



17 December 2021

Treasury
Langton Cres
Parkes ACT 2600

By email: reinsurancepool@treasury.gov.au

Dear Sir/Madam,

Exposure draft legislation: cyclone and related flood damage reinsurance pool

The Local Government Association of Queensland (LGAQ) is pleased to provide feedback on the Federal Government's proposed draft legislation to establish a reinsurance pool for cyclones and related flood damage in Northern Australia.

As the most disaster impacted state in Australia, access to affordable and appropriate insurance coverage is essential for Queensland households. With more than half of Queensland's 77 local government areas classified as part of Northern Australia, the LGAQ strongly supported calls from North Queensland councils to establish the reinsurance pool as a means of reducing the cost of insurance in Northern Australia.

Local government stands ready to partner with the State and Federal governments to identify long-term sustainable solutions to the issues affecting disaster prone areas in Queensland and we regard the concept of a reinsurance pool as an important first step and a very welcome initiative.

The LGAQ does however have some concerns that the proposed legislation imposes limitations on the effectiveness of the reinsurance pool to meaningfully improve the availability and affordability of insurance for residents and businesses in Northern Queensland.

Please find enclosed a copy of our submission which contains 8 key recommendations.

If you have any questions or would like to discuss any aspects raised in our submission further, please contact [REDACTED]

Yours sincerely

A handwritten signature in black ink, appearing to read 'Alison Smith', is written over a white background.

Alison Smith
CHIEF EXECUTIVE OFFICER




Exposure Draft Legislation: Cyclone and related Flood Damage Reinsurance Pool

Submission to Federal Treasury



December 2021



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About the Local Government Association of Queensland (LGAQ)

The Local Government Association of Queensland (LGAQ) is the peak body for local government in Queensland. It is a not-for-profit association established solely to serve councils and their needs. The LGAQ has been advising, supporting, and representing local councils since 1896, enabling them to improve their operations and strengthen relationships with their communities. The LGAQ does this by connecting councils to people and places; supporting their drive to innovate and improve service delivery through smart services and sustainable solutions; and providing them with the means to achieve community, professional and political excellence.

Exposure Draft Legislation: Cyclone and related Flood Damage Reinsurance Pool

1.0 Executive Summary

The Local Government Association of Queensland (LGAQ) is pleased to provide feedback on the Federal Government's proposed draft legislation to establish a reinsurance pool for cyclones and related flood damage in Northern Australia.

The LGAQ understands the reinsurance pool will be backed by a \$10 billion government guarantee, operated by the Australian Reinsurance Pool Corporation from 1 July 2022 and cover household, residential strata and small business property insurance policies.

As the most disaster impacted state in Australia, access to affordable and appropriate insurance coverage is essential for Queensland households. Despite this, home, contents and strata tile insurance products are the most expensive and/or the most difficult types of insurance to access in Northern Australia. As a result, more than 61,200 North Queensland homes are uninsured according to research undertaken by the Australian Competition and Consumer Commission (ACCC) as part of the Northern Australia Insurance Inquiry¹, with more than 95% of respondents to the ACCC citing cost as the major reason.

With more than half of Queensland's 77 local government areas classified as part of Northern Australia, the LGAQ strongly supported calls from North Queensland councils to establish the reinsurance pool as a means of reducing the cost of insurance in Northern Australia.

We therefore welcome such an arrangement as a critical strategy for providing an affordable, practical and truly workable method of insuring the assets and livelihoods of residents in Northern Australia who suffer financially from cyclone and related flood damage. However, the LGAQ is mindful that whatever actions are taken by government to provide overdue insurance relief for Northern Australia it must be logical and practical to be effective.

In this regard, the LGAQ is largely supportive of the intent of the draft legislation. After an expedited review of the draft legislation - as well as the associated explanatory material - we would, however, like to raise a number of issues and provide subsequent recommendations, the details of which are outlined in the submission proper.

In fulfilling the Government's request for this feedback, the LGAQ also feels compelled to express its disappointment at the 2-week timeframe provided for this public consultation.

1.1 Recommendations

The LGAQ is pleased to make the following recommendations:

- **Recommendation 1:** The LGAQ recommends the Northern Australia Reinsurance Pool should not be restricted to only cyclone and cyclone-related flood damage. Rather, the proposed legislation should be changed to include events that are consistent with the Queensland *Disaster Management Act 2003* section 16(1)(a) including a cyclone, earthquake, flood, storm, storm tide, tornado, tsunami, volcanic eruption or other natural happening.

