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## Re-insurance pool for cyclones and related flood damage

On behalf of the Housing Industry Association (HIA) I would like to provide the following comments in relation to the *Reinsurance pool for cyclones and related flood damage consultation paper*.

HIA is Australia's only national industry association representing the interests of the residential building industry.

HIA represents a membership of 60,000 industry participants across Australia including those operating within the Northern Australian region. Our members comprise a diverse mix of companies, including volume builders delivering thousands of new homes a year as well as small and medium home builders delivering one or more custom built homes a year. From sole traders to multi-nationals, HIA members construct over 85 per cent of the nation's new building stock.

The residential building industry is one of Australia's most dynamic, innovative and efficient service industries and is a key driver of the Australian economy. The impact that natural disasters have on existing housing stock and the subsequent impact on new home construction and repair is significant for the residential building industry. Therefore any approaches which take a holistic view of the responses needed when these natural disasters do occur, and which seeks to improve the recovery and rebuilding processes, are welcome.

On this basis, HIA is supportive of the Government's intention to establish a reinsurance pool for cyclones and related flood damage, to commence from 1 July 2022 backed by a \$10 billion Government guarantee.

HIA appreciates that the Treasury-led Taskforce is now consulting with industry and community representatives, as well as other interested stakeholders, to develop a final design for the reinsurance pool. HIA has reviewed the consultation paper seeking 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.

### General Comments

As noted in the consultation paper Northern Australia is more exposed to extreme weather events than other areas of Australia. The damage to residential and business property caused by extreme weather events is often severe, and on a scale that leads to the displacement of people from their homes and disruption to business activity.

Over the past decade, several environmental disasters have impacted the region. These include the destructive Tropical Cyclone Yasi in 2011, which was one of the most powerful storms to hit the region on record and the devastating floods in Townsville and surrounding areas of north Queensland in February 2019.

Due to the greater risk of extreme weather events, including cyclones, insurance premiums are significantly more expensive in northern Australia.

While there are legitimate reasons for this, including the greater cost to insurers to provide property insurance in northern Australia, this has led to cover becoming less affordable and accessible for consumers in the region.

The Australian Competition and Consumer Commission (ACCC) found that the average combined home and contents insurance premium in 2018-19 was about \$2,500 in northern Australia, compared to about \$1,400 for the rest of Australia.

Between 2007-08 and 2018-19, combined home and contents premiums increased by 122 per cent in northern Australia, compared to 71 per cent for the rest of Australia.

Furthermore, the ACCC found that in north Queensland and north Western Australia, average excess levels selected in 2018-19 were about 50 to 60 per cent higher than the average level selected in the rest of Australia. High insurance premiums are the main cause of underinsurance and non-insurance.

Even more concerning is that it is estimated about 20 per cent of properties in northern Australia had no home building insurance in 2016, compared with 11 per cent for the rest of Australia.

Many of these concerns were identified in the Royal Commission into National Natural Disaster Arrangements (Royal Commission) as well as the ACCC Northern Australia Insurance Inquiry.

As such HIA is broadly supportive of the proposed reinsurance pool that would be backed by the Federal Government to seek to overcome and address these significant issues.

It is also noted that internationally, there are several government-supported reinsurance pools, along the same lines as that being proposed for northern Australia, including:

- The French government's national catastrophe reinsurer Caisse Centrale de Reassurance,
- Flood Re in the United Kingdom (UK), and
- The Florida Hurricane Catastrophe Fund in the United States of America.

These schemes were established to meet objectives aligned to the issues faced in Northern Australia in seeking to improve affordability for those households at highest risk of natural hazards, or increasing the availability and choice of insurers for consumers.

Establishing a government reinsurance pool for cyclones and related flood damage in Australia would provide a range of benefits including:

- Allowing insurers to reinsure the risk of losses from claims at a lower cost than in the private reinsurance market
- Lower insurance premiums for households and small businesses by decreasing the cost of reinsurance
- Improve insurance affordability in regions with high cyclone risk
- Reduce rates of underinsurance and non-insurance in cyclone prone areas
- Strengthen the financial capability of individuals, businesses and communities to recover from natural disasters and, consequently, hasten the economic recovery of regions following a disaster
- The pool would be expected to encourage additional insurers to enter the northern Australian market and therefore increase competition and place downward pressure on insurance premiums.

