4th November 2022

Joint Select Committee on Northern Australia
By email: northernaustralia.joint@aph.gov.au

Re: Submission to the Cyclone Reinsurance Pool Inquiry

Dear Committee

Thank you for your invitation to make a submission to the Cyclone Reinsurance Pool Inquiry with terms of reference being the operation and implementation of the Cyclone Reinsurance Pool (**Reinsurance Pool**).

Australian Consumers Insurance Lobby (ACIL) was originally founded in February 2021 as the Northern Australia Insurance Lobby (NAIL) which was established as the leading consumer representative group on the issue of affordability and availability of insurance in Northern Australia. In June 2022, members of NAIL decided to rename as Australian Consumers Insurance Lobby to advocate more broadly for consumers on issues associated with insurance. Northern Australia and the Reinsurance Pool remains a key focus of our association and in the coming year we intend on be dealing with broader issues of affordability and availability of insurance.

It is a pleasure to enclose our submission for your consideration.

Consumers are disappointed with the implementation

To date, the implementation of the Reinsurance Pool has been somewhat disappointing to consumers due to the delay in the rollout of the reinsurance pool and promises of premiums savings that have not materialised.

Delayed Rollout

When the reinsurance pool was announced, consumers were given the expectation benefits associated with the reinsurance pool would apply from 1st July 2022.

ACIL became concerned in May and June 2022 when it was evident that the final modelling of the Reinsurance Pool had not been released to insurers. ACIL contacted insurers to enquire when the Reinsurance Pool would be implemented on their policies. Insurers who had reinsurance arrangements expiring at the end of financial year expressed frustration at delays with the release of modelling.

Insurers advised us they negotiate their reinsurance programs three months in advance and releasing the modelling in June meant it was not possible to implement the changes for the 2022/2023 financial year.

ACIL understands some policy holders altered the expiry of their insurance policies due to financial pressure and in anticipation of the 1 July release of the reinsurance pool. Some of these policy holders have experienced premium increases as a result of short terming the policy in anticipation for the discounts promised by implementation of the reinsurance pool.

Savings not as promised

Promises made under the previous government suggested savings of up to 46% (including savings for strata properties up to 58% and SMEs up to 34%) would be achieved through the reinsurance pool.

In June, consumers were disappointed to hear the scale of the of the previous Government promises of savings were simply not true and that some communities could see their premiums rise.

ACIL believe:

- savings advised by the previous government of up to 46% (including savings for strata properties up to 58% and SMEs up to 34%) are still needed to deal with the issue of affordability and availability of insurance in Northern Australia.
- If immediate fixes cannot be applied, the implementation of version one of the Cyclone Reinsurance Pool should continue if it generates a positive outcome for consumers.
- the modelling of the Cyclone Reinsurance Pool must continue to be refined to ensure that the Cyclone Reinsurance Pool meets its purpose.

We are pleased to hear the new government are working with the ARPC and all stakeholders to address the affordability crisis for insurance.

Full reinsurance model remains unknown to consumers

Consumers have been eager understand what impact the Reinsurance Pool would have on the cost of insurance, particularly given the implementation delays.

The release of the modelling in June 2022 should have meant consumers would have some information to guide them on the cost impact the reinsurance pool would have on their insurance.

Treasury advised in June 2022 they were releasing the reinsurance pool modelling constructed under the previous Government, to date treasury has only partially released the modelling.

While Treasury have released rating bands applicable to the reinsurance pool, information on which rating bands apply to which suburbs/post codes has not been released and this means consumers are unable to calculate the reinsurance cost.

When ACIL initially enquired about this information, we were advised ARPC were building an online calculator for individual addresses. We have since been advised by ARPC that the online calculator will no longer be rolled out because of privacy issues – the main concern being that releasing this information would mean you can calculate the reinsurance cost for specific addresses.

The delays, along with failure to release rating models means that today, consumers are still no closer to understanding the impact of the cyclone reinsurance pool on their insurance policy.

Marine Insurance

The Cyclone Reinsurance Pool is mandated to extend to cover for Marine Insurance risks from 1 July 2023.

A key focus for ACIL has been monitoring the implementation of Marine Insurance for the reinsurance pool.

Given the delay's associated with the 1 July roll out of the current Cyclone Reinsurance Pool caused by the late release of modelling to insurers, ACIL have made representations to Treasury and ARPC urging that the modelling for Marine Insurance is released to insurers no later than 31st March 2023.

We are yet to receive any further information on the Marine Insurance rollout and hope that this information will be provided more timely to ensure consumers see the benefit from the 1st July 2023 rollout.

Twelve-Month Review

The Cyclone Reinsurance Pool has a mandated review period after three years.

ACIL have vocally advocated for an earlier review, as a three-year wait may be too long for some consumers if the legislation is not fit for purpose. What is still not clear is the impact the reinsurance pool will have for those that are not eligible – for example will insurance companies only offer cover for policies that fit the reinsurance pool offered by the government in Northern Australia meaning non-eligible consumers will not be able to find insurance?

Prior to the election, ACIL secured a commitment in writing from the former Assistant Treasurer Michael Sukkar MP of a twelve-month review.

