



24 November 2022

**Committee Secretary
Joint Select Committee on Northern Australia
Parliament House
Canberra ACT 2600**

Dear Committee Secretary,

Cyclone and Related Flood Damage Reinsurance Pool

The Insurance Council of Australia (ICA)¹ welcomes the opportunity to appear at the Senate Committee Hearing on the Cyclone and Related Flood Damage Reinsurance Pool (the Pool).

The ICA appreciates the Government's commitment to improving insurance affordability. Reducing the cost of reinsurance is *only one part* of reducing the cost of insurance for those living with the threat of cyclones in northern Australia.

Sustainable reductions in premiums over the long term and better protection for at-risk communities will only be possible with significant mitigation investment to make communities more resilient to extreme weather risk, including cyclone and related flood.

The trend of peril risk facing Australia is blatant. The McKell Institute estimated the cost of extreme weather events will reach \$35 billion a year by 2050.² The same report revealed the Federal Government budgets since 2005, have allocated only 2 per cent of disaster relief expenditure on resilience.

The ICA has a large portfolio of climate change and mitigation work, most recently launching a strategy for how the insurance industry can achieve net-zero by 2050.³ The policy asks range from unlocking net zero-investment, accelerating Australia's electric vehicle transition, improving building standards and leadership on climate change. We believe that targeting climate change is the single greatest solution to home insurance affordability for households most impacted by increasing natural peril risks.

The effects of the Pool will not be visible for some time so, at this point, the ICA cannot comment on the extent of savings for the households most exposed to cyclone risks.

The Australian Reinsurance Pool Corporation (ARPC) released revised modelling⁴ on the outcomes of the Pool in October, which many insurers are still working through. The ARPC indicated some potentially high average savings for high-risk cyclone properties, which were milder for all Northern Australian properties. The ARPC's average estimated savings for Northern Australian homes is 13%, 10% for small-to-medium enterprises and 37% for strata. The ARPC has indicated that some policyholders with nil/minimal or low risk properties may not observe premium reductions. The same report indicated that approximately 36% of nil or minimal cyclone risk policies may see some premium increases.⁵

¹ The Insurance Council is the representative body of the general insurance industry in Australia and represents approximately 89% of private sector general insurers. As a foundational component of the Australian economy the general insurance industry employs approximately 60,000 people, generates gross written premium of \$59.2 billion per annum and on average pays out \$148.7 million in claims each working day (\$38.8 billion per year).

² 'The Cost of Extreme Weather, Building Resilience in the Face of Disaster' 2022 McKell Institute

³ Accelerating Climate Action, Policy Recommendations for Government, Insurance Council of Australia 2022

⁴ 'Cyclone Reinsurance Pool – Premium Determination Applying from 1 October 2022' Australian Reinsurance Pool Corporation

⁵ Cyclone Reinsurance Pool – Premium Determination Applying from October 2022, Australian Reinsurance Pool Corporation, Table 5.1

Any projected average savings should be considered against an environment where premiums are being impacted by very high claims cost inflation, due to supply constraints, building material price increases and shortages of building trades. There is also upward pressure on property insurance premiums arising from the higher frequency and severity of extreme weather events over the last two years. The increased ongoing operational and frictional costs for complying with the Pool will further impact the success of price reductions.

The ICA welcomes independent price monitoring by the ACCC. Insurers welcome the ACCC's ongoing price monitoring role, given their expertise and understanding of this issue. However, the Government must ensure this process doesn't add complexity or costs onto the already strained industry with potential downstream impact on affordability of products provided to insurer customers.

Other Levers of Affordability

There are other levers for addressing insurance affordability, which make up the centrepiece of ICA advocacy. Long term structural change is required to generate sustainable reductions in premiums, accounting for those that need premium reductions the most.

- ***The Insurance Council has been calling for greater investment by governments in resilience.*** The Insurance Council welcomed the government's commitment to investing in resilience and mitigation. Australians will receive up to \$200 million or \$1 billion over 5 years to protect them, their homes, and communities from natural disasters. These funds will sit in the Disaster Ready Fund and will go towards measures including infrastructure mitigation works like levees, sea walls, cyclone shelters, evacuation centres and fire breaks.
- ***The ICA has also called on state governments to amend land use planning legislation*** to include a mandatory requirement for planning approvals to consider property and community resilience to extreme weather, and to improve building codes so future homes are made more resilient. *Building a More Resilient Australia* lays out ICA policy asks for land use planning, building codes and standards.
- ***State taxes make insurance less affordable, particularly in northern Australia.*** While home and contents premiums in Northern Australia have been historically higher than in other parts of Australia because of the higher cyclone risk, State stamp duty⁷ and GST on insurance policies make insurance less affordable. And because premiums are higher due to cyclone risk, households in Northern Territory and Queensland pay around 20% more stamp duty and GST than other households.

We trust that our initial observations are of assistance. If you have any questions or comments in relation to our submission please contact Aparna Reddy, General Manager, Policy – Regulatory Affairs, on telephone:

We look forward to ongoing work with the Government and Australian Reinsurance Pool Corporation as the policy develops.

Yours sincerely,

Andrew Hall
Executive Director and CEO

⁷ QLD Stamp duty is levied at 9 percent of the insurance premium, including GST or 10 percent of the premium. In WA the Stamp duty is levied at 10 percent of the insurance premium, including GST or 11 percent of the premium.