¹ ACCC Northern Australia Insurance Inquiry Final Report (November 2020) - available online [here](#).

- **Recommendation 2:** The LGAQ seeks a commitment from the Federal Government to work with the LGAQ and Queensland councils to further identify opportunities to address gaps and limitations in the availability and affordability of insurance associated with the range of natural hazards and disasters impacting Queensland statewide.
- **Recommendation 3:** The LGAQ recommends State and Federal governments:
 - Develop a comprehensive coastal hazard adaptation framework and actions in consultation with local governments and the finance/insurance industry that effectively consider, and address insurance and financial implications of coastal hazard risks identified through completed Coastal Hazard Adaptation Strategies, and
 - Commit to ongoing funding for the implementation of coastal hazard adaptation initiatives and disaster recovery in the short, medium, and long term, given the increasing risk profile predicted with a changing climate to ensure resilience and future viability of our community infrastructure.
- **Recommendation 4:** The LGAQ recommends the legislation to establish the Northern Australia Reinsurance Pool should ensure coverage of damage inflicted on communities before and after any official classification of a cyclone event and when the extreme weather causing the damage is directly attributable to that cyclone (such as that arising from a tropical low).
- **Recommendation 5:** The LGAQ recommends that the Federal Government provide further clarification of the economic benefits expected to be realised for local communities from the proposed legislation and introduction of the reinsurance pool as well as the forecast timing of these.
- **Recommendation 6:** The LGAQ seeks the agreement of the Federal Government to participate in a facilitated online information session with Queensland councils prior to the introduction of any legislation into Parliament to enable any outstanding questions and issues to be discussed.
- **Recommendation 7:** The LGAQ recommends that an evaluation and review process be established to assess the effectiveness of the proposed reinsurance pool in reducing insurance premiums, no more than 24 months after commencement, to minimise the risk of any unintended consequences or unrealised benefits.
- **Recommendation 8:** The LGAQ recommends the Federal Government complements the introduction of the reinsurance pool with ongoing financial support to target disaster management, coastal hazard adaptation and climate adaptation initiatives. As previously raised with the Federal Government by the LGAQ, the following funding would build resilience at the local level and reduce long-term disaster recovery costs:
 - \$500 million per year for four years to support the local government implementation of coastal hazard adaptation strategies,
 - \$128 million in funding to Queensland councils to progress shovel-ready disaster mitigation projects,
 - \$200 million over four years to support implementation of climate adaptation initiatives.

2.0 Introduction

As the peak body representing Queensland's 77 councils, the LGAQ welcomed the Federal Government's announcement in the May 2021 Budget of a reinsurance pool to help reduce insurance costs for North Queensland residents and businesses.

The decision followed a determined campaign by the LGAQ and several key North Queensland Mayors for government action to bring down the prohibitive cost of insurance in a region that every year faces the threat of cyclone and other natural disasters.

With insurance companies adopting a high-risk ratio for those seeking coverage, the cost of insurance for residents and businesses has reached unaffordable and unattainable levels. Based on the current market, one global insurer has found property insurance pricing in the Pacific region (including Australia) increased by 14% in the quarter to June 2021 (Marsh, 2021²). However, in North Queensland, the average premium for combined home and contents insurance is almost double that for the rest of the nation, forcing many to go without the sort of cover taken for granted in many other parts of Australia.

The LGAQ would like to emphasise the view of our participating councils that the proposed reinsurance pool should be just one part of the solution for improving the availability and affordability of insurance for residents and businesses in Northern Australia.

Local government is ready to partner with the State and Federal governments to identify long-term sustainable solutions to the issues affecting disaster prone areas in Queensland. Nonetheless, we regard the concept of a reinsurance pool as an important first step and a very welcome initiative.

The LGAQ does, however, remain concerned that the proposed legislation imposes limitations on the effectiveness of the reinsurance pool. We believe the scope of "cyclone and related flood damage" under the pool is narrow and does not holistically respond to all natural disasters, especially the impact of floods not associated with a cyclone, which have already been found to be the most costly and damaging in Queensland's history.

Such gaps and limitations in the scope of hazard coverage fail to fully recognise the compounding and regular impacts of severe weather events other than tropical cyclones in Northern Queensland. Subsequently, it brings into question the ability of the reinsurance pool to meaningfully improve the accessibility and affordability of insurance for households and small businesses in cyclone-prone areas across Australia.