It is noted the reinsurance pool is complemented by \$40 million in funding for a capped, three-year pilot program to subsidise the cost of cyclone risk mitigation works for eligible strata title properties in North Queensland.

Furthermore that the Government has also announced \$600 million to be invested in a new program of disaster preparation and mitigation, to be managed by the new National Recovery and Resilience Agency.

These program are intended to support resilience projects across the community and for individuals' homes, such as bushfire and cyclone proofing houses, building levees and improving the resilience of telecommunications and essential supplies.

HIA is broadly supportive of these Federal Government programs and complementary state based programs about improving the resilience, affordability and risk reduction of buildings located in Northern Australia subject to potential extreme weather events. These program align with HIA's calls in recent Federal Budgets to provide assistance to existing home owners to mitigate the impact of future natural disasters.

HIA again appreciates the opportunity to respond to the Consultation Paper and the detailed responses to those matters pertinent to the residential building industry are set out in Attachment 1.

HIA would welcome the opportunity to meet and discuss these matters further and to work with the Government on the further design of these schemes to benefit households and the residential building industry in northern Australia.

Yours sincerely

HOUSING INDUSTRY ASSOCIATION LIMITED

A handwritten signature in black ink, appearing to read 'Kristin Brookfield', written in a cursive style.

Kristin Brookfield  
Chief Executive Industry Policy

## **ATTACHMENT 1: HIA Response to Consultation Paper Questions**

Outlined below are responses to a selection of relevant questions posed in the Consultation Paper for the residential building industry.

### Reinsurance pool coverage

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

Australia's building codes and standards contain structural design and resistance requirements for buildings along with provisions for resisting rainwater entry into buildings and protecting building structures from weather events (high winds and rainfall intensity) which it may be reasonably subjected to.

These actions that buildings are required to be designed for are based on annual exceedance of probability (AEP) of design events.

AEP refers to the probability of a flood or cyclonic event occurring in any year. The probability is expressed as a percentage. For example, a cyclonic or high wind event which may be calculated to have a 1% chance to occur in any one year, is described as 1% AEP.

The 1% AEP is also known as the 1 in 100 year average recurrence interval or ARI or Q100 event.

One approach to defining 'cyclone' and 'cyclone-related flooding' for the purpose of the reinsurance pool's coverage could be to utilise the definitions from Australia's building codes and standards and where a design weather event has exceeded the annual probability/average recurrence factors in the building code.

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

Yes, it seems appropriate to include storm surge in the definition and not limited solely to cyclone related flooding in defined coastal areas.

#### **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, it seems appropriate to use standard definitions in policies so it provides clear scope of what is and is not covered. Whenever there is a high wind or flooding event HIA fields many enquiries regarding what was or is considered a design event that the building should have been able to withstand, and what is beyond the capacity of the building outside of the design events expected under building codes and standards.

This can often lead to arguments and disagreements on the category of the event and subsequent damage, therefore clear definitions around this aspect are considered important.

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

HIA does not support a definition of small business based on a headcount approach. Using the number of employees as an indicia for a small business does not target those who should rightly be captured by the proposals.

For instance, in the residential building industry, it is not unusual for a relatively large building company in respect to activity and turnover to have relatively few employees as the majority of on-site construction activity is performed by independent trade subcontractors.

Small business should be defined by turnover. The turnover threshold should be based on a rigorous cost/benefit analysis to determine the impact the reforms could have.

Reinsurance pool governance and monitoring

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

It is important that reductions in insurance premiums that would result from a reinsurance pool be passed on.

Disclosure reforms would appear to be the most sensible option on the basis that this approach is less intrusive, encourages greater transparency and utilises existing disclosure mechanisms.

Links to risk reduction

**20. How might mitigation be encouraged by the reinsurance pool's design?**

HIA agrees that insurers should recognise risk mitigation and provide guidance on which types of mitigation they will recognise and the discount this is likely to provide to the policy holder.

It would however seem inappropriate to require an explicit mandate to require mitigation.

It is noted that this issue was also identified in the recommendations from both the Natural Disasters Royal Commission as well as the ACCC Northern Australia Insurance Inquiry. As such greater coordination and thought on the design of this matter is needed.

HIA has also been working with Standards Australia on proposals to develop standards and/or handbooks on mitigation and improved building resilience measures for existing buildings, built prior to current building standards, located in bushfire prone areas and cyclonic areas of Australia. This may provide a useful adjunct to the future operation of such a provision.