



18 June 2021

The Manager

Cyclone Reinsurance Pool Taskforce

Treasury

By email: ReinsurancePool@treasury.gov.au

This submission is made on behalf of Waymark Hotels. We have only just been made aware of the opportunity to make a submission to the Cyclone Reinsurance Pool Taskforce. We understand that the purpose of this consultation paper is to seek comments on key design features of a reinsurance pool for cyclones and related flood damage that has recently been announced by the Federal Government, which would aim to improve the accessibility and affordability of insurance in cyclone-prone areas.

We are a medium sized business that owns a number of hotels / pubs across Regional Queensland, including The Grandview, Bowen, Sea Breeze, Mackay and The Albatross Resort, Weipa which all sit within cyclone prone areas. We seek to bring quality hospitality experiences to the vibrant communities we call home.

We are acutely aware of the increasing cost of insurance within these regions, and this has significantly impacted the profitability of our operations. In addition, we are actively seeking to make further investments into the region, particularly the Northern Cape, and are faced with a real prospect that the assets are now uninsurable.

We welcome the initiative announced by the Federal Government to establish a reinsurance pool and support the aims and objectives for all residents, strata and small business operators.

As we have only been made aware of the consultation paper, we are unable to provide a full report detailing our comments for consideration within the timeframe but outline them below for your information. We would seek to make a further, more detailed submission over the course of next week and we will send that directly to the Manager of the Taskforce at Treasury.

We understand the paper seeks input to the following questions:

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

2. Should storm surge be covered by the pool and included in a definition of 'cyclone-related flooding'?
3. Is it desirable for the use of standard definitions of 'cyclone' and 'cyclone-related flooding' to be required in policies covered by the pool?
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?
5. Are insurers able to separately price or estimate the value of the property component of business insurance packages?
6. Are insurers able to separately price or estimate the value of the residential and small business components of mixed-use strata title policies?
7. Are there any difficulties which may arise from including mixed-use strata title policies in the reinsurance pool and how should the scope of this coverage be clarified?
8. How should 'small business' be defined for the purposes of eligibility?
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?

Reinsurance product design and insurer participation

10. What is the current approach used by insurers to assess and measure cyclone, storm surge, and related flood damage risks, to what extent are individual policy level data available, and how are cyclone related risk premiums calculated in insurer pricing models?
11. How should the reinsurance pool design a risk rating system for cyclone and related flood damage risks, and what are the trade-offs associated with using risk tiering and with the level of granularity used?
12. How much risk exposure should primary insurers retain?
13. Would implementing a reinsurance pool have any effect on the claims management process, and how could this be addressed in the reinsurance pool's design?
14. What is the appropriate level of participation in the pool, and how should considerations of coverage and the amount of risk to be ceded be addressed?
15. How should industry transition be managed and what is the best format and timeframe for it to take place?

Reinsurance pool governance and monitoring

16. What should be the key goals for a regular review of the reinsurance pool and what would be the optimal timeframe?
17. Should the reinsurance pool have a planned exit date?
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?

Links to risk reduction

19. To what extent do insurers price in discounts into insurance premiums for mitigation action undertaken by or affecting policyholders?
20. How might mitigation be encouraged by the reinsurance pool's design? For example:
- 20.1 Should the pool provide discounts for properties that undertake mitigation?
- 20.2 Should the pool have an explicit mandate to encourage mitigation?
21. How should the pool's design seek to discourage any increase in risky behaviour? For example:
- 21.1 Should there be a time-based cut-off to exempt new builds from the pool?
- 21.2 Should the pool only allow new builds that have been built to adequate standards and in suitable locations?
22. To encourage further action by states and territories on insurance affordability:
- 22.1 What settings could be included in the design of the pool?
- 22.2 Which policy options could be introduced alongside the pool?

Interactions with the ARPC's existing functions

23. What are the potential interactions between the terrorism reinsurance pool and the new cyclone and related flood reinsurance pool?

Our initial key comments are:

Definition of Business

The primary objective of the initiative appears to be to support residents, strata and small business operators. It will be critical to accurately define "small business operators", particularly when a business within a specific area or region may be part of a medium or larger organisation. Unless the definition allows for location specific business operations that may be included within a larger group then future investment in those businesses are at risk of not occurring and the benefits that flow from the support of a larger Group will not flow on to the communities.

We note in the paper that the Australian Small Business and Family Enterprise Ombudsman recommended a standardised definition of 'small business' for the purposes of all insurance legislation, regulation and codes as:

"a business with less than \$10 million in turnover or fewer than 100 employees."

This definition will generally apply to each individual hotel in each region but our insurance policy sits with the parent company, Waymark Hotels, and when all assets are consolidated, we would exceed the threshold set under this definition.



This means that the Group may be penalised significantly for investing in the communities that we serve and will be a barrier to entry for further investment. If the scheme allowed individual assets to participate, based on location and risk this barrier will be somewhat mitigated and the benefit of future investment in remote regions will be accelerated.

We take pride in our assets and invest substantial capex, elevate standards and services that ultimately benefit not only our customers and visitors to our assets in each region but also creates a significant multiplier by employing local trades and consultants as well as generating flow on benefits to other local businesses and the community at large.

Mitigation Measures

As standard practice we seek to mitigate our risk through proactive reviews of operations and structural elements of our assets. We invest in improvements that limit the potential damage from specific events and specifically those that threaten people and businesses in Northern Australia. We would welcome any initiative or rewards that encouraged participation in the reinsurance pool resulting from risk mitigation investment by an owner of a property.

New investment

We would also welcome the encouragement of automatic eligibility or participation in the scheme through investment in new infrastructure, expansion of existing operations and the creation of new buildings and assets in those regions.

In summary, the removal of barriers to entry for business in affected areas will have a positive impact on the local economy and allow these communities to benefit from the presence of ongoing investment by medium to larger business operations.

Please feel free to contact the undersigned should you require further information, and we will make a further submission over the course of the next week for your consideration.

Regards



Matthew Patfield

General Manager

Waymark Hotels Group