Reinsurance Pool Consultation Paper Submission

List of consultation questions

Reinsurance pool coverage

1. How should 'cyclone' and 'cyclone-related flooding' be defined for the purposes of defining the reinsurance pool's coverage?

   Yes, 'cyclone' and 'cyclone-related flooding' should be defined for the purposes of the reinsurance pool's coverage. Insurance policies use the term 'named cyclone' as the trigger for determining when the differing excess provisions of a policy apply. This I would have thought would be a legitimate mechanism for application of the reinsurance pool.

2. Should storm surge be covered by the pool and included in a definition of 'cyclone-related flooding'?

   Yes, storm surge, when it occurs as part of a cyclonic event should be explicitly included in the definition of 'cyclone-related flooding' for the purposes of the pool. This should not be interpreted that every policy should have a mandated storm surge requirement. Your location and elevation may make the need for storm surge superfluous.

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, this is critical so all parties know the rules; any definition needs to be unambiguous.

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?

   None that I am aware of. If there are it would be administrative in terms of claim processing. All property types should be covered by the pool otherwise you will have further distortion in the market.

5. Are insurers able to separately price or estimate the value of the property component of business insurance packages?

   They probably are but you need to be specific. Property ownership (bricks and mortar property) is not necessarily part of a business insurance package. In a lease situation the lessor is responsible for the building and would have a different insurance cover to that of the lessee (not necessarily the same person) who is responsible for the operation of the business and the contents of that business. In either situation the insurance should be covered by the pool.

I really don't understand why this should be an issue. Currently insurers provide a insurance package and nominate a premium applicable, so why should there be any difficulty in the context of the reinsurance pool.

6. Are insurers able to separately price or estimate the value of the residential and small business components of mixed-use strata title policies?

Again, they probably are and I would have thought already doing so. It is then up to the policy holder to provide information to the insurer on the circumstances and level and type of cover required. This is a similar situation to (5) above except the type of property in question is different.

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?

Comment provided to Questions 4,5 and 6 above remain relevant to this question.

8. How should 'small business' be defined for the purposes of eligibility?

Yes, and agree with the definition recommended by the Australian Small Business and Family Enterprise Ombudsman. However, in saying this it does raise more questions. Such as what is the intention behind the application of this definition for the reinsurance pool? What are the unintended consequences of this action in the market place? For example, are we saying that medium and large businesses will not be eligible for the reinsurance pool despite them being located in a zone where cyclones and cyclone related flooding can occur? If this is the case will medium and large businesses actively seek to locate or operate in areas where there are no cyclonic events likely? Are they considered to have sufficient scale that they can managed the consequences of a natural disaster without the support of the reinsurance pool?

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?

Difficulties would most definitely arise if clarification was not provided. The clarification needs to be around those businesses that operate within premises that they own as opposed to those business that operate in leased premises. The scope and nature of the cover required are related but unique to the policy holder. A cyclonic event in a location will have implications in both instances.

Reinsurance product design and insurer participation

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?

I do not have a detailed knowledge or understanding of exactly how insurers assess the various risks and I doubt that insurers would be prepared to share that information with policy holders. However, our experience suggest it is a very broad

and inconsistent approach. For example, several multistorey residential buildings in very close proximity, of similar age, value and construction have excesses related to cyclones that range from $75,000 to $400,000 and many are with the same insurer. This example is not fiction, it is a real example. This defies any logic in my opinion and clearly demonstrates an inconsistent approach to cyclone risk assessment.

The naming of a cyclone is the trigger for the application of policy excesses under most policies. This overrides everything in the event damaged is caused by a cyclone and a claim needs to be lodged.

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?

The text associated with this section of the consultation paper seems confusing. I agree that the reinsurance pool needs to achieve premium reductions but doesn't the proposal that higher risk properties receiving high discounts send all the wrong messages. We need to be sure that the incentives send the right messages. Wouldn't claims history for cyclone related events together with information on mitigating actions be a better way to assess risk and therefore the premium that should be applied to the property. If this system worked correctly the large premium discounts would not be necessary. For example, a property that has no cyclone claims and has been assessed as having 'good' cyclone resilience should attract a lower premium and low cyclone excess and vice versa. This has not been allowed to happen because the insurance market is not operating as it should.

12. How much risk exposure should primary insurers retain?

Isn't this question irrelevant. Doesn't the market already have defined parameters that answer this question. Is it really necessary to redefine existing frameworks? Isn't the purpose of the reinsurance pool to provide more affordable insurance for insurers - to manage their exposure risk - than what is currently offered by other providers nationally and internationally. If the level of risk exposure is increased from what is already available in the market place the reinsurance pool will not achieve the desired outcome for policyholders (ie. Reduced insurance premiums and more providers offering insurance in the market).

