings in the Gold Coast and Sunshine Coast.

Modelling

ACIL has several concerns regarding the fairness of the modelling used in the context of the Pool. The current exclusion of southern parts of Australia from reinsurance costs associated with the Pool, despite receiving cover, raises significant questions about the equity of the approach. ACIL's apprehensions about the modelling centre around the following points:



Historical Weather Data: The omission of certain regions with a history of cyclone is a concern. In January 1950 cyclone made landfall on the Gulf of Carpentaria coast then tracked south and reached Sydney as a category 1 system about three days later. Despite being unlikely to cause significant wind damage, the potential for substantial water damage claims underscores the importance of adequately accounting for such events. Sydney receives cover for cyclone events from the pool, but do not contribute premiums. **Sydney Must Pay!**



Changing Climate Impact: The modelling must account for changing climate and its effects on cyclone patterns. Regions in Southern Australia, are not currently contributing to the Pool, despite having cover. The dynamic nature of climate change introduces the possibility of cyclone events in regions previously unaffected. Therefore, the modelling should integrate the potential for future claims arising due to climate change by covering more southern consumers.



Transparency of Modelling: Transparency in modelling remains a pivotal concern for consumers. While Treasury has been in possession of rates for over a year, consumers lack the means to comprehend the reinsurance rate associated with their policy as location information is not part of the rating information released by Treasury. Transparency is vital as it enables consumers to assess the cost of cyclone insurance and compare it against other regions. ACIL has urged Treasury to release the modelling in full, these calls have gone unanswered. We also endorse adding reinsurance costs to the premium breakdown on policy invoices.

ARPC have previously stated the Pool operates on a principle where properties in low-risk areas contribute slightly more to support those residing in high-risk areas. Broadening the geographical coverage to encompass a wider range of regions, based on historical data and the potential impacts of climate change, introduces more low-risk properties contributing into the Pool. The contribution for low-risk areas has a nominal effect on premiums for southern consumers. ACIL estimates the financial impact would be less than 5%. However, its influence on premiums for Northern consumers would be significant. This expansion not only enhances the overall effectiveness of the Pool, but also offers opportunities for significant savings for those who are most reliant on its support.

Reducing the Financial Impact on Northern Consumers

ACIL identifies four strategies to enhance premium affordability for Northern consumers:



Greater Cross Subsidisation: Embedded in the framework of insurance is the core principle that "the premiums of the many pay for the losses of the few." Broadening the geographical coverage of properties contributing to the Pool is a key approach supported by many brokers. Leveraging insights from the previous report section, this expansion should be informed by historical weather data which incorporates high populated areas in southern regions (such as Sydney) and including consideration for changing weather patterns (climate change).



Mitigation Integration: ACIL proposes integrating mitigation into the ARPC's mandate. By fostering measures that enhance property resilience against cyclones, a reduction in claims becomes feasible. This reduction directly translates into lower premiums. Specific measures could encompass:

- Upgrading Roofs and Strapping via Over Batten Systems for Pre-1980 Housing
- Enhancing Opening Protection for Windows and Doors
- Implementing Roof Inspections and Repairs before the Cyclone Season
- Removing trees at risk of falling on buildings



Addressing Stamp Duty: Stamp duty is a regressive tax as it disproportionately impacts high-premium payers like those in Northern Australia. ACIL advocates either abolishing stamp duty on insurance premiums, or channelling some Stamp Duty funds more effectively into mitigation efforts. ACIL urges a collaborative effort between State and Federal Governments to prioritise this matter.



Government Subsidy: Drawing from the ACCC's recommendation in the Northern Australia Insurance Inquiry, ACIL supports subsidies as a viable strategy in the short term. While the ultimate goal is to ensure the Pool achieves cost neutrality, ACIL proposes that, during the refinement phase, the government should explore subsidising premiums.

ACIL's proposed strategies align with the objective of making insurance premiums more accessible and affordable for Northern consumers, reflecting a comprehensive and multi-faceted approach to tackling this issue.

Eligibility Criteria

Feedback from brokers underscores the belief that the current eligibility criteria could be more inclusive, encompassing a broader spectrum of consumers. The following aspects were highlighted as areas needing attention:



Sum Insured Limitation: The \$5 million sum insured limitation for commercial buildings was seen as restrictive and is a disincentive to expand. Brokers suggested raising it to either \$10 million or \$20 million. This adjustment aims to accommodate a wider range of properties within the Pool's coverage, ensuring that more consumers can benefit.



