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CHUBB

11 June 2021

Manager
Cyclone Reinsurance Pool Taskforce
The Treasury
Langton Crescent
PARKES ACT 2600
Via email ReinsurancePool@treasury.gov.au

Dear Sir/Madam,

Re: Consultation responses on discussion paper *Reinsurance pool for cyclones and related flood damage*

Please find below feedback from Chubb Insurance Australia Limited (Chubb) on the consultation questions raised in your Discussion Paper *Reinsurance pool for cyclones and related flood damage*. Below are our responses to the questions raised in the discussion paper.

Question 1: How should 'cyclone' and 'cyclone-related flooding' be defined for the purposes of defining the reinsurance pool's coverage?
Cyclone definition should be informed by the Bureau of Meteorology (BoM) definition but may need to be put into even plainer language for consumer products like home insurance. It would make sense for the definition to be standard across insurers as is currently the case for flood. Cover trigger could require the BoM to have declared/named a cyclone. There should be a standard definition of how the event footprint will be assessed and flood damage within the footprint within a certain time period could be the trigger for "cyclone related flooding". Damage caused by cyclone associated inundation or flood following should be covered if it was within the 7 days – this is the common events limit in reinsurance contracts. Storm surge associated with Named Cyclone should also be covered.

Question 2: Should storm surge be covered by the pool and included in a definition of 'cyclone-related flooding'?
Yes; this would be expected by insureds.

Question 3: Is it desirable for the use of standard definitions of 'cyclone' and 'cyclone-related flooding' to be required in policies covered by the pool?
Yes, for retail customers, but not necessarily for corporate clients as this may limit competitiveness on coverage. However, if the Pool does not provide cover for a specific coverage (e.g. Business Interruption), then that should be included in the standard definitions.

Question 4: Are there any difficulties which may arise from including home building, home contents, or residential strata policies in the reinsurance pool and how should the scope of this coverage be clarified?
These should be included in the Pool. However, to avoid confusion, Landlord policies for investment properties should be explicitly covered. The

expectation is that the reduced premiums should flow through to the tenants, helping them to afford contents insurance.

Question 5: Are insurers able to separately price or estimate the value of the property component of business insurance packages?
Yes, Chubb currently prices that way in order to determine the value of the property and other components of a business insurance package.

Question 6: Are insurers able to separately price or estimate the value of the residential and small business components of mixed-use strata title policies?
It is more difficult to split out the strata component but would recommend defining what strata is covered or not. A suggestion is to use the ARPC Terrorism assumptions for mixed use strata.

Question 7: Are there any difficulties which may arise from including mixed-use strata title policies in the reinsurance pool and how should the scope of this coverage be clarified?
The recommendation is to use the same apportionment approach used for Terrorism under the ARPC.

Question 8: How should 'small business' be defined for the purposes of eligibility?
The recommendation is to use the definition under the Corporations Act.

Question 9: Are there any difficulties which may arise from including small business property insurance policies in the reinsurance pool and how should the scope of this coverage be clarified?
No difficulties.

Question 10: What is the current approach used by insurers to assess and measure cyclone, storm surge, and related flood damage risks, to what extent are individual policy level data available, and how are cyclone related risk premiums calculated in insurer pricing models?
For Chubb's residential policies, there is no all-encompassing cyclone pricing model. The current flood tool would need to be amended to account for the new pricing requirement.
For the commercial policies, the basic methodology is made up of two components: the risk presented by the particular hazard and the risks associated with a specific property. Consequently, there is a base premium associated with each hazard which is then modified for characteristics of the specific property. This is then adjusted by the insurer's underwriting considerations such as building age, type, vulnerability of contents etc.
In the first instance we would require very explicit definitions of coverage, so it could be modelled accurately – without the clarity of definitions we will not know the impact of excluding coverage.

Question 11: How should the reinsurance pool design a risk rating system for cyclone and related flood damage risks, and what are the trade-offs associated with using risk tiering and with the level of granularity used?
Any tiered system will need to be developed in consultation with the insurance industry. Although certain information is captured about the insured property (e.g. location, age, roof type, construction material, etc) no data is captured on floor elevation. The ARPC uses 3 Tiers based on postcodes, but postcodes cannot be used for flood prone areas as the same postcode could have homes situated well above a river line and other homes very close to the river line. Cyclone risk is different because topography and elevation matters less.

