



Australia's property industry

Creating for Generations

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Manager
Cyclone Reinsurance Pool Taskforce
The Treasury
Langton Crescent
PARKES ACT 2600

By email: ReinsurancePool@treasury.gov.au

Dear Sir/Madam

Property Council feedback on reinsurance pool for cyclones and related flood damage

The Property Council of Australia welcomes the opportunity to comment on the *Reinsurance pool for cyclones and related flood damage* consultation paper by the Treasury-led Cyclone Reinsurance Pool Taskforce.

The Property Council is the peak body for owners and investors in Australia's \$670 billion property investment industry. Our members are the leaders of, and owners and investors in, Australia's property industry and have a long-term stake in helping our capital and regional cities to thrive. We represent owners, fund managers, superannuation trusts, developers, and investors across all four quadrants of property investments: debt, equity, public and private. Our members span commercial, retail, industrial, residential, retirement living and education sectors of the industry.

The property industry supports the establishment of a reinsurance pool for cyclones and flood related damage and believes the Australian Reinsurance Pool Corporation (ARPC) is best placed to administer the pool. **In communicating our support, we wish to emphasise the need for decisive action by governments to mitigate against the increasing risk and frequency of natural disasters and pursue policies to aid adaptation of residential and commercial property to our changing climate. We also wish to emphasise that larger businesses should not be excluded from eligibility where they own and operate assets on which communities rely during disaster events like cyclones and related flooding.**

Australia is already experiencing the impacts of climate change and is increasingly exposed to disasters caused by natural hazards that impact infrastructure, essential services and communities. Over the past 30 years, natural disasters have resulted in billions of dollars in tangible costs, as well as a multitude of intangible costs such as deaths, injuries and significant social impacts including the health and wellbeing of our

communities. More than 9 million people have been affected by both immediate and, for some, long-term effects.

When combined, the total economic cost of natural hazard-triggered disasters in the 10 years to 2016 has averaged \$18.2 billion per year, equivalent to 1.2% of average gross domestic product (GDP) over the same period. This is expected reach \$39 billion per year on average by 2050 (in present value terms), even without considering the impact of longer term 'stresses' due to climate change¹.

Without more decisive action to mitigate against and adapt to these risks, there is a strong likelihood that insurance market failures will occur in other areas over time, prompting discussion on establishment of reinsurance pools for different natural disasters which could be difficult to wind down, require long term government support and would raise costs for all property owners and taxpayers.

In response to the questions posed in the consultation paper, we provide the following feedback:

Reinsurance pool coverage

1. The definition of 'cyclone' and 'cyclone related flooding' should be defined for the purposes of the reinsurance pool's coverage. Using the Bureau of Meteorology (BoM) definition of a tropical cyclone and their declaration of named events as a trigger for eligibility is a good place to start and avoids issues around inequity that could arise with eligibility bounded by events in specific locations only e.g., above a certain latitude.
2. The scope of coverage could be clarified with reference to building classifications used for the National Construction Code to avoid confusion and should explicitly include retirement living villages (treated as class 2, same as apartments) and shopping centres and retail premises (class 6) at a minimum. The Retirement Living Council, a division of the Property Council of Australia will be making a separate more detailed submission to you with respect to this issue.
3. *Larger businesses should not be excluded from eligibility where they own and operate assets on which communities rely during disaster events like cyclones and related flooding.* For example, many shopping centres are used (and designed) to act as places of refuge during disasters and should be included in the pool to support their use in such circumstances and incentivise risk mitigation measures in these important community assets

Reinsurance product design and insurer participation

4. Any risk rating system seeking to define different levels of risk with respect to building age, location, roof type, construction material etc. should be designed carefully and in close collaboration with the building and construction sector as well as insurers. It is important to recognise the risks of cyclone and related flooding are never considered in isolation, and choices regarding construction material and method will take into account other risks that need to be managed to preserve life. We suggest an industry advisory group is convened to assist in the design of such a system.

¹ Deloitte Access Economics for the Australian Business Roundtable for Disaster Resilience and Safer Communities, 2017, '[Building Resilience to natural disasters in our states and territories](#)', p.7

Reinsurance pool governance and monitoring

5. The ongoing need for and design of this reinsurance pool should be subject to regular review and should be combined with the triennial review of the terrorism pool and operation of the ARPC. We also suggest an initial interim review of the cyclone reinsurance pool 18 months after its establishment to evaluate its early operation.
6. Incorporating an exit date for the cyclone reinsurance pool, similar to Flood Re in the UK should be considered. Presumably this will only work in practice if there are complimentary efforts pursued on risk mitigation and adaptation over time through changes to the National Construction Code for example, otherwise property owners will likely be subject to the same market failure and risk settings that exist today, necessitating the need for a pool.
7. We strongly support provision for greater transparency of insurance pricing in policy disclosure statements and renewal notices and suggest this is a function the ACCC should be tasked with to ensure premium reductions are being passed through to the consumer as intended.

Links to risk reduction

8. We strongly support provision within the pool for premium discounts to properties that undertake risk mitigation efforts and would support the adoption of an explicit mandate to encourage mitigation over time.
9. The ability to quantify or adequately assess risk mitigation efforts needs to be clearly set out and should acknowledge where changes to building codes that call up appropriate standards for cyclone and flood risk mitigation have been met. We suggest this forms part of the scope of work for an industry advisory group also tasked with informing the design of a risk rating system for pricing purposes.

ARPC terrorism reinsurance functions

10. Ensure the government guarantee and funds for the cyclone reinsurance pool are kept separate to the terrorism reinsurance pool and guarantee. We would strongly support the establishment of a mechanism to ensure the funds and government guarantee for the terrorism pool are held separately in reserve for their intended purpose, there should be no overlap or cross-subsidisation between pools as they are funded differently and should be maintained as such.
11. Ensure appropriate administrative support within the ARPC to manage the cyclone reinsurance pool, noting the different nature of resourcing support that may be required compared to the terrorism pool.

We look forward to working collaboratively with the Treasury and the ARPC and would welcome the chance to meet with you and discuss the details of our submission further. Please do not hesitate to contact [REDACTED]

Your sincerely



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Group Executive, Advocacy and Policy