



SURE

 **INSURANCE, BUT FAIR.**

SURE INSURANCE SUBMISSION:

**JOINT SELECT COMMITTEE ON NORTHERN
AUSTRALIA INQUIRY INTO THE OPERATION AND
IMPLEMENTATION OF THE CYCLONE
REINSURANCE POOL**

31 May 2024

SURE INSURANCE - BACKGROUND:

Sure Insurance is a fully Queensland-based insurance business (managing general agent) launched on 1 July 2019. Sure Insurance is focused on offering a real choice and fair go for regional Queensland homeowners and Body Corporates who have been forced to pay ever-increasing premiums.

Sure Insurance has remained committed to addressing the insurance affordability 'crisis' and understands the unique needs of regional Queenslanders. Sure offers affordable and transparent Household and Residential Strata Insurance products from Hervey Bay to Cape York.

The Sure Insurance team have more than 80 years combined insurance experience and is led by the former CEO of RACQ Insurance and respected insurance industry leader Bradley Heath, and Michael Boucher who has renowned and extensive insurance experience including at RAA Insurance in South Australia.

Over the past five years Sure Insurance has delivered average annual premium savings of approximately 30 percent or \$1,480 per customer.

Approximately 15% of Sure Insurance policyholders previously held no insurance cover.

Sure recently expanded its Residential Strata Insurance product cover to include strata properties up to \$20 million (sum insured).

The Company arranged cover for more than 60,000 homes and residential units and by actuarial estimate has returned close to \$150 million in insurance premium savings to its customers and back into regional Queensland economies. Wherever feasible and as a deliberate strategy, Sure utilises local trades and services further supporting regional economies.

Sure has worked closely with the Federal Treasury Reinsurance Pool Taskforce during the Cyclone Reinsurance Pool (CRP) design and consultation period and provided a number of comprehensive technical submissions to assist the Federal Treasury and Federal Executive Government in that process.

The Company has also actively participated in previous Senate Committee Hearings into the operation of the CRP.

Sure's contributions to the Pool design process have always sought to provide the best thinking and to ensure the best possible outcomes for customers.

The CRP experienced its first real 'test' with the Tropical Cyclone Jasper and Tropical Cyclone Kirrily events and associated flooding.

Sure has for the past several months been actively managing Household Insurance claims arising from these events.

Given this direct recent experience we are pleased to provide this additional submission to the Joint Select Committee on Northern Australia into the operation and implementation of the CRP.

OBJECTIVES OF THE CYCLONE POOL:

The current CRP is the end result of several years of government inquiries and industry and public consultations.

From the ARPC web site, the purpose of the CRP is described as -

“The cyclone pool is designed to lower insurance premiums for households and small businesses with high cyclone and related flood damage risk by reducing the cost of reinsurance, which is a significant cost component of premiums for these policies.”

Further, the ACCC in its press release of December 2023 accompanying its related monitoring report said -

“The Australian Government established the cyclone reinsurance pool in 2022 to help make insurance more affordable for households and some small businesses who are at high risk of cyclones. The pool, which is administered by the Australian Reinsurance Pool Corporation, supplies reinsurance to insurers without a profit margin, reducing the cost of reinsurance for insurers.”

To paraphrase the range of statements and past inquiries, Sure Insurance would summarise the practical intent of the CRP as follows –

- Establishment of a reinsurance facility to cover cyclone and cyclone - related flood: the Cyclone Pool.
- Designed to create a more cost effective reinsurance alternative for insurers in the designated geographic areas.
- The lower cost of reinsurance is intended to be passed on to consumers lowering the per policy cost of reinsurance to “improve insurance affordability”.
- Encourage existing and new insurers to enter the market and/or become more competitive in their pricing.
- Designed to break even over the longer term and is backed by a \$10B government guarantee.
- Intended to “shield” customers from reactionary price rises following cyclone and cyclone – related flood events.

HOW DOES A TRADITIONAL REINSURANCE POLICY OPERATE?

