

Friday June 18, 2021

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

To Whom It May Concern,

RE: Reinsurance pool for cyclones and related flood damage | Consultation paper

On behalf of the Mackay Isaac Whitsunday (Greater Whitsunday) region, we would like to provide comment on the *Reinsurance pool for cyclones and related flood damage | Consultation paper May 2021*.

Greater Whitsunday Alliance (GW3) is the peak independent, economic development organisation for the Mackay, Isaac, Whitsunday region. The organisation is strategic and coordinated, focusing on local, national and international networks, and advocates for projects and opportunities from both government and the private sector. GW3 also delivers a range of economic development focused projects to help support and promote prosperity across the broader region.

The Greater Whitsunday region is one of Australia's powerhouse economies and is driven by the mining, METS, agriculture and tourism sectors. As a region of just over 170,000 people, Greater Whitsunday generates some \$43B in gross revenue for the Australian economy.

The regions prosperity and its significant contribution to the national economy relies on attracting and retaining a skilled and committed workforce and their families. The stability and viability of not just the broader Greater Whitsunday community but also the business economy is being undermined by the impacts of ever increasing Insurance costs and in some cases the complete unaffordability of insurance cover.

GW3 supports the establishment of the reinsurance pool covering the risk of property damage caused by cyclones and cyclone-related flood damage as a responsive and important foundational step in addressing the issue of the unaffordability of insurance cover in our region and Northern Australia more broadly. However, GW3 also endorses the progression of the recommendations from the *ACCC Northern Australia Insurance Inquiry – Final Report* to ensure sustainable and long term solutions to the insurance issues experienced across Northern Australia.

GW3 are committed to advocating for the insurance affordability and access in the Greater Whitsunday region. If you have any further questions, please do not hesitate to contact me.

Yours faithfully,

GREATER WHITSUNDAY ALLIANCE



Kylie M. Porter
Chief Executive Officer

SUBMISSION

Reinsurance pool for cyclones and related flood damage | Consultation paper

Interested parties are invited to comment on the issues raised in this paper by 18 June 2021.

The purpose of the paper is to seek comments on key design features of a reinsurance pool for cyclones and related flood damage, which would aim to improve the accessibility and affordability of insurance in cyclone-prone areas.

REGIONAL OVERVIEW



Economic Output – Mackay,
Isaac, Whitsunday

\$42.298 Billion



Population – Mackay,
Isaac, Whitsunday

174,816



Greater Whitsunday
region spans over

90,354 km²

INTRODUCTION

This is a response to the *Reinsurance pool for cyclones and related flood damage | Consultation paper May 2021* made by Greater Whitsunday Alliance Ltd (GW3) as the lead regional economic development organisation for the Mackay Isaac Whitsunday region.

The Mackay Isaac Whitsunday region is recognised as an economic powerhouse within Australia. The economy of the Mackay Isaac Whitsunday region offers diverse investment opportunities with a proven track record as a region for growth and prosperity. The Isaac region is home to the Bowen Basin, housing the largest coal mining deposits in Australia. Most of Queensland’s prime coking coal reserves are mined here, including the highest-grade metallurgical coal in the world. Mackay is the centre of one of Australia’s most developed Mining, Equipment, Technology and Service (METS) industries, has enormous biofutures potential and the Whitsundays is not only a world-class tourism destination attracting more than a million visitors annually but is a highly developed food producing region with sugar cane, horticulture and aquaculture.

The Mackay Isaac Whitsunday region has actively participated in contributing feedback and data around the Australian Competition and Consumer Commission’s (ACCC) Northern Australia Insurance Inquiry. This includes submitting three prior documents relating to the inquiry and the subsequent report. The first submission was made in 2017¹ as part of the *Northern Australian Insurance Inquiry submission to issues paper*. This was followed up with the *Northern Australia Insurance Inquiry submission to the first interim report* in April 2019² and the *Northern Australia Insurance Inquiry submission to the second interim report* in September 2019³.

In summary, the Mackay Isaac Whitsunday region identified that it has been subjected to steep increases in the cost of premiums, and residents and businesses alike are finding it difficult to secure adequate insurance cover.

