

4<sup>th</sup> March 2022

The Secretary  
Senate Standing Committees on Economics  
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Parliament House  
Canberra ACT 2600



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The Voice of  
Territory Business

The Northern Territory Chamber of Commerce and Industry is pleased to make this submission to the Committee's Inquiry into the Treasury Laws Amendment (Cyclone and Flood Damage Reinsurance Pool) Bill 2022.

1. The Northern Territory Chamber of Commerce and Industry (Chamber NT) is the NT's largest member-based employer organisation, representing 1200 members. Our focus is to support business in the Northern Territory for today, and into the future. Established in 1957, we have an extensive experience in advocacy and policy on behalf of business, including tailored training, consulting, and hands on business advice to our members.
2. The Territory is a remote location, and it is constantly challenged by its geography, climate, and resource pool. Doing business in the Northern Territory can be difficult. Attracting and retaining workers, accessing materials, and keeping escalating costs under control remain principal challenges for the business community, where the majority are classified as small to medium enterprises.
3. Being a tropical location, the NT is tagged as higher risk for insurance purposes, even though this region has evolved with these challenges which has resulted in higher standard of building codes, better drainage systems within populated regions and arguably a heightened level of preparedness within communities.
4. Insurance is of critical importance to business and the general community. The Northern Territory has inherently high costs of living and doing business that impact its level of competitiveness. The burden of the penalties applied to insurance risk is adding to this, forcing some households and businesses to take financial risks that are unacceptable.
5. The most significant issue for Northern Australia is the lack of interest from insurers participating in the region. There are around 100 licensed general insurers in Australia, but some of these are reinsurers who would not be offering insurance directly to business. Less than 10 per cent of licensed insurers in Australia are active in Northern Australia and offering quotes across most classes of interest to the business sector. Private homeowners, landlords and motor vehicles owners are no better supported.

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6. The small pool of insurers is the first major issue that needs to be addressed, as more competition should generate savings, even before reinsurance arrangements are factored in. Reinsurance, like all insurance, can be structured in different ways to achieve the desired outcome and is not an “all in, all out” scenario.

That would mean that each licenced insurer will view any pool offered by the Federal Government differently based on how it effects their current arrangements and where they choose to write business. Potentially achieving a consensus will be difficult as insurers strongly protect their reinsurance arrangements and will be unlikely to share these with other insurers and the Federal Government to enable meaningful discussion.

One option is to increase the scope and role of the existing Australian Reinsurance Pool Corporation (ARPC) to include catastrophes Australia-wide. Focusing on Australia-wide may indirectly improve insurer participation in Northern Australia.

7. At present the ARPC is funded by levies built into business premiums for terrorism events only. The levy charged is determined by postcode. We would suggest that this methodology continue unchanged, but the value be increased to offset the increased risk. We would also recommend at the same time the ARPC coverage be extended to include private homes, landlords and strata.

An addition requirement would be to determine at what point the pool would cut into insurers existing arrangement. As an example, is it after a catastrophic event has reached \$10,000,000, \$50,000,000, \$100,000,000 or more in costs? Whatever limit is set, it is then applied to all insurers, and they can then renegotiate their own reinsurance program to achieve the potential reduction in costs. It should be noted, however, that there will be an increase in the levy which will offset some of the saving and that the application of this levy could potentially increase the cost of insurance to consumers should the suggested savings not be realised at the time of implementation.

8. Chamber NT also holds concerns that without expanding the pool to be national and ensuring the appropriate scope, that the predicted savings should be viewed as optimistic and that these claimed savings are not supported by the release of any modelling data.
9. We would also note the proposed Bill limits damage to a 48-hour period after a cyclone event has ended. We would content that this period does not provide sufficient time should damage occur from a tropical low that results from a weakened cyclone and that this aspect be considered and the model revised accordingly.
10. Whilst Chamber NT supports the proposed legislation in principle, we remained concerned that the remit is potentially not broad enough to provide a more cost-effective solution for policyholders and that participation of insurers becomes optional thus limiting the intent of the pool outcomes.



Yours sincerely



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Chief Executive Officer  
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