

June 17, 2021

Manager
Cyclone Reinsurance Pool Taskforce
The Treasury
Langton Crescent
PARKES ACT 2600

Via email: ReinsurancePool@treasury.gov.au

Re: Reinsurance Pool for Cyclones and Related Flood Damage – Consultation Paper

The Association of Bermuda Insurers and Reinsurers (“ABIR”) kindly thanks the Australian Government for the opportunity to comment its consultation paper, Reinsurance Pools for Cyclones and Related Flood Damage (the CP).

ABIR represents the public policy interests of Bermuda’s international insurers and reinsurers that protect consumers around the world. ABIR members have headquarters and operations in Bermuda and do business in more than 150 countries. Members employ over 106,000 people around the globe including more than 31,000 employees in Asia and Oceania. For nearly three decades, ABIR has been protecting consumers around the world, ensuring insurance products remain affordable and accessible. Over the past twenty years, Bermuda re-insurers have paid nearly a quarter of a trillion dollars in claims from natural and man-made disasters, including Bermuda re-insurers incurring losses from the recent wildfires in Australia estimated in 2020 to be \$255 million.

ABIR supports the goal of the Australian Government to close the protection gap. As extreme weather events are becoming more frequent and severe and insurance penetration is not keeping up with the increasing losses, governments are being forced to evaluate how to fund the economic recovery of their communities. The reinsurance industry already has established a pattern of successful public private partnerships, with at least eight U.S. states with existing programs covering a variety of insurance lines, including property, casualty and health.

ABIR members and other Bermuda-based reinsurers provided 35% of terrorism reinsurance capacity to UK’s Pool Re in 2020. In 2017 the U.S. Federal Emergency Management Agency (FEMA) secured \$1.042 billion of traditional reinsurance coverage from 25 reinsurance companies. Following Hurricane Harvey, FEMA recovered the full \$1.042 billion from its reinsurers.¹ ABIR members and other Bermuda Reinsurers were estimated to pay 30% of losses from hurricanes Harvey, Irma and Maria.

Countries and communities that purchase insurance and reinsurance where the losses can be paid from outside of that country and community are fiscally stronger after an event. Reinsurance on the proposed pool is the mechanism that makes this happen by diversifying the funds available to pay for an event. Reinsurance

¹ FEMA, FEMA Expands its Reinsurance Program by Transferring \$500 Million in Flood Risks to Capital Markets, July 2018

is typically preferred over a bond or a government guarantee below the 100 year return period due to the frequency of events that could expose this layer. Tropical cyclones can occur once every couple of years or you can have multiple events in a year or back to back years. Government guarantees will pull funds from the local economy, instead of internationally, at a time when the funds are most needed to help rebuild. If the government has to payout from the guarantee two years in a row or even twice in a single year, it could hamper the efforts to rebuild. Where reinsurance would bring in funds from outside Australia, strengthening the rebuilding process.

Successful pools have recognized that funds take time to build up initially to pay losses and funds will need to be replenished after an event. The initial build up and replenishing of funds after an event can take years. Mandating the purchase of reinsurance for the pool to help fill the gap between funds available and the 100 year return period will put the fund, the government and the insurers in a fiscally stronger position post a loss. Once the funds are in excess of the pool's fiscal obligations, we would recommend using excess funds to increase the mitigation funds available to Northern Australia.

The CP suggests that the proposed reinsurance pool would "promote competition through new entrants to the northern Australia market.". Similar to our comments above, ABIR would highlight the increased concentration risk within the Australian market in the event of restricting participation to localized private market participation. We would encourage the adoption of a structure that allows participation in the reinsurance pool of international insurers, to take advantage of the strong capitalization, underwriting and risk mitigation expertise providing a greater marketplace to help support the reduction of the protection gap in this area of Australia.

We also applaud the focus on mitigation funding. Many of our members support the Insurance Institute for Business & Home Safety (IBHS) as well as other mitigation efforts. Strengthening homes and businesses through mitigation efforts is the best way to reduce the impact of future losses and make insurance more affordable. FEMA has found that for every \$1 spent on federal mitigation grants, they save \$6 from natural hazards (https://www.fema.gov/sites/default/files/2020-07/fema_mitsaves-factsheet_2018.pdf). In addition to making funds available for mitigation before an event, we would also recommend considering language that would provide funds, or even mandate the repair and rebuilding of homes and businesses to a higher standard after an event. In general, it is less expensive to rebuild a home than retrofit a home to a higher standard. While we want to do what we can prior to the event occurring with mitigation funds, being able to minimize a future loss from reoccurring by building stronger should be considered.

If you wish to discuss any of these matters further, please contact the undersigned.

Kind regards,



Suzanne Williams-Charles
Director of Policy & Regulation