Inclusion of Farms: Farmers are facing significant insurance challenges, prompting some brokers to advocate for their inclusion in the Pool. By extending coverage to farms, the Pool can provide essential support to this sector, alleviating financial pressures.



Aged Care Facilities: Aged and other care facilities are categorised as commercial, even though they serve as the primary residences for elderly individuals and those requiring care. The exclusion of these facilities with a sum insured exceeding \$5 million inadvertently increases the cost of care for their residents, highlighting the need for a more inclusive approach.



Hamilton Island's Unique Situation: Various buildings on Hamilton Island operate similarly to strata-style buildings with many "mum and dad investors" as lot owners, but are currently ineligible for the Pool due to their non-strata designation, falling under the Corporations Act. Addressing this discrepancy would ensure fairness and consistency in eligibility assessments.

Marine Insurance

On July 19th, 2023, ACIL, in collaboration with the Marina Industries Association, hosted a forum on escalating marine insurance costs in Northern Australia. We also conversed with specialised marine insurance brokers. The viewpoints shared during these discussions on consumer impacts sharply contrasted with the evidence presented by The Insurance Council of Australia to the Joint Select Committee's inquiry. This evidence by ICA suggested that premium differences across their members' portfolios were less than five percent.

Analysis of Marine Insurance Issues



Fixed Marine Infrastructure



Escalating Insurance Premiums: One marina experienced an alarming 335% increase in insurance premiums over seven years, while another marina witnessed a doubling of premiums in their most recent insurance renewal.



High Cyclone Excess: Excess amounts ranging from \$500,000 to \$1,000,000 are further straining the financial resources of marinas.



Partial Insurance Coverage: Due to affordability constraints, some marinas were unable to secure or afford 100% coverage for their marinas. As a result, they resorted to partially insuring their infrastructure.



Private Boat Operators



Inadequate Cyclone Season Coverage: Insurers have been reluctant to offer cover for certain boats during cyclone season, leaving private boat owners exposed to significant risks and in some instances unable to use marina facilities if they don't have insurance.



Substantial Premium Increases: Private boat owners have faced substantial increases in insurance premiums, rendering mooring in southern parts of Australia a more affordable option for them.

Impact of Market Failure In Marine Insurance

The affordability and availability of marine insurance in Northern Australia has resulted in significant consequences for marinas and the wider boating industry in the region.



Sailing South: Private vessel operators relocating to southern regions with lower insurance and marina berthing costs.



Impact on Tourism: Negative effects on tourism and boating industries in the area.



Strain on Marina Maintenance: Marinas facing financial strain, considering reduced facility maintenance.



Dissuading Marine Industry Entry: High expenses discouraging entry into the marine industry.



Obligatory Claim Excesses: Marinas forced to allocate substantial funds for \$500,000 to \$1,000,000 excesses.



Increased Costs: Higher marina fees due to escalating insurance costs.



Economy and Jobs at Risk: These factors threaten the marine industry's growth, jeopardising jobs and impacting the local economy in Northern Australia.



Impact on Commercial Operators: Commercial operators depend on marinas having comprehensive infrastructure insurance, as it is a prerequisite for obtaining insurance coverage for their businesses.

Cyclone-Related Flood Timeline

The March 2023 Joint Select Committee for Northern Australia Inquiry focused on extension of claims for cyclone-related flood from 48 hours to 7 days. After considering evidence provided at the March Inquiry, ACIL supports the extension of cyclone-related flood coverage to 7 days provided the geographic modelling for rates is also broadened to encompass more contributors (including Sydney).

As previously mentioned, the Pool is designed so that low risk policy holders pay slightly more to cross subsidise higher risk policy holders. A geographical extension of claims coverage potential would result in more low risk policy holders to help cross subsidise higher risk policy holders.

The coverage of flood events under both the Pool and insurers private Reinsurance arrangements means the overall reinsurance cost may be higher for consumers. ACIL would therefore support a comprehensive review into the inclusion of full flood for both cyclone & non-cyclone related events under the Pool. This may help the federal government deal with growing concerns for consumers associated market failure around flood insurance.