Question 12: How much risk exposure should primary insurers retain?
This will depend on the rating and reduction in rate/levy the Pool would provide in the calculations for an insurer's retention. This would require actuarial modelling after the Pool calculations are known.

Question 13: Would implementing a reinsurance pool have any effect on the claims management process, and how could this be addressed in the reinsurance pool's design?
Chubb has a high level of claims service that will need to be maintained. It is not expected that a reinsurance pool would affect the claims process, however it there was a large loss event, we expect the Pool to support the current claims process and potentially offer a cash-call arrangement to assist with insurers cashflow.

Question 14: What is the appropriate level of participation in the pool, and how should considerations of coverage and the amount of risk to be ceded be addressed?
This will depend on the Pool levy, however it would be expected that there is 100% participation.

Question 15: How should industry transition be managed and what is the best format and timeframe for it to take place?
A long lead up time (at least one year) would be required due to system changes and pricing models that will need to be updated to cater for the levy as well as the reporting and remitting process.

Question 16: What should be the key goals for a regular review of the reinsurance pool and what would be the optimal timeframe?
Key goals of the review would be price monitoring and Probable Maximum Loss analysis being carries out annually.

Question 17: Should the reinsurance pool have a planned exit date?
If there is an expectation of an exit for the Pool, then it should be based on certain achievements being implemented. A review of the Pool can take place every three years to assess its continuation.

Question 18: Which mechanisms will ensure the pass-through of reinsurance premium savings to insurance policyholders? For example:

Question 18.1: Explicit price monitoring of insurance premiums?
Although this would be expected, the requirements may become burdensome depending on what reporting the Pool will expect to see.

Question 18.2: Additional requirements to disclose the cost of reinsurance to policyholders?
This would not be consistent with other reinsurance arrangements, including the ARPC.

Question 18.3: Any additional mechanisms that may be appropriate?
Nothing further to comment on.

Question 19: To what extent do insurers price in discounts into insurance premiums for mitigation action undertaken by or affecting policyholders?
Currently, Chubb does not have pricing reductions for mitigation action in high risk locations. The introduction of the Pool may change the current risk appetite.

Question 20: How might mitigation be encouraged by the reinsurance pool's design? For example:

Question 20.1: Should the pool provide discounts for properties that undertake mitigation?
This would be a possibility, but it would be the property owner's responsibility to implement the mitigation. Mitigation against storm surge for example would have to be done at an infrastructure level. It makes sense that pricing for new builds which meet current construction codes would be discounted over pricing for older buildings.

Question 20.2: Should the pool have an explicit mandate to encourage mitigation?
Generally, mitigation is more a government/community rather than an individual responsibility. Retroactively upgrading to current building codes is usually not feasible.

Question 21: How should the pool's design seek to discourage any increase in risky behaviour? For example:

Question 21.1: Should there be a time-based cut-off to exempt new builds from the pool?
No – should all be in from implementation date. New homes should be complaint with the applicable building codes and Councils should review the development requirements in flood prone areas.

Question 21.2: Should the pool only allow new builds that have been built to adequate standards and in suitable locations?
Yes.

Question 22: To encourage further action by states and territories on insurance affordability:

Question 22.1: What settings could be included in the design of the pool?
This involves the improvement of Building Codes and Standards controlled by the respective States and Territories. This is a complex area and may differ between residential and commercial buildings.

Question 22.2: Which policy options could be introduced alongside the pool?
Insured retention discounts could be an option. Some insureds may be comfortable with a higher retention in order to take advantage of lower premiums.

Question 23: What are the potential interactions between the terrorism reinsurance pool and the new cyclone and related flood reinsurance pool?
Difficult to comment at this early stage. Aside from the administration and review process of the Pools, the two Pools are covering different risks.

If you would like to discuss further, please do not hesitate to contact me.

Yours faithfully

Gerard Sitaramayya
Chief Financial Officer
Australia & New Zealand