2.1 LGAQ Policy Statement

The LGAQ Policy Statement³ is a definitive statement of the collective voice of local government in Queensland. The relevant policy positions of local government in the context of the proposed reinsurance pool and exposure draft legislation are as follows:

3.6 Climate Risk Management

- 3.6.1 Role of local government
 - *Local government is committed to providing a leadership role to assist local communities, including industry, to understand and address climate risk including acute and chronic physical risks and transition risks associated with moving to a low carbon economy*

² Global Insurance Market Index Report (July 2021) – available online [here](#).

³ LGAQ Policy Statement – available online [here](#).

- Local government is committed to working in partnership with all spheres of government, industry and the community to develop and implement effective climate risk management strategies focusing on emissions reduction and adaptation.
- Local government is committed to utilising the best available scientific information, robust risk assessment methodologies and community engagement when developing climate risk management strategies and action plans, establishing priorities and the allocation of resources.
- 3.6.2 Empowering local government and communities to take climate risk management action
 - 3.6.2.1 Local government seeks appropriate policy and legislative frameworks from the federal and state governments to allow necessary decision making and responses to climate risk to occur without prejudice or undue risk exposure to councils.
 - 3.6.2.2 Local government seeks timely access to high quality, nationally consistent but locally appropriate data, methodologies, standards and codes from the federal and state governments to ensure responses to climate risk are safe, timely, proportionate and equitable.
 - 3.6.2.3 Local government urgently seeks appropriate levels of funding and resourcing assistance to develop Climate Risk Management Strategies, undertake detailed risk assessments for priority risks and prepare and implement local government area wide action plans for the immediate, medium and long-term protection and benefit of communities.

3.7.1 Community Disaster Resilience and Disaster Mitigation

- 3.7.1.1 The federal and state governments should commit to continued funding of the Natural Disaster Resilience Program (NDRP) as a fund to assist local governments to undertake community resilience building projects to reduce the impacts of identified natural disaster risks on communities. The current provision under the Disaster Recovery Funding Arrangements 2018 for the application of under-spend variances to mitigation projects is considered to be inadequate in terms of likely quantum of funding and does not offer any funding certainty to support proper mitigation investment planning and project delivery. A dedicated mitigation funding program, as identified by the Productivity Commission, is a superior means to rebuilding more resilient infrastructure and should be funded on a 40:40:20 basis between federal, state and local government. The local government share should be flexible up to a limit depending on the capacity of the individual council involved and no more than 20 per cent.
- 3.7.1.2 Priority should be given to communities which are more likely to be affected by natural disasters based on historical records and predictive models.

3.7.2 Disaster Recovery Funding Arrangements

- 3.7.2.1 Local governments support in principle an upfront reconstruction and recovery funding model of the type announced in the Disaster Recovery Funding Arrangements 2018 (DRFA) including provisions for betterment however, this support is qualified until there has been an implementation period and any necessary adjustments are assessed and agreed.

5.3.5 Coastal Management

- 5.3.5.1 Local governments recognise the importance of coastal hazard adaptation planning to help safeguard their communities from the impacts of coastal hazards.
- 5.3.5.2 Local governments seek financial support from the State for the Implementation of coastal protection projects.

2.2 LGAQ 2021 Annual Conference Outcomes

Of relevance to the establishment of a reinsurance pool, Queensland councils also passed a motion at the 2021 LGAQ Annual Conference calling on the State and Federal governments to:

- Develop a comprehensive coastal hazard adaptation framework and actions in consultation with local governments and the finance/insurance industry, that effectively consider and address insurance and financial implications of coastal hazard risks identified through completed Coastal Hazard Adaptation Strategies.

- Commit to ongoing funding for implementation of coastal hazard adaptation initiatives and disaster recovery in the short, medium and long term, given the increasing risk profile predicted with a changing climate to ensure resilience and future viability of our community infrastructure.

2.3 LGAQ Advocacy Action Plan

The LGAQ is committed to member driven advocacy and working with members to build stronger local government and more resilient local communities. The LGAQ Advocacy Action Plan (AAP)⁴ is a roadmap designed to highlight the top policy positions and funding priorities councils believe are critical to ensuring Queensland flourishes and our communities thrive.