The Role of ARPC

The ARPC plays a crucial role as the facilitator of the Pool, which has received positive feedback from stakeholders. Their proactive approach to engaging stakeholders through forums helps educate and inform consumers and relevant parties. Additionally, the ARPC's active participation in events and responsiveness in addressing enquiries, as noted by ACIL, further demonstrates their dedication to effective collaboration. While the ARPC facilitates the Pool, some key issues mentioned in this report may also be attributed to decisions made by the Treasury Department.

The Role of Insurers

Insurers play a crucial role in the functioning of the Pool, and their actions and decisions can significantly impact its success or failure. ACIL, alongside certain brokers who participated in this report, has reservations regarding the behaviour and transparency of insurers. These concerns revolve around the question of whether insurers have operated in good faith with respect to the Pool and underscore a shared aspiration for the Pool to genuinely serve as a consumer-centric solution. Key concerns are summarised as:



Opposition to the Pool: At the outset, insurers exhibited reluctance towards the establishment of the Pool, contending that it might not genuinely lead to a reduction in premiums across Northern Australia. Some brokers sensed that this resistance stemmed from commercial interests rather than a genuine scepticism about the Pool's efficacy.



Marine Insurance Evidence: There are serious concerns about the evidence provided by insurers via the Insurance Council of Australia (ICA) during a government inquiry. In their presentation, the insurers suggested that the disparity in marine insurance premium levels between northern and southern Australia is negligible – less than five percent across their member portfolios. The omission of evidence associated with cyclone excess and cover limitations, combined with contradictory accounts from marinas and boat operators, casts doubt on the accuracy and transparency of the information provided by insurers.



Rollout Timing: The timing of insurers' adoption of the Pool is questioned, with a lack of transparency regarding their reasoning for this timing. Examples include insurers like QBE & IAG, who typically negotiate reinsurance arrangements in January or July. However, during their respective reinsurance renewals, both insurers did not enter the Pool. Similarly, Allianz was one of the early adopters of the Pool for Home & Business, but they excluded strata insurance from their participation, without providing any reasoning for this decision.



Lack of Communication: Insurers have exhibited a pattern of withholding communication on joining the pool until the last minute, and furthermore, they have not been transparent about the motivations behind their actions. Despite the Pool operating for over a year, for insurers yet to join the Pool, there remains a notable absence of information regarding insurers' participation timelines.



Expansion of Appetite & Guidelines: Some insurers are maintaining their original risk appetite despite the broader cover offered under the Pool. An example being Sure Insurance who are still declining cover for older buildings or properties with inferior building material despite the Pool offering cover for these properties with a premium loading.



Premium Increases: Respondents raised concerns about significant premium increases in the lead up to the rollout of the Pool, particularly in markets where insurers had a monopoly. Given there have been no cyclone claims, the lack of explanation for these increases, raises suspicions of potential price gouging. Notably, the ACCC's Insurance Monitoring Division hasn't set the baseline parameters from February 2022 for comparison, leaving uncertainty about savings or increases for companies joining the pool since then.

Transparency is highlighted as a critical factor in rebuilding trust and credibility with consumers. To gain trust, insurers must be more open about their decision-making processes, communicate more and provide clearer justifications for their actions. By doing so, they can demonstrate their commitment to acting in good faith and in the best interests of consumers.

Considerations for Future Reviews

In the context of future reviews, several crucial aspects warrant careful examination:



Measuring the Pool's Success: Evaluate the tangible impact of the Pool on consumers, encompassing premiums, excesses, market competition and improvements to policy terms and conditions.



Enhancing Consumer Savings: Explore avenues to further optimise cost savings for consumers in Northern Australia within the framework of the Pool.



Mitigation: Exploring the role of mitigation for the Pool and whether it could form part of the APRC mandate.



Modelling: Delve into the modelling aspects, addressing concerns such as:

- Historical Data - Why are parts of Australia who have had a history of cyclone, like Sydney not contributing to the Pool despite their history of cyclone.
- Changing Climate: Whether the modelling factors in considerations for changing climate patterns.



Evaluating the role of Insurers:

- Scrutinise whether insurers have acted in good faith in implementing the pool.
- Investigate the rationale behind insurers' decisions regarding entry timing.
- Analyse the impact the Pool has had on encouraging insurers to enter the market, by asking insurers not insuring in the region to provide explanation deciding not to re-enter the market.
- Ascertain if insurers have adjusted their risk appetite and guidelines in line with the Pool's risk appetite and if not why.
- Examine factors contributing to premium increases leading up to the pool's rollout.
- Thoroughly review evidence provided to the March 2023 Joint Select Committee for Northern Australia inquiry for marine insurance suggesting only a 5% premium difference.