For the purposes of this submission, we have described the key points of difference between the CRP and that of generally available traditional catastrophe reinsurance coverage.

- 168 hours coverage of a weather event.
- The insurer is able to determine the window of a claim event across the 168-hour period i.e. what claims are subject to reinsurance recovery.
- All strata policies regardless of sum insured are included.
- Cash calls are available at any time to facilitate cash flow management.
- Reinsurance Pools, like traditional reinsurance, do not normally risk rate the original/customer end policy. The Cyclone Pool’s risk rating is almost unique in this respect.

SUMMARY OF THE SURE INSURANCE PUBLIC POSITION:

During the various inquiry and legislative consultation phases, Sure Insurance participated in a range of interactions with Government and political processes –

- Treasury Consultation Paper response 01/06/2021.
- Exposure Draft Legislation Response 01/12/2021.
- Senate Economics Legislation Committee appearance 08/03/2022.
- Meeting with the then Assistant Treasurer, Michael Sukkar.
- Meetings with and briefing to Government and Opposition MPs.

The key parts of the above submissions which are germane to this paper follow in *italics* -

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Sure Insurance is committed to ensuring that those policyholders most affected by the cost of insurance in Regional Queensland and beyond are afforded every opportunity to lower the price of their insurance.

Equally, we are committed to ensuring that as many home and unit owners are able to insure as possible to reduce the post event burden on the community and deliver a level of security and certainty to people.

The introduction of the proposed Government Reinsurance Pool (Pool) is one part of a package of solutions to reduce the price of insurance which should, individually and collectively, be aimed at reducing the future cost of insurance.

As such, Sure Insurance submits that there are some key issues and principles that we would highlight and that are expanded upon in this submission –

- 1. The “No disadvantage test”.** *No policyholder should be worse off if their insurer cedes to the Pool. This applies to the level of premium, policy coverage, policy conditions and other relationship benefits with their insurer.*
- 2. A focus on those policyholders who need the most support.**
- 3. Dovetailed simplicity.** *The Pool design should not be unnecessarily complex for policyholders, insurers, and reinsurers. Ensuring that unintended outcomes and gaps are avoided is crucial.*
- 4. A successful and enduring delivery of the Government’s commitment and investment for home and unit owners.**

And,

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Event & Duration Definition. *The definition of what constitutes an event, and its duration is critical for the reasons enunciated above. Insurers will need to be able to model, price and reinsure (outside of the pool) based on this definition. Existing reinsurance practice defines much of this and it is recommended that an alignment between the Pool’s definition and generally accept reinsurance market practice be achieved. The timing of such alignment will be important to insurers based on their respective reinsurance programme inception dates and direct pricing cycles.*

In summary, one of the key parts of Sure Insurance’s submissions and discussions has been to highlight the need to ensure there are no “gaps” between the CRP coverage and what traditional reinsurance cover deals with – **unfortunately, our previous concerns have been starkly highlighted in the Jasper scenario.**

ANALYSIS OF THE TROPICAL CYCLONE JASPER EVENT:

TC Jasper was a long-lived event originating in the South Pacific in the Fiji area of responsibility.

For the purposes of this paper, the key dates for Jasper are -

- 02/12/2023 - Jasper forms.
- 13/12/2023 - Made landfall in North Queensland and caused damage.
- 16/12/2023 - Flooding arising from Jasper commenced.
- 18/12/2023 - Jasper last noted by BOM.
- 20/12/2023 - Almost 100% of the flooding arising from Jasper has occurred.

The relevant APRC declaration dates are as follows –

- 10/12/2023 4:00pm – Jasper is declared an event.
- 14/12/2023 12:00am – Cyclone event for Jasper ends.
- 16/12/2023 12:00am – Claims period for Jasper ends (i.e. up until the end of 15/12).

Based on a commencement of damage on 13/12, a 168-hour provision in the CRP legislation would have extended until 20/12 – when most Jasper flooding had already occurred.

