



INDIAN OCEAN TERRITORIES
Regional Development Organisation
Australia

The Manager
Cyclone Reinsurance Pool Taskforce
The Treasury
Reinsurancepool@treasury.gov.au

For the attention of the Manager,

Response to consultation paper: Reinsurance pool for cyclones and related flood damage

The Indian Ocean Territories (IOT) Regional Development Organisation (RDO) welcomes the opportunity to respond to the consultation paper, *Reinsurance pool for cyclones and related flood damage*.

The role of the RDO is to support the economic development of Cocos (Keeling) Islands and Christmas Island by working with all levels of government, business and community groups. Insurance in the Indian Ocean Territories is of critical importance to both residents and businesses. The RDO welcomes the inclusion of the Australia external territories as a consideration by the taskforce.

I trust that the information provided in this submission is of assistance. Please feel free to contact the RDO for more information if required.

Mrs. Natasha Griggs
Chairperson – Indian Ocean Territories Regional Development Organisation
Administrator of Christmas Island and the Cocos (Keeling) Islands

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About the Indian Ocean Territories

Australia's Indian Ocean Territories (IOT) comprise Christmas Island and the Cocos (Keeling) Islands. Due to their remoteness, climate and topographies, these islands have particular challenges.

- Christmas Island is located 2,605 km from Perth and 490 kilometres from Jakarta. The island is at the tip of a 5,000 metre submarine volcano. The island has 1,845 residents.
- The Cocos (Keeling) Islands are located 2,935 km from Perth and 985 km from Christmas Island. They are a group of 27 low-lying coral islands that form two atolls. The 545 residents of the Cocos (Keeling) Islands are located on two of the islands: Home Island and West Island.

About the Regional Development Organisation

Across Australia, Regional Development Australia (RDA) Committees assist with economic development across regions. The RDA program is a national network of committees made up of local leaders who work with all levels of government, business and community groups to support the economic development of their regions.

The Indian Ocean Territories Regional Development Organisation (RDO) is part of the RDA network. The RDO committee is a group of community volunteers drawn from the public, private and not-for-profit sectors who represent the two communities of Christmas Island and the Cocos (Keeling) Islands. Its objective is to facilitate and promote economic development in the IOT. In undertaking this role, the RDO is conscious of the IOT's unique challenges and opportunities.

The RDO committee is chaired by Mrs. Natasha Griggs, the Administrator of Christmas Island and the Cocos (Keeling) Islands who is the most senior Commonwealth Government representative residing in the IOT.

Insurance availability

While areas of northern Australia grapple with making insurance affordable, a key issue for the IOT is to make insurance available. This is particularly relevant for the Cocos (Keeling) Islands where the lack of availability of home and business insurance impacts the full spectrum of economic drivers in the region.

It is important to note that there are no regulatory obstacles for Australian insurers operating in the IOT. The absence of insurers servicing the region is likely driven by several factors including:

- The IOT is subject to extreme weather events, with Cocos (Keeling) Islands impacted more frequently by cyclonic and tropical low weather events. Cocos (Keeling) Islands is also more prone to flooding events given its topography.
- The IOT is geographically remote, resulting in increased costs to repair or replace insured items or structures.
- An absence of insurance-related data would result in uncertainty of the risk profile for insuring assets in the IOT, possibly resulting in insurers declining to provide insurance or

increasing costs to account for this uncertainty.

This limits the housing market, particularly on Cocos (Keeling) Island, as lenders commonly require a property to be insured in order to finance the purchase of an asset. The same can be said for raising business capital or attracting investment in the region. The issue of insurance availability and affordability is critical to the ongoing sustainability and economic diversification of the region.

Inclusion of the IOT in the definitions to be determined prior to the establishment of the pool would be a logical and welcomed step towards correcting the market failure of insurance in the IOT.

Related submissions and Inquiries

In January 2021 the RDO provided a submission to the Joint Committee for the National Capital and External Territories (JSCNCET) Inquiry into economic, social and environmental sustainability in the Indian Ocean Territories. This submission recommended that the lack of home insurance availability on Cocos (Keeling) Islands should be recognised as market failure and proposed Australian Government intervention for resolution.