Additionally, the changes in conditions enforced by insurers such as increased excess amounts in the event of a claim or offering only part cover is making it difficult for property owners to reinsure or secure adequate cover. Previous

¹ [Greater Whitsunday Alliance Northern Australia insurance inquiry submission to issues paper \(December 2017\)](#)

² [Greater Whitsunday Alliance Northern Australia insurance inquiry submission to first interim report \(April 2019\)](#)

³ [Greater Whitsunday Alliance Northern Australia insurance inquiry submission to first interim report \(September 2019\)](#)

submissions presented clear evidence that residents living in Northern Australia are being prejudiced by insurance companies and that this is impacting the entire community and, in some cases, causing economic hardship. Affordable access to insurance for the residents of Northern Australia should be a priority of the Federal Government to maintain working families and businesses in the regions; underpin regional economic development and truly align to the goals of *Our North, Our Future: White Paper on Developing Northern Australia*⁴.

This submission provides responses to the questions from the *Reinsurance pool for cyclones and related flood damage | Consultation paper May 2021*, that are relevant to the role and previous responses submitted to the Northern Australia Insurance Inquiry by GW3, as the key economic development body in the Mackay Isaac Whitsunday region.

RESPONSE TO THE REINSURANCE POOL FOR CYCLONES AND RELATED FLOOD DAMAGE | CONSULTATION PAPER MAY 2021

GW3 recognises, that if designed correctly, a government reinsurance pool will contribute towards improving the availability and affordability of insurance in cyclone-prone areas. However, as identified in past reviews and inquiries, there needs to be multiple policy responses to ensure a sustainable solution to the insurance challenges experienced in Northern Australia.

GW3 welcomes the announcement of the government reinsurance pool scheme, having previously endorsed the development of a reinsurance pool due to the following advantages that it is likely to provide for residents in Northern Australia, including:

- Fair and equitable insurance coverage for all Australians, not just those living in southern parts of Australia;
- Certainty for the broader insurance industry to more genuinely participate in the Northern Australia markets;
- Underwriting levels of insurance costs covered by government to the private insurance companies reducing risk and liability.

Therefore, the design of the reinsurance pool needs to ensure that it maximises the opportunity for the full realisation of these advantages.

In addition to the reinsurance pool GW3 also encourages the government to continue to pursue the recommendations identified in the recommendations *ACCC Northern Australia Insurance Inquiry - Final Report*⁵ to ensure long term sustainability in making insurance available and affordable across Northern Australia.

REINSURANCE POOL COVERAGE

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

⁴ Australian Government (2015). [Our North, Our Future: White Paper on Developing Northern Australia](#)

⁵ ACCC (2020). [Northern Australia Insurance Inquiry – Final Report](#)

A standard legal definition needs to be established across insurance contracts to ensure claims are appropriately covered. In developing the definition consideration needs to be given to whether this definition will enable coverage for events that are connected to a cyclone once it has been downgraded to a remnant tropical low.

For example

- In 2017 ex-tropical Cyclone Debbie continued to cause significant destruction once it was downgraded to a remnant tropical low. The destruction was caused by high wind speeds and flooding over the following week as the system travelled down the east coast of Australia.⁶
- In 1990 Cyclone Joy, which officially made landfall in Townsville, spawned a tornado in the Mackay suburb of Slade Point, which produced damage to 40 homes and dumped torrential rainfall across the region as the ex-tropical cyclone tracked south along the eastern Australia coast.⁷

Any definition needs to ensure that insurance claims pertaining to the unpredictable aftermath of Tropical Cyclones are covered by the terms of the insurance policy in relation to cyclones.

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

While there have only been two recorded incidences of storm surges in the region, one in Mackay in 1918, and one in the Whitsundays in 2017, the region remains at risk of being impacted by cyclones, including storm surges. The region has several low-lying areas at significant risk from storm surges, including key business and residential areas.⁸ While the preferred long-term defence against storm surges is the avoidance of risk through land use planning, this can be difficult to enact in regions like Mackay and the Whitsundays where key residential and business communities are already established.⁹ Therefore it is important that storm surges be covered by ‘cyclone-related flooding’ and is included in the broader definition of ‘cyclones’ and ‘cyclone-related flooding’.

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?