13. Would implementing a reinsurance pool have any effect on the claim's management process, and how could this be addressed in the reinsurance pool's design?

Insurers are probably best placed to respond to this question. The only thing I can say is that the trigger for activation of the pool needs to be clear and transparent and that any issues between the pool and the insurer should not be used as a justification for delays in processing claims to policy holders.
One aspect of the claims process that does need review is the current 'panel builder' approach insurer's use to do have repairs undertaken.

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?

Given that insurers have been essentially applying a blanket approach to insurance from Rockhampton, north, I would have thought to achieve equity all property should be in the pool. Insurer's should not be permitted to cherry pick.

This section of the consultation paper assumes the market is functioning now. It isn't, pure and simple. Insurer's currently have not appetite to increase their risk exposure; in the strata insurance space you are currently lucky to be offered a renewal, even if you haven't had any cyclone claims.

15. How should industry transition be managed and what is the best format and timeframe for it to take place?

This I would have thought this would be a business decision for insurers. If the reinsurance pool is structured correctly the transition process should be seamless. However, a date by which all insurers should be transitioned should be identified.

Reinsurance pool governance and monitoring

16. What should be the key goals for a regular review of the reinsurance pool and what would be the optimal timeframe?

The consultation paper outlines a number of parameters for assessing the reinsurance pools success. I agree with all identified parameters. Perhaps a parameter regarding the number of insurance matters referred to organisations such as the AFCA could also be added. A minimum of 5 years would be a reasonable timeframe for a reviewed. Tangible targets relevant to each parameter would need to be determined before a review is conducted.

17. Should the reinsurance pool have a planned exit date?

No. Any consideration around the removal of the reinsurance pool should be based around experience and information coming from the review process; no arbitrary date should be identified. Any decision around an exit date needs to be based on information obtained during the review process.

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

18.1 Explicit price monitoring of insurance premiums?

Yes, agree.

18.2 Additional requirements to disclose the cost of reinsurance to policyholders?

Yes, agree. This will aid transparency in the process.

18.3 Any additional mechanisms that may be appropriate?

There needs to be a clear explanation / justification provided to policy holders on how their premium has been determined.

Links to risk reduction

19. To what extent do insurers price in discounts into insurance premiums for mitigation action undertaken by or affecting policyholders?

Our experience tells us they don't. The current approach by strata insurer's is a take it or leave it approach. For example, we have provided our insurer with information on mitigation actions undertaken and our premium has gone up not down and you do not get the opportunity to negotiate.

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

20.1 Should the pool provide discounts for properties that undertake mitigation?

Absolutely!! There need to be recognition for proactive measures policy holders implement to address areas of identified risk that is within their means to manage.

20.2 Should the pool have an explicit mandate to encourage mitigation?

The structure of the pool needs to ensure there is a clear incentive to mitigate risk. Not convinced that it needs an explicit mandate but it should be a underlying principle guiding the pools development and operation.

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

21.1 Should there be a time-based cut-off to exempt new builds from the pool?

No, new buildings should not be exempt from the pool. This would send all the wrong messages and create a distorted market. Planning frameworks are the mechanisms to discourage risky behaviour.

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

As per 21.1. Furthermore, all new buildings in cyclone zones are already required to comply with the cyclone building code.

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

22.1 What settings could be included in the design of the pool?

Perhaps the pool could identify zones of risk and provide local authorities with incentives to encourage new development in zones of low risk.

22.2 Which policy options could be introduced alongside the pool?

There is no incentive for state, territory or local governments and insurance brokers to see premiums fall. The stamp duty on insurance policies need to be changed from a percentage (%) to a fixed fee that better reflects the administrative cost associated with the policy. Equally, all commission-based remuneration related to insurance policies need to be reassessed / replaced with a fee for service approach.

Interactions with the ARPC's existing functions

23. What are the potential interactions between the terrorism reinsurance pool and the new cyclone and related flood reinsurance pool?

Administratively the various pools will be very similar. They will obviously have a unique set of parameters that trigger for the activation of each pool. However, this would not preclude the potential for administrative arrangements to be shared.

The zone and type of potential events for the terrorism pool is very difficult to define, it could be localised, national, international eg aircraft, aviation industry, etc.

Whereas the zone for where cyclone events is likely to occur can be defined using climatic data and historical events.

I would have thought that the odds of an event or circumstance were both pools would interact would be insignificant statistically.