The following advocacy priorities are outlined in the AAP and are relevant:

AAP 25 - Establish a National Coastal Hazards Adaptation Framework to build resilience in communities most likely to be impacted and provide \$500 million per year for four years for the implementation of coastal hazard adaptation strategies (Federal Government)

AAP 26 - Provide \$200 million for targeted disaster mitigation over four years and effective Disaster Recovery Funding Arrangements (Federal Government)

AAP 27 - Ensure NBN communication services incorporate uninterruptable power supply to support emergency management (Federal Government)

AAP 47 - Adopt a transparent funding methodology for local government disaster mitigation projects to improve resilience in the context of natural disaster events (State and Federal Government)

AAP 55 - Invest \$200 million over four years for climate adaptation initiatives (Federal Government)

AAP 114 - Restore local government's critical role in national decision-making, including participation in National Cabinet (Federal Government)

3.0 LGAQ Response to Proposed Exposure Draft Legislation: Cyclone and related Flood Damage Reinsurance Pool

A report prepared by Deloitte Access Economics in 2017 for the *Australian Business Roundtable for Disaster Resilience and Safer Communities*⁵ concluded that "Queensland has been the most disaster-prone state over the past decade", and highlighted the following key findings:

- When combined, the total economic cost of natural disasters in the 10 years to 2016 has averaged \$18.2 billion per year nationally.
- Natural disasters in Queensland represent 60% of the total national costs, with the total economic cost for Queensland over this period averaging \$11 billion per year.
- Flooding events are the most prevalent natural disaster, accounting for 66% of the Queensland total economic cost, followed by cyclones at 25%, hail damage at 6% and storm damage at 4%.
- The total economic cost of natural disasters nationally is expected to increase to \$39 billion per year on average by 2050 (in present value terms), even without the impacts of climate change. In Queensland alone, costs are expected to reach \$18 billion per year by 2050, a growth rate of 3.3% per year.

The impacts of coastal hazards across Australia also cannot be underestimated, with a recent report released by the Insurance Council of Australia⁶ estimating that Australia will require at

⁴ LGAQ 2021 Advocacy Action Plan – available online [here](#).

⁵ *Building Resilience to Natural Disasters in our States and Territories* (November 2017) – available online [here](#).

⁶ *Climate Change Impact Series: Actions of the Sea and Future Risks Report* (October 2021) – available online [here](#).

least \$30 billion (net present cost) of investment in large scale coastal protection and adaptation projects over the next 50 years.

Queensland, with Australia's second largest coastline, is particularly vulnerable to coastal hazards including erosion, storm tide inundation and sea level rise associated with the impacts of a changing climate.

While a proposed reinsurance pool for Northern Australia has been under discussion for many years and the focus on cyclones and related flood damage is a welcome first step, opportunities for further expansion of the proposed scope and application of the reinsurance pool have been identified. In addition, further clarity is needed in relation to the roll out and operation of the model in achieving the stated objectives of 'improving the accessibility and affordability of insurance for households and small businesses in cyclone-prone areas across Australia'. These matters are discussed in further detail below.

3.1 Scope of hazard coverage

The impact of the 2019 monsoon trough rainfall and flood event which caused catastrophic damage and losses to communities across North, Far North and North West Queensland, sparked calls by Queensland council for action to bring down the prohibitive cost of insurance for North Queensland residents and businesses.

As noted in the *Inspector-General of Emergency Management (IGEM) Review Report 3: 2018-2019*⁷, the impact of the monsoon trough across Queensland in 2019 was devastating. Some locations, including Townsville, exceeded their average annual rainfall during the event. Long-term drought affected regions in the Gulf Country and North West Queensland also received record-breaking rainfall, causing major flooding across coastal locations and the Gulf River catchments.

A total of 39 council areas (covering 100 million hectares) were directly impacted and activated under the *Disaster Recovery Funding Arrangements*, with total social and economic costs of the disaster estimated above \$5.6 billion - 26% of damage was attributed to residential property, commercial damage at 7% and 2% to business disruption. Overall, up to 500,000 head of cattle were lost during the event (IGEM Report 3).

Notwithstanding the size, scale and impacts of the 2019 monsoon trough, the event was not associated with a cyclone and therefore would not meet the criteria that is proposed for activation of the reinsurance pool.

In addition, other natural hazards such as coastal hazards, bushfires and flooding (not associated with a cyclone) are excluded from the scope of the proposed reinsurance pool and many insurance companies currently do not cover 'acts of the sea' such as coastal erosion and sea-level rise.

Since 2016, 31 out of 41 eligible coastal councils in Queensland have been fully funded (or in part) under the State Government's \$13 million QCoast₂₁₀₀ Program, to develop a Coastal Hazard Adaptation Strategy (CHAS).

