



23 June 2021

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

By email: ReinsurancePool@treasury.gov.au

Thank you for the opportunity to provide this submission to the Treasury-led Cyclone Reinsurance Pool Taskforce to help inform the design and development of a reinsurance pool to help improve the accessibility and affordability of insurance in cyclone prone areas. This submission does not address each question within the consultation paper, rather its purpose is to highlight the need for small and remote Indigenous local governments to be considered in the design of the scheme.

About TCICA

TCICA is a membership-based alliance of local governing authorities from the Torres Strait, Cape York and Gulf region of Far North Queensland. 11 of Queensland's 17 Indigenous local governments are members of TCICA, representing one of the largest formal and regular gatherings of Indigenous Mayors across the country. We operate as a collaborative partnership to represent the common interests of local governing bodies in the region. Our members are committed to working together with the Queensland and Australian governments to help shape place-based responses and solutions to the challenges and opportunities in front of us.

Our region encompasses 13 per cent of the total land area of Queensland and is home to 0.6 per cent of Queensland's total population, or around 30,000 residents. More than 65 per cent of people living in our region are Aboriginal or Torres Strait Islander peoples, compared to just four per cent for the whole of Queensland. Our entire region is classified as Remote or Very Remote Australia and 71.1 per cent of people are in the most disadvantaged quintile for relative socio-economic disadvantage.

Most of our members face significant challenges to remain financially sustainable because of the inability to sufficiently levy rates and charges to generate own-source revenue to cover the cost of providing services to a vast and remote region. Councils are heavily reliant on grants to support their operations and fund capital projects. Only 10 members of TCICA are considered sustainable by the Queensland Audit Office.

Torres Cape Indigenous Council Alliance (TCICA) Inc.

PO Box 355, North Cairns Qld 4870

E: tcica@tcica.com.au • P: 07 4050 1808

TCICA.com.au



General comments

TCICA strongly supports the establishment of a reinsurance pool for cyclones and related flood damage in northern Australia and is pleased to know that the Taskforce is considering modelling the inclusion of local governments in the scheme. The rising cost of asset insurance has become a substantial burden for many of our members, with year on year increases of 25 per cent or more. Councils have been progressively forced to take the risk of underinsuring or self-insuring infrastructure assets to meet costs.

The following is an example of rising insurance costs faced by one of TCICA's members.

Cover	2018-2019	Total 19/20	Total 20/21	Total 20/21
ISR	\$ 576,082.59	\$ 1,602,341.00	\$ 1,964,038.51	\$ 736,772.51
P & P Liability	\$ 40,766.00	\$ 55,034.10	\$ 58,751.00	\$ 58,751.00
Association	\$ 8,992.50	\$ 11,630.31	\$ 15,325.62	\$ 15,325.62
PI	\$ 9,900.00	\$ 10,876.36	\$ 1,892.88	\$ 1,892.88
Fleet	\$ 64,826.36	\$ 72,659.40	\$ 66,664.40	\$ 66,664.40
Aviation	\$ 9,891.00	\$ 10,990.00	\$ 12,638.50	\$ 12,638.50
Cyber	\$ 2,491.60	\$ 3,908.60	\$ 16,327.50	\$ 16,327.50
Inland	\$ 502.14	\$ 551.51	\$ 754.40	\$ 754.40
Mayor & Crs	\$ 620.49	\$ 651.53	\$ 651.52	\$ 651.52
Voluntary	\$ 283.46	\$ 419.65	\$ 419.65	\$ 419.65
Brokers Fee	\$ 34,100.00	\$ 35,200.00	\$ 36,960.00	\$ 36,960.00
	\$ 748,456.14	\$ 1,804,262.46	\$ 2,174,423.98	\$ 947,157.98

Note that the council declined the full ISR (physical assets) policy of \$1,964,038 in 20/21 due to affordability issues, and was instead forced to self-insure for a significant proportion of risk. The council in the example above has an operating revenue of \$18 million and simply cannot fund insurances of over \$2 million to cover its entire asset base.