Marine Insurance Review: Reviewing the inclusion of marine insurance into the Pool.

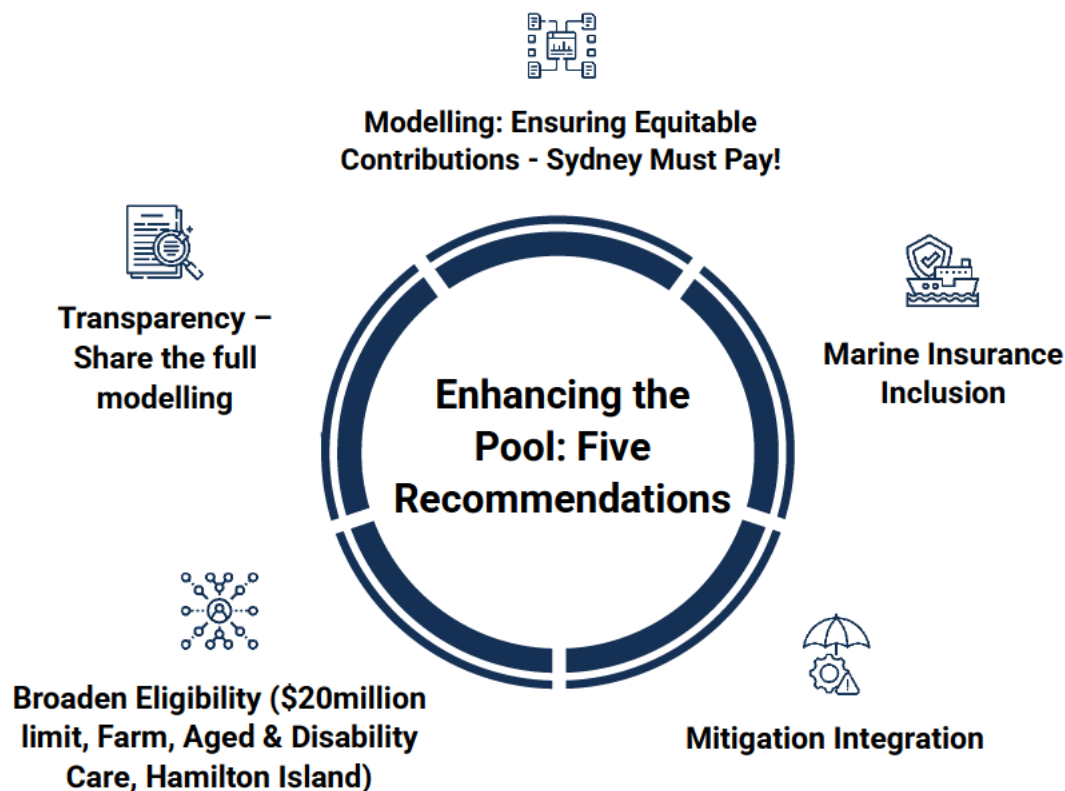


48-Hour Cyclone Related Flood Condition: Evaluating the efficacy and implications of the 48-hour limitation period pertaining to cyclone-related damage claims.



Suitability of the Pool for Addressing Market Failures: Consider whether a government reinsurance pool is an appropriate mechanism for addressing other market failures beyond its current scope.

Recommendations



A Call to Action

In light of the insights and recommendations presented in this report, a pivotal moment emerges for all stakeholders invested in the success of the Pool. The findings highlight the imperative of concerted action to ensure that the Pool effectively serves the interests of consumers in Northern Australia.

Treasury's and the ARPC's role in guiding decisions that influence the Pool's framework cannot be underestimated, and their alignment with the vision of affordability and accessibility is pivotal. It is incumbent upon both parties to lead the charge by conducting comprehensive reviews that evaluate the Pool's impact, foster a more inclusive environment and create meaningful changes to the insurance landscape in Northern Australia.

Our dedication to affordable insurance nationwide remains steadfast. The heralds an opportunity for transformative change, ensuring that communities not only weather the storm but thrive in its wake.



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