



# Reinsurance pool for cyclones and related flood damage

Consultation paper May 2021

## Whitsunday Bareboat Operators Association Response

We acknowledge that the questions that have been posed need to be answered. Many of the questions can only be resolved with close consultation between the insurer and the administrative entity responsible for managing the proposed Pool.

As an industry we need to also lobby the government to ensure that all assets of our respective businesses are included in the reinsurance scheme. That means our vessels which operate as small businesses and are required to be commercially registered.

**It is critical to our industry that the reinsurance pool covers commercial boats.**

The proposed reinsurance pool will address cyclone related damage. Bareboat insurance is high because of the periodic extreme cyclones in Australia and overseas.

The cost and potential lack of any insurance cover for our industry is our single largest risk. We thank the federal government for this initiative and hope that it will go a long way to ensuring the sustainability of our industry.

Trevor Rees  
President Whitsunday Bareboat Operators Association

### List of consultation questions

#### Reinsurance pool coverage

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

In general terms, the definitions need to be basic, practical, simple and all embracing, as opposed to legal gobbledegook. A good starting point would be the BOM - it has the knowledge, understanding and independence.

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

Properties and assets that are affected by storm surges should be covered by the pool, provided that the affected properties/assets were constructed in accordance with the construction code in force at the time of construction.

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?

Yes

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?

Not sure

5. Are insurers able to separately price or estimate the value of the property component of business insurance packages?

Not sure

6. Are insurers able to separately price or estimate the value of the residential and small business components of mixed-use strata title policies?

Not sure

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?

Not sure

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

As defined by the Australian Small Business and Family Enterprise Ombudsman: a business with less than \$10 M in turnover, or fewer than 100 employees.



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?

Not sure

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?

Not sure

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?

In consultation with the insurance industry and businesses we need to de-risk the tropics so the cost of insurance would be the same as areas not affected by cyclones.

12. How much risk exposure should primary insurers retain?

Sharing the risk should be mandatory, however the purpose must be to drive down the risk and appetite for insurance companies to cover business in the tropics.

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?

I believe it should not have any affect.

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?

Not sure

15. How should industry transition be managed and what is the best format and timeframe for it to take place?

The proposal to start next financial year. Not sure if a graduated approach is needed.



16. Which mechanisms will ensure the pass-through of reinsurance premium savings to insurance policyholders? For example:

If the pool covers catastrophic events the premiums should be no higher than areas outside the tropics.

- 16.1 Explicit price monitoring of insurance premiums?

Government Agency Option

- 16.2 Additional requirements to disclose the cost of reinsurance to policyholders?

Enforcement of product disclosure statements;

- 16.3 Any additional mechanisms that may be appropriate?

Not sure

17. To what extent do insurers price in discounts into insurance premiums for mitigation action undertaken by or affecting policyholders?

Nil. In the past insurers have required the insured to assess the level of risk and to take appropriate action, but premiums appear to be determined purely by claim levels alone. We have been advised that insurers will not reward the insured for any mitigation initiatives undertaken by the insured.

18. How might mitigation be encouraged by the reinsurance pool's design? For example:

- 18.1 Should the pool provide discounts for properties that undertake mitigation?

- 18.2 Should the pool have an explicit mandate to encourage mitigation?

Expenditure on risk mitigation must be encouraged. Could some form of grant or premium discount be linked to the \$640M government funding referred to in the consultation paper?

19. How should the pool's design seek to discourage any increase in risky behaviour? For example:

- 19.1 Should there be a time-based cut-off to exempt new builds from the pool?

- 19.2 Should the pool only allow new builds that have been built to adequate standards and in suitable locations?

Assets that have been constructed in accordance with the prevailing codes should be given access to the pool's entitlements.



To encourage further action by states and territories on insurance affordability:

19.3 What settings could be included in the design of the pool?

Possibly any cyclone damage from a cat 3 cyclone or above. Any flood event in excess of the 100 year event.

19.4 Which policy options could be introduced alongside the pool?

Policy Options: Remove taxes on insurance products. State stamp duty is a significant burden and a windfall for the state as premiums increase.  
Encourage various levels of government to reform building codes which will result in structures capable of withstanding the severity of cyclones and storms

#### Interactions with the ARPC's existing functions

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

Not sure