The table below highlights the lack of options for councils to obtain insurance coverage.

Market	Response
AIG	Decline - FNQ exposed, single location
Allianz	Decline - cyclone zone, outside appetite
Berkshire	Decline - FNQ exposed, single location
CGU	Decline from Primary - on excess layer, won't drop below \$10m
Chubb	Decline – FNQ Exposed
HDI	Decline - FNQ exposed, single location
Liberty	Decline - FNQ exposed, single location
QBE	50% of Primary
Swiss	37% of Primary
Vero	Decline - not taking on any new council business
AXA XL	Decline
Zurich	Decline - FNQ exposed, single location
AWAC	Decline – FNQ exposed
CV Starr	13% of Primary



During 2019 another member council received the following response from its insurance broker (with edits):

Unfortunately the major weather events experienced over the past 12 months, both here in Australia and overseas, has made the situation much worse further eroding insurer capacity and increasing re-insurance costs. More than ever before Insurers have a strong focus on underwriting and risk management.

With your assistance we have taken steps to try and shore up insurer support by providing construction information, street addresses etc which provides insurers with some of the underwriting tools they employ such as geo mapping, portfolio metrics and risk aggregation limits. Additionally the Risk Engineering surveys we suggested to Council are currently underway and we were able use this fact to reassure the participating insurers this essential information will be provided to them as soon as the Reports are finalised. This has significantly improved the chances of securing the insurers continued participation post renewal.

The risk engineering and underwriting material is extremely useful for providing the participating insurers with the information they require however, in itself, it is no guarantee of their continued participation nor will it reduce premium costs at least in in the short term.

As a result of continuing losses and increasing re-insurance costs premium rates will continue to rise as insurers attempt to remediate bottom line losses. The insurers have indicated there will likely be a further rate increase this renewal possibly around 40%.

The reasons for rising insurance costs for households and small businesses in Australia's north is well understood. There are however several other mitigating factors driving up the cost of insurance for local governments, and especially small rural and remote Indigenous local governments in north Queensland. Such factors include:

- The geographic location of council assets, which are often found within a small radius and therefore all at risk during a disaster event such as a cyclone. Additionally, most communities are coastal, leaving them vulnerable to storm surges and tidal flooding.
- The challenges of maintaining assets with extremely constrained budgets, compounded by government policies that deliver new infrastructure in communities but that do not provide councils with operational funding or support for maintenance and upgrades.
- Minimal Asset Management Systems and capability issues within many Indigenous local governments to identify the risks to assets and to manage or control the risks.
- No formal Fire and Rescue services in small communities. With no urban fire service coverage, communities are reliant on the voluntary Rural Fire Service. This automatically drives up risk for insurers.
- Limited appetite by large insurers to cover small Indigenous local governments who are already facing other major hurdles to remain financially sustainable.

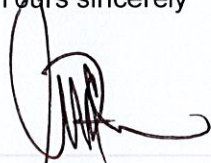


TCICA is committed to building regional resilience across the five lines of resilience – transport; economy; environment; human and social; and built environment. A regional resilience coordinator has been appointed by TCICA to work with our members, a regional resilience strategy is currently being developed, and many of our members are working towards building local asset management capabilities.

While councils are working hard to build resilience and generate internal efficiencies to drive down costs, it is almost certain that they will remain limited in their capacity to meet further premium rises. The risk of more intense cyclones, storm surges, tidal flooding, and bushfires will undoubtedly continue to increase premiums, forcing more councils to underinsure or self-insure. This in turn leaves them in a very precarious position, ultimately compelling the Queensland and Australian governments to step in following a disaster event.

Thank you again for the opportunity to provide this submission. We look forward to the opportunity to meet with the Taskforce during its roundtable meeting in Cairns.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Wayne Butcher', with a large, stylized initial 'W'.

Mayor Wayne Butcher
Chair

