



**Small Business
Development Corporation**

Our ref: D21/3573

Manager
Cyclone Reinsurance Pool Taskforce
Treasury
Langton Cres
Parkes ACT 2600

Dear Sir or Madam

**SUBMISSION ON THE 'REINSURANCE POOL FOR CYCLONES AND FLOOD
RELATED DAMAGE' CONSULTATION PAPER**

The Western Australian Small Business Development Corporation (SBDC) welcomes the opportunity to provide feedback on the Australian Treasury's consultation paper 'Reinsurance pool for cyclones and related flood damage'.

The SBDC is an independent statutory authority of the Government of Western Australia established to support and facilitate the growth and development of small businesses in the State¹.

One of the agency's key strategic objectives is to influence the policy and regulatory environment affecting the small business sector in Western Australia. In this regard, the SBDC regularly contributes to Federal Government reviews and consultations, and collaborates with Commonwealth regulators and the Australian Small Business and Family Enterprise Ombudsman (ASBFEO) to address national policy issues impacting small business.

Securing adequate insurance cover is a necessary part of operating a small business. However, there is mounting evidence to suggest insurance access and affordability is becoming increasingly difficult for small businesses. As the ASBFEO's recent inquiry into insurance issues affecting Australian small businesses found, a hardening of the global insurance market in recent years has resulted in less competition, higher costs and fewer available insurance policies, with certain industries and geographies especially impacted.

With this in mind, the SBDC is strongly supportive of policies that ease the insurance burden on small businesses as well as government intervention where there is market failure.

¹ This submission outlines the views of the SBDC and does not necessarily represent the views of the Western Australian Government.

The following provides responses to specific questions in the consultation paper as well as additional feedback on selected issues the paper raises. Our comments are focused on considerations that may be relevant to small businesses and are not intended to suggest expertise in insurance matters. Any new mechanism to address insurance affordability would be best designed with direct input from the insurance industry.

Consultation paper questions

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

The SBDC acknowledges that while defining a 'small business' can present difficulties, it's important not to define it too narrowly for the purpose of establishing eligibility to the reinsurance pool.

Accordingly, we strongly support all small and medium sized businesses (SMEs) having access to affordable property insurance, including those in areas that experience cyclones and/or other natural disasters. A narrow definition would risk excluding some SMEs.

The SBDC is comfortable with the definition as outlined by the ASBFEO for the purpose of the reinsurance pool's coverage eligibility. That is, a business with less than \$10 million in turnover or fewer than 100 employees.

However, it should explicitly exclude corporations and/or publically listed companies to avoid instances where large companies not intended to be covered by the reinsurance pool are nonetheless eligible under the above definition.

Question 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 SBDC supports an outcome for small businesses that ensures access to affordable property insurance as intended by the introduction of this reinsurance pool, regardless of how their insurance is packaged or where their business is located (e.g. in a 'mixed use' building or shopping centre).

While we cannot provide technical comments in relation to this question, we encourage the Federal Government to work with relevant stakeholders to ensure arrangements do not exclude any small businesses. These should include the Insurance Council of Australia, the National Insurance Brokers Association, the Property Council of Australia, the Shopping Centre Council of Australia and the ASBFEO.

Question 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?

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

18.3 Any additional mechanisms that may be appropriate?

While the SBDC is not in a position to comment on the best mechanism to ensure reinsurance premium savings are passed on to policyholders, we note that customers in certain parts of Western Australia's remote north are likely to have very limited choice among insurance providers.

Any lack of competition among providers reinforces the importance of ensuring adequate transparency around the price settings of insurance premiums. As such, we support an appropriate mechanism or mechanisms that protects policyholders and maintains the integrity of the reinsurance pool.

Other comments

Risk Coverage

The consultation paper notes that the reinsurance pool will be established to cover 'cyclone and flood damage in cyclone-prone areas across Australia, with definitions to be determined prior to the establishment of the pool' (p.4).

The SBDC supports flexibility around the definition of 'cyclone-prone areas' in order to respond to reassessments of the cyclone-related risk of particular places. A flexible approach is especially prudent in light of the emerging and longer term impacts of a changing climate.

For example, Cyclone Seroja recently caused significant damage to homes and businesses across Western Australia's Mid West and Northern Wheatbelt regions after it made landfall further south than typically expected. Any consequence of this event on insurance premiums in those regions could warrant an assessment of their coverage by the reinsurance pool, in consultation with the Western Australian Government.

Other Natural Disasters

The insurance pool for cyclone and related flood damage is expected to provide tangible benefits to households and small businesses in affected areas by lowering property insurance risk premiums.

The SBDC welcomes the introduction of this mechanism, but notes that the impact on insurance premiums of other natural disasters, including fires, drought and floods across the country, are also of concern. Effective implementation of this reinsurance pool would provide the opportunity to consider similar arrangements to cover natural disasters Australia-wide.

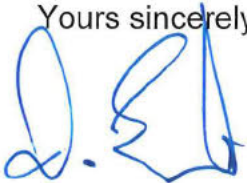
We note that this would be consistent with the intent of the ASBFEO's Insurance Inquiry recommendation to 'expand the Australian Reinsurance Pool Corporation to provide reinsurance for all natural disasters for commercial property insurance' (Recommendation 8, p.24).

Concluding remarks

The SBDC is encouraged by the Federal Government's efforts to address issues of access to affordable insurance in disaster-prone areas. The successful introduction of this reinsurance pool will benefit many small businesses, with direct flow on benefits for the local communities they serve.

We would welcome further engagement with the Cyclone Reinsurance Pool Taskforce. Please contact [REDACTED] for any further information.

Yours sincerely



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SMALL BUSINESS COMMISSIONER

18 June 2021