It's important to note that the TC Jasper cyclone event and subsequent flooding is not an abnormal occurrence, and has occurred before over recorded history.

In fact, it could be stated that much of the longer-term historical damage from cyclone has occurred due to subsequent flooding – this is important from the viewpoint that TC Jasper is not an abnormal or unusual situation to be catered for in pricing either at an insurer or Cyclone Pool level. The rationale as to why the final CRP was designed to create the gap in cover is an anomaly that is neither fair nor reasonable.

Claims costs estimates and splits between the CRP and retained losses are not as yet final. On the best information, our estimates indicate that the Pool will only cover around 15% of the entire Jasper event loss.

The majority of the loss has occurred outside of the time coverage of the CRP i.e. the flooding comprising 85% of the loss occurred after 12:00am the cut-off of the Pool,

Had the CRP design mirrored traditional reinsurance coverage, 99.3% would have been covered under the Pool.

SCORECARD OF THE FIRST MAJOR TEST OF THE POOL:

Based on the above objectives, it would seem clear that the first substantive test of the effectiveness of the CRP has validated our previous concerns regarding the CRP design.

One consequence was that as soon as it became apparent that 85% of the Jasper event would not be covered by the CRP, requests from global reinsurers for increased reinsurance premiums immediately followed.

This is despite around 25% of customer premiums being ceded to the CRP – it is only paying for 15% of Jasper and associated flooding.

The 2023 cost of purchasing the Pool reinsurance coverage to Sure Insurance customers was \$46.7m in total.

It should be noted that the CRP legislation was originally developed and enacted in very short time frames. Sure Insurance believes that this is a clear and opportune moment in time to remedy the known design flaws.

The inevitable economic outcome is that the inability of insurers to recover on the very scheme that was designed to prevent premium rises will now most likely result in premium increases for consumers who were ultimately intended to benefit from the scheme.

While it will be argued that the CRP does not provide cover directly to the end customer, in real world practice, the Pool is certainly structured to determine an address- by- address price for consumers culminating in a total cost across all policies of what an insurer must contribute to the Pool.

Regardless of how the legislation is technically framed, the practical effect is that there is in fact a customer level Cyclone Pool contribution - as we said at an average 25% of customer premiums. We don't believe that customers are receiving value for that contribution given the Jasper outcomes.

In its first major test, will the CRP result in lower premiums for consumers? We think the answer is a resounding “No”.

WHAT NEEDS TO CHANGE?

The CRP legislation needs urgent amendment, and potentially retrospective changes, to fulfill its objectives and to deliver the benefits to policyholders - that is the very basis of the legislation's existence and intent.

Some **key immediate changes** can be summarised as -

- The mirroring/inclusion of existing market standard catastrophe reinsurance coverage to the international norm of 168-hour coverage – such coverage beginning and commencing from a single weather event based on each insurer's assessment of the event.
- The extension should include flood and storm surge arising from the designated weather event regardless of whether the event remains a named cyclone or is the remnants (such as a tropical low) of a previously named cyclone. The Jasper scenario is one example of this. This scenario was well known prior to the finalisation of the scheme design, was highlighted by Sure Insurance and others, and was deliberately omitted from the final legislation. We don't understand the underlying reasoning for this.
- Make it mandatory that insurers offer full flood cover as part of their domestic household policies if they participate in the CRP.

We believe that given the clear early failure of the CRP to fully deliver on its intended objectives, proper consideration should be given to retrospective legislation to now include the subsequent flood losses from Jasper as claimable under the Cyclone Pool.

The benefit to Regional Queensland insurance consumers through the avoidance of adverse industry price reactions to Jasper is unequivocal. The “public good” test seems clear to us.

Accordingly, there should be no cost to insurers and policyholders from these changes. Clearly there is a cost to the Pool. However, that was the risk it was intended to cover.

Part 2A of the Terrorism and Cyclone Insurance Act (2003) and its Regulations do not provide the Minister any discretion when to declare the start or end of a cyclone event or the start or end of its' respective claims period.

