

# Reinsurance pool for cyclones and related flood damages – consultation

Townsville City Council Submission  
June 2021





## Introduction

Townsville City Council welcomes the establishment of a reinsurance pool for cyclone and related flood damage. It is of fundamental priority to our city's growth, business vitality, and quality of life.

As signatories to the Townsville City Deal, the Australian and Queensland Governments have affirmed a vision for Townsville to become the gateway to Asia and Northern Australia.

However, these aspirations will remain elusive if residents and business owners can't equitably secure their properties because they are priced out of the northern insurance market.

Following the 2019 monsoon floods in Townsville, for instance, the Australian Consumer and Competition Commission found that one third of Townsville businesses surveyed felt significant to extreme pressure to pay insurance premiums. In many cases businesses had reduced their insurance, including dropping flood cover.<sup>1</sup>

The current consultation paper outlines several options for the definition, scope, pricing, operation, and monitoring of the reinsurance pool.

Of these, council's submission focuses on the adequate definition and coverage of 'cyclone events' and 'cyclone-related flooding'. This is crucial to ensure the scope of the new reinsurance pool is sufficient to cover insurance exposure to future disaster events across northern Australia.

As argued in our specific responses below, major flooding can arise across the spectrum of cyclonic generation, impact, and aftermath: from tropical low to severe cyclone to rain depression.

The reinsurance pool must be defined to cover of all these instances if it is to fulfill the objective of improving the 'availability and affordability of insurance in cyclone-prone areas'.

Thank you for the opportunity to contribute to the development of the new reinsurance pool. We look forward to the long term benefits it will provide for our community.

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<sup>1</sup> ACCC, *Northern Insurance Inquiry-Second Interim Report*, 2019, p. 310.

## Responses to key consultation questions

### Reinsurance pool coverage

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

The consultation paper notes that reinsurance will need to distinguish between ‘regular flooding’ and ‘cyclone-related flooding’.

It is important to note that extreme and destructive flooding events in northern Australia arise from: low-pressure systems (those that have not yet become cyclones); officially categorised cyclones; and ex-tropical cyclones that have been downgraded.

By way of illustration, the major 1998 flooding in Townsville (‘night of Noah’) was caused by ex-tropical cyclone Sid. More recently, the 2019 flooding disaster across north-west Queensland was caused by an intense and slow-moving low-pressure system.

The definition of ‘cyclone related flooding’ must aim to cover this range of circumstances. Likewise, it must also consider the appropriate geographical range and extent of ‘cyclone related ‘flooding. For example, a tropical low may develop a rise in water tables and stream heights before a cyclone is declared. A cyclone might also dump a flood far upstream before a downstream area floods in fine weather.

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

It is vital that storm surges be included. There is significant exposure to storm surge hazard within the Townsville local government area. This is expected to increase over time with climate change. According to Canstar, only 33% of current insurance policies cover storm surge. Including storm surge in the pool will increase insurance coverage for this highly significant risk.

**Question 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 scope should also include public liability insurance to provide coverage for a broader range of small businesses and business activities. There are numerous small business owners in the Tourism Sector that undertake activities that may be perceived as risky. This has resulted in a number of tourism businesses having to cease their operations. This directly impacts jobs, viability of operations, as well as the attractiveness of the region to visitors.

Consideration should also be given for coverage of insurance for contractors as many have advised local business representative groups that they don’t submit for work in North Queensland as they are unable to gain contractors insurance.

## Reinsurance pool governance and monitoring

**Question 18.** Which mechanisms will ensure the pass-through of reinsurance premium savings to insurance policyholders? For example: Explicit price monitoring of insurance premiums?

Monitoring will be critical to ensure that potential savings are passed on to consumers. Monitoring will need to establish historical norms/benchmarks to identify opportunistic pricing changes prior to the pool's commencement.

## Links to risk reduction

**Question 20.** *How might mitigation be encouraged by the reinsurance pool's design? For example: Should the pool provide discounts for properties that undertake mitigation? Should the pool have an explicit mandate to encourage mitigation?*

There must be a commitment to hazard mitigation. Property works that reduce damage exposure should be reflected in reduced insurance costs to encourage mitigation wherever possible.

For further information or enquiries about this submission please contact:

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