In November 2020 the Australian Competition and Consumer Commission issued its *Northern Australia Insurance Inquiry Final Report*. It should be noted that despite its geographical position the IOT are not considered to be part of Northern Australia by the Australian Government and so fell outside of scope for this Inquiry. Although out of scope, The Department of Infrastructure, Transport, Regional Development and Communications provided a submission to this inquiry regarding the IOT.

This matter had also previously been explored by the JSCNCET's *Report on the visit to the Indian Ocean Territories, 21-25 October 2012*. In that report, the then Committee recommended the Australian Government urgently address the insurance problems facing the communities of the Indian Ocean Territories, if necessary, by investigating the provision of insurance to those communities. At that time the recommendation was not supported by the Australian Government, citing a number of remote communities experiencing similar issues of insurance affordability and availability, and considering the issue to be market-driven. The Australian Government response also noted that in similar situations some communities have engaged in cooperative action to gain access to insurance and increase coverage.

Responses to reinsurance pool coverage questions

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

The RDO does not have an established position on the definitions to be used for 'cyclone', although standardising the legal definition in-line with that applied by the Bureau of Meteorology (BoM) would be a logical approach which can then be supported by reporting and data from the BoM.

With respect to the definition of 'cyclone-related flooding' the RDO supports the second option given as a definition being 'by measuring the amount of rainfall brought by the cyclone that has not dissipated when flood damage occurs'.

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

It is the strong recommendation of the RDO that storm surge should be covered by the reinsurance pool and included in the definition of 'cyclone-related flooding'. Cocos (Keeling) Islands are particularly exposed to storm surges owing to the topography of the islands. Inclusion of storm surge coverage under the reinsurance pool will be critical to gaining the confidence of insurers to offer insurance to the Cocos (Keeling) Islands community.

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 RDO supports the use of standard definitions of these terms to remove ambiguity or misinterpretation.

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?

The RDO does not have an established position on clarifying the scope of coverage for the above listed inclusions.

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

The RDO does not have an established position on the ability of insurers to separately price or estimate the value of the property component of business insurance packages.

It should be noted there is relatively limited data available on property values in the IOT to support such assessments.

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

The RDO does not have an established position on the ability of insurers 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?

Owing to the limited availability of insurance in the IOTs, the RDO does not have a view on difficulties which may arise from including mixed-strata title policies in the reinsurance pool.

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

The economies of the IOT tend to fluctuate with heavy dependency on infrastructure development, Australian Government priorities and tourism trends. Owing to this, the RDO

supports the broader definition of a 'small business' as recommended by the Australian Small Business and Family Enterprise Ombudsman as: a business with less than \$10 million in turnover or 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?

The RDO does not have a position on the clarification of the scope for including small business property insurance policies.

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?
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?

The above questions are specific to insurers and the RDO does not have an established position on these.

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 RDO recommends particular emphasis be placed on the difference in rates of under-insurance and non-insurance before and after the introduction of the reinsurance pool.

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

Although other reinsurance pools have been subject to planned exit dates, a reinsurance pool for cyclones and related damages would only benefit from an exit date if the pool was given significant longevity, and that any transition from a reinsurance pool is tied to risk mitigation measures and subject to review on the ongoing availability and affordability of insurance at exit.

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?

The RDO supports explicit price monitoring.

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

The RDO supports disclosure of the cost of reinsurance to policyholders.

18.3 Any additional mechanisms that may be appropriate?

The RDO would recommend comparative monitoring of regions to ascertain which regions are consistently charged more for insurance and whether this is commensurate with increased risk from cyclonic weather events.

Should the IOT be included in the definitions for coverage of the reinsurance pool, the RDO would recommend monitoring to confirm that insurance is available and affordable to IOT residents and businesses.

Links to risk reduction

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

The RDO does not have an established position on this question.

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?

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

The RDO does not have an established position on this question. However, it is noted that the assessment of such mitigation measures to support discounts can be expensive and administratively burdensome as has been experienced through other premium discount schemes. This would be particularly true of many northern Australia locations including the IOT.

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?

The RDO would strongly advise against exempting new builds from the pool. One of the current issues facing Cocos (Keeling) Islands is a housing shortage owing in part to insurance limitations in the region. It is the RDO's view that a successful reinsurance pool would go some way to alleviating this issue.

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

The RDO supports the control of new build standards, rather than exempting new builds.

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?

The RDO does not have an established position on this question.

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?

The RDO does not have an established position on this question.