The inclusion of standard definitions of ‘cyclone’ and ‘cyclone-related flooding’ as a requirement for insurance policies covered the pool would comply with the *Northern Australia Insurance Inquiry – Final Report*, Recommendation 17.1 – Standardised definitions of prescribed events – which would enable greater certainty for consumers and comparability of products. GW3 endorses measures that make insurance policies easier to understand, clearer terms and transparent approaches for consumers.

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?

⁶ Bureau of Meteorology (2019). [Severe Tropical Cyclone Debbie](#).

⁷ ABC Local (2008). [A history of wild weather in Mackay](#).

⁸ Mackay Regional Council. [Storm Tide / Surge | What is it?](#)

⁹ Queensland Reconstruction Authority (2019). [Storm Tide Resilience Building Guidance for Queensland Homes Get Ready Queensland Preparing for a stronger, more resilient Queensland](#).

In previous submissions GW3 produced data, which identified that the high insurance costs of insuring residential properties in the Mackay Isaac Whitsunday region is directly impacting young families and middle-income earners, as well as pensioners. The inflated insurance expenses are impacting on those who can least afford it and leading to under-insurance or non-insurance of homes. Therefore, GW3 supports the coverage of home building, home contents and residential strata policies in the reinsurance pool.

In addition to this, residential strata insurance is at crisis point in the region with many properties struggling to find an insurance provider, or insurance premiums and excesses being unaffordable¹⁰. This highlights the critical need to ensure that strata properties are included for coverage in the reinsurance pool model.

The benefits from the introduction of a reinsurance pool far outweigh any potential difficulties in the opinion of GW3.

- 5. Are insurers able to separately price or estimate the value of the property component of business insurance packages?**
- 6. Are insurers able to separately price or estimate the value of residential and small business components of mixed-use strata title policies?**
- 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?**
- 8. How should 'small business' be defined for the purposes of eligibility?**

Over 97% of the businesses in the Mackay Isaac Whitsunday region are small businesses, with the bulk of these employing between 1 to 19 employees¹¹. Therefore, as a minimum, it is economically important for the Mackay Isaac Whitsunday region that small businesses with up to 20 employees are included in the definition for small business eligibility. However, GW3 feels that it is important that the definition of small business remains as broad as possible to ensure that those businesses who act as critical economic contributors to our region are able to access adequate and affordable insurance and that new businesses are able to enter into the regional economy. Therefore, GW3 endorses the Australian Small Business and Family Enterprise recommended definition of 'small business': *a business with less than \$10 million in turnover and fewer than 100 employees.*

- 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?**

REINSURANCE PRODUCT DESIGN AND INSURER PARTICIPATION

¹⁰ ABC News (2020). [Insurance costs cripple northern Australians as they wait on promised action to stem rises.](#)

¹¹ ABS (2020). [Business Count June 2020.](#)

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?
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?
12. How much risk exposure should primary insurers retain?
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?
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?
15. How should industry transition be managed and what is the best format and timeframe for it to take place?

As an economic development organisation, these questions fall outside the remit and specialist knowledge area of Greater Whitsunday Alliance (GW3).

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?

GW3 supports the establishment of the reinsurance pool with the Australian Reinsurance Pool Corporation (ARPC), as a body with established governance and monitoring capabilities and pre-existing experience in managing the terrorism reinsurance scheme. GW3 has frequently communicated the urgency in addressing issues around insurance accessibility and affordability for the region. Therefore, an initial review of the reinsurance pool to evaluate the impacts on the costs of property insurance premiums, differences in rates of under-insurance and non-insurance, needs to be completed shortly after the roll out of the reinsurance pool. While GW3 cannot define a recommended time frame we would expect that these changes should be able to be measured within 6 to 12 months of the initiation of the reinsurance pool. Annual benchmarking to track the impacts of the scheme would be recommended following the initial evaluation. The evaluations should be used to both identify areas for improvement of the reinsurance scheme, as well as determine the need for the scheme to continue.

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

As previously stated, GW3 views the reinsurance pool as one of many steps required to ensure long term sustainability in accessible and affordable insurance. GW3 supports the progression of the recommendations made in the *Northern Australia Insurance Inquiry – Final Report*, in order to attain the long term outcomes around increasing access to insurance in Northern Australia. Therefore, any exit date considerations would need to take into account the timeframes for the implementation of the recommendations from the *Northern Australia Insurance Inquiry – Final Report* that will be progressed. A decision regarding a proposed exit date would need to be fully evaluated to ensure that robust and multilevel responses have been implemented to guarantee that insurance in Northern Australia remains attainable, that the impacts on affordability have been evaluated after the impacts of cyclones and flooding

events and that any withdrawal of the reinsurance pool has minimal impacts on access to affordable insurance in Northern Australia.