The decision when a cyclone has started and when it ends is made by the Bureau of Meteorology based on a number of specific criteria outlined in the Regulations. The duration of the claims period is based on the commencement time and date of the cyclone plus the 'prescribed duration', which is currently 48 hours (Reg 5D).

Firstly, we believe that lack of Ministerial discretion and total reliance upon external advice to decide when a cyclone event starts and ends is at odds with Part 2 of the same Act, which provides the Minister the discretion to determine whether a number of prerequisites have been met before making any declaration of an act of terrorism.

Secondly, it appears to have been the clear intention of the Federal Government to enable the initial 'prescribed duration' timeframe of 48 hours to be amended expeditiously if required by including it in the Regulations rather than the Act. In doing so, the Minister has the authority to approve an amendment to the timeframe without the requirement to propose an amendment Bill to amend the Act and the often time consuming process of it being passed by both Houses.

Based on the information provided herein Sure believes that the 'prescribed duration' of 48 hours should be immediately amended to allow for the likely entirety of a single weather event to be covered by the Pool. To achieve this, the 'prescribed duration' should reflect the current industry standard of being able to recover the cost of event claims up to a maximum of 168 hours addressed earlier in this paper.

An initial review of the 13 May 2022 Finity paper commissioned by the ARPC "Determination of Cyclone Related Flood Proportions" indicates clearly that the cost of floods outside the 48 hour artificial limitation **was** included in the risk costing. In that paper Finity states (with our underlining) *"This study will overstate the extent of flooding damage as it assumes all costs are within 48 hours, which is not always true."* and *"We have relied upon a catastrophe model and studies prepared by Risk Frontiers, each producing an estimate of relevant allocation of fluvial flooding between the components covered by the CRP and that which will be retained by insurers. There is significant uncertainty in the available information.....We consider the results presented in Appendix A to be reasonable estimate of the proportion of fluvial flooding expected to be cause by cyclones given the available information and the time available to analyse it. Other experts reviewing the same information or who have access to additional studies might come to a different conclusion."*

Section 8 of that report suggests that these conclusions were used to determine the final ARPC pricing structure – importantly, we conclude that the cost of post cyclone flooding is already incorporated into pricing. We would strongly suggest that a retrospective analysis of the Finity paper be conducted and that component of the work be refreshed and the results disclosed.

Consequently, Sure is of the view that any amendment to Regulation 5D should be made retrospective for the following reasons:

- (a) The Federal Government is not prevented from passing retrospective legislation;
- (b) The overall effect of the current statutory 'claims period' on our claims arising from the damages caused by cyclone Jasper has not yet been finalised. However, there are already clear indicators that a significant proportion of the overall cyclone damage will be excluded as it occurred more than 48 hours after the declared end of the cyclone. If the claims period is not retrospectively amended to take effect prior to the start of cyclone Jasper, it will inevitably result in the majority of cyclone related damage claims being excluded from cover by the Pool.

- (c) The operative effect of the proposed retrospective amendment will not create an unjust result, nor will it offend the principles of fairness to the parties affected by it. In fact, the retrospective extension of the claims period to the industry standard timeframe is likely to achieve the primary objective of the Pool, namely, to provide adequate reinsurance cover to individuals for damage caused by a cyclone. We believe that such a signal from the Federal Government to the community would be appropriate and will almost certainly avoid material price rises following Jasper.
- (d) The retrospective amendment of the prescribed duration in Regulation 5D from 48 to 168 hours will also ensure the statutory claims period accords with the general reinsurance industry standards and thereby, avoid the inevitable result of the legislation excluding claims which would otherwise have been included in the reinsurance pool and in traditional reinsurance.

Sure Insurance is available to discuss the above and expand where we can assist in this vitally important area of public policy.

We remain committed to our own ethos of “*Insurance, but fair*” to give our customers the very best outcome we can and to extend the price benefits of Sure Insurance to new customers now and in the future.

Thank you.

ENDS