We have written to the current minister asking for an earlier review similar to that promised by the previous government but have not received a response confirming or denying this request.

Getting the Modelling Right

Version one of the reinsurance pool was never meant to be the perfect and forever model that ARPC would adopt.

ACIL have recently shared views with the minister on what may be done to provide greater premium reductions to consumers If savings generated by the reinsurance pool are deemed to be inadequate for consumers.

Greater Cross Subsidisation

One way the ARPC may achieve greater savings for consumers in Northern Australia is through greater cross subsidisation. Currently properties in rating band A (which covers Victoria, South Australia, Tasmania and most of New South Wales) have a rating of 0.000 meaning they do not contribute into the reinsurance pool.

If the ARPC were to increase the rating to 0.005 for rating band A, it would in essence have a cost impact of $25 + GST + Stamp Duties/Levies + Insurer Margin (say $35) for a property insured for $500,000. If this rating were stepped in over three years, the additional cost for band A would have a negligible impact on consumers.

Government Subsidies

As the government is seeking to raise $867million p.a. to fund the reinsurance pool to cover claims and admin costs the government could reduce insurance costs by subsidising the reinsurance pool – for example if the government were to contribute $200million p.a. out of consolidated revenue to the reinsurance pool, this would make a great impact on consumers.

ACIL does not believe this is a sustainable long-term solution but given concerns have been raised about the savings generated by the reinsurance pool, it may be a quick fix to provide immediate relief to policy holders while the government is working out how to make the reinsurance pool more fit for purpose for consumers.

Mitigation

Another way the premium burden can be minimised is through mitigation. That is, reducing the claims for the reinsurance pool, thus reducing the amount of premiums required to be collected.

The ARPC could utilise a portion of premiums or seek separate funding from the Federal Government for mitigation on a cost/benefit basis. Those measures may increase the costs for ARPC initially but may reduce claims costs later and this may have downward pressure on premiums.

Insurers have pressed the Federal Government on greater mitigation as a way of reducing premiums in Northern Australia, but it remains unclear the cost/benefit of implementing the mitigation strategies. ACIL believes a review into mitigation should be undertaken to determine whether this is an effective way of reducing premiums.

Removal of State/Territory Stamp Duties and Levies

Stamp duties and levies collected by State Governments increase the cost burden on consumers, particularly those that are paying excessive premiums in the first place.

The introduction of GST was supposed to mean the end of state-based taxes and duties. For insurance, State Governments have received GST revenues, Stamp Duties and Levies – tax on tax on tax.

ACIL agree with the ACCC recommendation to abolish state-based taxes on insurance and believe this will have a positive impact for consumers.

Expansion of the ARPC

ACIL believe there are several other market failures associated with affordability and availability of insurance the Federal Government must address.

We believe all Australians and Businesses should have access to affordable insurance. When the private insurance market can no longer offer this, we believe the ARPC should be the governments way of intervening in market failures.

Below are areas in the general insurance industry for which we have identified possible market failures:

- **Flood (unaffordable and uninsurable)** – Consumers in high-risk flood areas are affected by high premiums which match the risk of their property flooding. In some instances, homeowners face premiums of $25,000 p.a. or greater for flood cover, that is more than the cost of their mortgage and simply unaffordable for most Australians. This leads to many policy holders electing not to take the cover. There are also number of consumers in high-risk areas that simply cannot get flood cover because no insurer will offer flood insurance.

- **Storm Surge (not available)** - Storm surge is one of the most difficult covers obtain on the market, particularly for policy holders located within proximity of the sea. Large corporate insurance programs can obtain cover from overseas markets, but this cover is unattainable for mum and dad homeowners. ACIL believes, when there is a major storm surge incident this issue will rear it's head as a problem for the Federal Government to deal with.

- **Bushfire (unaffordable)** – ACIL is aware of several consumers in high-risk bushfire areas that have been faced with excessively high premium increases since the 2019-2020 bushfires. This is making insurance unaffordable for many consumers in these areas.

- **Leisure Operators (unaffordable and uninsurable)**: Market failures in the amusement, leisure and recreation industry are well publicised with many businesses having to shut their business down due to issues of affordability and availability of Public Liability insurance.

- **Building Surveyors**: There are also publicised market failures with professional indemnity for cladding activities for building certifiers and surveyors - further information: https://www.insurancenews.com.au/local/pi-crisis-as-insurers-retreat-from-cladding-risk.

ACIL believe Treasury should commission a broad review into market failures (i.e. affordability and availability of insurance) in the general insurance market with the above concerns to be included in the review.

Let's get the reinsurance pool right

Despite the issues raised in this submission about the implementation of the reinsurance pool, ACIL believe the reinsurance pool is the appropriate method of addressing affordability and availability issues for consumers that require insurance.

ACIL would like to see:

1. Greater transparency of premiums and modelling for the Reinsurance Pool.
2. Focus on delivering the Marine Insurance rollout on time.
3. An earlier review of the reinsurance pool prior to the mandated three-year review.
4. Review on ways the reinsurance pool can be remodelled to enhance savings for consumers.
5. Consideration on expanding the reinsurance pool to deal with other market failures.

Thank you for taking the time to review our submission.

Kind Regards.

Tyrone Shandiman
Chairperson