18. Which mechanisms will ensure the pass-through of reinsurance premium savings to insurance policy holders?

For example

- 18.1. Explicit price monitoring of insurance premiums?**
- 18.2. Additional requirements to disclose cost of reinsurance to policyholders?**
- 18.3. Any additional mechanisms that may be appropriate?**

It will be essential to implement price monitoring to ensure that insurance companies remain accountable for passing on insurance premium reductions connected to the introduction of the reinsurance pool, as well as monitor insurance pricing in Northern Australia to be able to assess the impacts of the reinsurance pool. GW3 recommends a price monitoring model similar to the Payment Times Reporting Scheme¹², which was introduced by the Australian Federal Government in 2021 to improve payment outcomes for small businesses by creating greater transparency around the payment practices from large businesses to small business suppliers. A public sector regulator is responsible for administering the scheme and large businesses deliver the required data to the regulator via six monthly reporting. Similar accountabilities should be required of insurance companies accessing the reinsurance pool. This function may exist within a newly created entity such as the Payment Times Reporting Regulator, established for the Payment Times Reporting Scheme.

GW3 has consistently supported recommendations, including those detailed in the *Northern Australia Insurance Inquiry – Final Report*, around measures to enhance consumer understanding around insurance pricing through easier to understand and clearer terms and a generally more transparent approach. Therefore, GW3 supports disclosure reforms that connect consumers with clear and concise information around insurance pricing.

LINKS TO RISK REDUCTION

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

20. How might mitigation be encouraged by the reinsurance pools design?

For example

- 20.1. Should the pool provide discounts for properties that undertake mitigation?**
- 20.2. Should the insurance pool have an explicit mandate to encourage mitigation?**

As the most immediate response to the insurance issues being experienced in Northern Australia, GW3 believes that the reinsurance pool design needs to take advantage of opportunities create long term sustainable outcomes to address these issues. Therefore, GW3 believes that measures to incentivise property owners to undertake risk

¹² [Payment Times Reporting Scheme](#)

mitigation, such as discounts, should be implemented within the reinsurance pool design, along with measures to improve transparency around the passed on benefits of risk mitigation.

In previous submissions GW3 have identified the issue with the current flexibility around how insurers disclose mitigation discounts and the lack of standard compulsory guidelines to assist consumers in decreasing risk to their property and understanding reductions to their policy premiums as a result of mitigation. Including measures to encourage mitigation in the reinsurance pool design would be an opportunity to commence the implementation of standardised measures in a way that can be clearly governed and creates a motivation for change within insurance companies. However, this would only be a starting point as measures for enhancing transparency around risk mitigation needs to be standardised and addressed at a national level in order to be truly effective.

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?

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

GW3 encourages caution in exercising any reinsurance model exclusions on exemptions for new builds centred on time-based cut offs or build location. The Mackay Regional Council area encompasses approximately 320km of coastline, including numerous beach communities. The city of Mackay was originally established on the southern banks of the Pioneer River and has spread out over the floodplain near the mouth of the river since that time. The majority of urban land is low-lying, having an average elevation of less than 10 metres AHD with parts of Mackay up to 300mm below the Highest Astronomical Tide (HAT) level of 3.64m AHD.¹³ Similarly, the Whitsunday region coastline extends 500km across numerous coastal communities and adjacent to 74 islands which form a gateway to the Great Barrier Reef. Many areas across the Whitsunday region are in low lying and exposed areas that are at risk from cyclones and related flood damage.¹⁴ There are also some coastal communities that lay within the Isaac Regional Council area that are also at risk of impact from cyclones and cyclone related flooding.¹⁵

