



Submission to the Treasury Consultation paper on the *Reinsurance Pool for Cyclones and Related Flood Damage*

The National Recovery and Resilience Agency (NRRRA) appreciates the opportunity to inform the development of the Reinsurance Pool for Cyclones and Related Flood Damage. NRRRA welcomes individual and industry led activities to increase the availability and affordability of insurance products for Australian households, businesses and primary producers. NRRRA supports intervention in the insurance market where there is a positive cost benefit analysis and there is certainty that premiums for policyholders will be reduced as a result of establishing the reinsurance pool. Future premium cost increases should also be lower as a result of the operation of the pool.

Objectives of the program

NRRRA notes the reinsurance pool is expected to reduce insurance premiums for residents and businesses in Northern Australia. Monitoring and enforcement of any cost pass through to consumers is necessary to warrant intervention.

NRRRA also notes that the model could produce benefits for all policy holders (and not just those properties most susceptible to flood and cyclone) of insurers eligible to participate in the reinsurance pool, as the costs of that insurer are reduced and savings can be passed on to customers in a manner determined by the insurer. Mandatory participation in the pool is preferable as it is more likely to result in the broadest benefit to residents in Northern Australia. NRRRA also recommends Treasury and the Insurance Council of Australia consider the communications messaging of this scheme, noting it appears to only support at-risk flood and cyclone properties, while the benefits may actually be realised for all policy holders whose insurers participate in the scheme.

Scope of program

We support using standard definitions of 'cyclone' and 'cyclone-related flooding' in policies covered by the pool.

NRRRA notes the benchmark of a '1 in a 100' year event built into the modelling underpinning system design. Severity, geographic extent and frequency of events is anticipated to change in coming years so NRRRA supports modelling factoring that volatility in, in addition to empirical benchmarks.

The NRRRA's experience in supporting communities affected by the 2019/20 Black Summer fires has highlighted that insurance is a key challenge to navigate and that people are often not aware of the details of their cover. The NRRRA would also welcome complementary initiatives in relation to education and insurance literacy to support informed consumer choice and to reduce rates of underinsurance.

NRRRA welcomes clarification from Treasury on which types of insurance products are intended as being 'in scope' for the reinsurance pool. For example, whether the scheme will include policies for business interruption (as well as physical assets) such as income protection, consequential loss of profits and business continuity. The Small Business Bushfire Support Grant which was introduced to support recovery from the 2019/20 Black Summer event required businesses to demonstrate a 40 per cent loss of income. These businesses did not suffer direct physical damage, but suffered significant loss of trade and cash flow constraints. The high uptake of this support measure illustrates the consequential impact on businesses, even





where physical damage might not have occurred. Maintaining business operations or trade has consequential impacts on local employment, provision of critical services and community wellbeing. Exclusion of particular insurance products (such as business interruption policies) could negatively influence businesses seeking to adequately prepare and protect their operations from future disruptions.

NRRA also recommends a consistent definition for small business be adopted, should small business insurance products be eligible (as per above comment). For the 2019/20 Black Summer fires, small businesses were those with less than 20 employees unless exceptional circumstances applied which warranted case-by-case assessment.

Governance and monitoring

NRRA notes that Treasury expects the introduction of the pool will lower reinsurance costs for insurers, with associated reduction in insurance premiums for customers in Northern Australia. Consideration needs to be given to managing the expectations of Australians outside of this geographic area, and how reviews of the reinsurance pool might inform its application to other geographic areas.

NRRA welcomes regular monitoring and reporting on the reduction in reinsurance costs and benefits to consumers. As such, NRRA supports disclosure reforms to ensure pass-through occurs and is of the scale to warrant continuation of the reinsurance model. This includes:

- o Explicit price monitoring from the Australian Consumer and Competition Commission
- o Review at least every three years
- o Planned exit date or ability to terminate the scheme with three years notice should the scheme be deemed to not provide a suitable return to consumers to justify market intervention

A planned end date would also provide sufficient time for risk mitigation efforts to be completed and reflected in reduced premiums following scheme cessation.

Links to risk reduction

NRRA supports and advocates for complementary activities to reduce natural hazard risk and support consumers making informed, affordable insurance choices. The Australian Government has recently announced the Preparing Australia Package, North Queensland Strata Title Resilience Pilot Program and the National Flood Infrastructure Mitigation Program to reduce hazard risk to policyholders. NRRA expects insurers to quantify the benefits of these activities to policyholders and to pass through the benefits to consumers in the form of lower insurance premiums.

Additional industry led mitigation activities are welcome, supported by appropriate communications, education and information products for a diverse audience with varied financial literacy.

The NRRA is committed to working collaboratively with government partners, the private sector and communities to support preparation for and recovery from natural disasters and hazards. Supporting consumers to make informed choices and affordable insurance products supports community resilience for the future.