While GW3 agrees that reasonable steps should be taken to encourage the mitigation of risks in new buildings, including adherence to building codes, we feel that limiting access to the insurance pool based on the build timing or location for new buildings would potentially have a significant negative economic impact on the region. Much of the core business and residential areas within Mackay and the Whitsundays exist on land at risk of damage from cyclones and cyclone related flood inundation. To place restrictions on the new builds would potentially impact on capacity and appetite for new residential properties and businesses to be established across the region. The regional councils of these impacted areas have many motivations to mitigate risks for new builds that extend well beyond the focus of insurance affordability and accessibility and therefore we feel that the council approval processes for new builds

¹³ Mackay Regional Council (2016). [Mackay Region Flood and Stormwater Management Strategy | November 2016 – Final](#)

¹⁴ Whitsunday Regional Council (2021). [Whitsunday Regional Council Coastal Hazard Adaptation Strategy: Whitsunday Resilient Coast Strategy](#)

¹⁵ Isaac Regional Council (2020). [Our Resilient Coast – Isaac Coastal Hazard Adaptation Strategy](#)

should suffice in addressing risk mitigation, without the need for additional interventions within the design of the reinsurance pool.

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?

22.2. Which policy options could be introduced alongside the pool?

GW3 feels that the local government bodies that fall within the Mackay Isaac Whitsunday region are already proactive in investing in mitigation strategies around cyclones and cyclone related flooding.

This is demonstrated through existing strategies including:

- Mackay Regional Council Waterway and Coastal Hazard Planning¹⁶
 - Flood and Stormwater Management Strategy | November 2016 – Final
 - Mackay Floodplain and Management Plan
 - Storm Smart Strategy
 - Flood Studies
 - Flood and Coastal Hazard Overlay Code
 - Property Flood Report Tool
- Whitsunday Regional Council Coastal Hazard Adaption Strategy: Whitsunday Resilient Coast Strategy
- Our Resilient Coast – Isaac Coastal Hazard Adaptation Strategy

While GW3 agrees with the recommendations relating to actions that can be taken by state and territory governments to reduce cyclone and related flood damage risk within the *Northern Australia Insurance Inquiry – Final Report*, GW3 does not feel that it is necessary nor productive to encourage further action by states and territories within the design of the reinsurance pool. Influencing change at a state or territory level is complex and takes time and may counteract the urgency in the roll out the reinsurance pool. In saying this, GW3 does encourage separate action to progress these recommendations, especially those relating to the provision of tax and stamp duty relief for Northern Australians. We see this as a key complimentary solution that could enhance sustainable insurance affordability, alongside, but separate to the reinsurance pool.

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 damage insurance pool?

¹⁶ Mackay Regional Council (2021). [Flooding and Coastal Hazards](#)

CONCLUSION

In conclusion, the key features of GW3's recommendations for the design of the reinsurance pool include:

- A standard definition of 'cyclones' and 'related flood damage' which ensures all cyclone related damage, including damage produced from remnant tropical lows is covered for the purposes of the reinsurance pool;
- The inclusion of storm surge coverage in connection to the reinsurance pool;
- The critical importance of including strata properties within the coverage of the reinsurance pool model;
- A definition of small business that remains as broad as possible to ensure these critical contributors to our regional economy continue to operate and establish themselves within the region;
- An initial review to measure the affordability and accessibility impacts of the reinsurance pool shortly after establishment, with ongoing regular benchmarking reviews and evaluation to measure the effectiveness of the reinsurance pool on the targeted outcomes;
- A price monitoring model administered by a public sector regulator similar to the *Payment Times Reporting Scheme* to enable the acquisition of the required data to ensure accountability for passing on insurance premium reductions to consumers;
- Measures to incentivise risk mitigation by property owners along with improved transparency around the benefits passed onto consumers by insurance companies due to risk mitigation;
- Caution around reinsurance model exclusions or exemptions for new builds centred around time based cut-offs or build locations due to the location of established key business and residential areas, especially within the Mackay Isaac Whitsunday region;
- The recommendations of the Northern Australia Insurance Inquiry – Final Report need to continue to be progressed alongside the establishment of the reinsurance pool in order to ensure that improvements in the affordability and accessibility of insurance across Northern Australia sustainable long term.

GW3 remains committed to ensuring that consumers within the Mackay Isaac Whitsunday region are able to access adequate and affordable insurance coverage well into the future. We look forward to continuing to support the delivery of strategies to address insurance access issues across Northern Australia and to deliver improved insurance related outcomes for the Mackay Isaac Whitsunday region.