As part of the QCoast₂₁₀₀ Program, councils are mapping coastal hazards (storm tide inundation, erosion and sea level rise) until 2100 to determine the risk of coastal hazard impacts and identify a long-term strategy including necessary adaptation actions to ensure the resilience of local communities.

⁷ 2019 Monsoon Trough Rainfall and Flood Review. IGEM Report 3: 2018-19 – available online [here](#).

Although the coastal hazard mapping prepared so far as part of the CHAS process shows that the impacts will not increase substantially in many cases in the short term, the medium to longer term impacts are significant in many regions given the increasing risk profile predicted with a changing climate.

It is critical that the financial and insurance implications of coastal hazards risk across Queensland are effectively considered and addressed to support improved outcomes in local communities. The LGAQ seeks to work in partnership with State and Federal Governments and the finance/insurance industry to develop a comprehensive coastal hazard adaptation framework so this is achieved.

Recommendation 1: The LGAQ recommends the Northern Australia Reinsurance Pool should not be restricted to only cyclone and cyclone related flood damage. Rather, the proposed legislation should be changed to include events that are consistent with the Queensland *Disaster Management Act 2003* section 16(1)(a) including a cyclone, earthquake, flood, storm, storm tide, tornado, tsunami, volcanic eruption or other natural happening.

Recommendation 2: The LGAQ seeks a commitment from the Federal Government to work with the LGAQ and Queensland councils, to further identify opportunities to address gaps and limitations in the availability and affordability of insurance associated with the range of natural hazards and disasters impacting Queensland statewide.

Recommendation 3: The LGAQ recommends that State and Federal Governments:

- Develop a comprehensive coastal hazard adaptation framework and actions in consultation with local governments and the finance/insurance industry, that effectively consider, and address insurance and financial implications of coastal hazard risks identified through completed Coastal Hazard Adaptation Strategies, and
- Commit to ongoing funding for implementation of coastal hazard adaptation initiatives and disaster recovery in the short, medium, and long term, given the increasing risk profile predicted with a changing climate to ensure resilience and future viability of our community infrastructure.

3.2 Restricted claim period and declaration of cyclone events

Sections 8C, 8D, 8E and 8F of the exposure draft legislation relates to definitions and declarations of cyclone events. It is understood the reinsurance pool will cover claims for cyclone and related flood damage arising during a cyclone event, which lasts from the time a cyclone begins until 48 hours after the cyclone ends, based on Bureau of Meteorology advice.

In many cases however, the tropical low generated before or after a cyclone event results in substantial damage and implications for the immediate impact area, as well as affecting communities hundreds of kilometres away. For example, severe tropical cyclone Debbie which crossed the Whitsunday coast on 28 March 2017 actually resulted in three events, with the last two listed below arising after the initial cyclone had dissipated into a tropical low:

- Cyclonic impact and consequential damage including major flooding
- Rapid onset flood events in the south eastern corner of the State affecting communities within the Scenic Rim, Gold Coast and Logan areas
- Slow onset flood events in Central Queensland, particularly Rockhampton.

The LGAQ considers the restriction of the claim period for the reinsurance pool to a declared “cyclone-event only”, is too narrow and will reduce the effectiveness of the reinsurance pool in meeting its stated objective to improve access and affordability of insurance to Northern Australia residents and businesses. For this reason, it is suggested that hazard coverage arising

from tropical lows, in addition to declared cyclones, be included within the remit of the reinsurance pool.

Recommendation 4: The LGAQ recommends the legislation to establish the Northern Australia Reinsurance Pool should ensure coverage of damage inflicted on communities before and after any official classification of a cyclone event and when the extreme weather causing the damage is directly attributable to that cyclone (such as that arising from a tropical low).

3.3 Timeframes and realisation of economic benefits for local communities

It is understood that participation in the reinsurance pool will be mandatory for general insurers with eligible policies and that insurers can include cyclone-risk policies in the pool from 1 July 2022.

The LGAQ acknowledges that reinsurance is a form of risk-sharing that enables primary/retail insurers to spread risk in order to limit their exposure to loss. Insurers generally purchase reinsurance to:

- Transfer risk – with reinsurance, primary insurers can issue policies with higher limits than they would otherwise be able to.
- Make results more predictable – reinsurance can make an insurer’s results more predictable by absorbing large losses and limiting the exposure of the ceding company.
- Manage capacity – reinsurance provides insurers with surplus relief and helps to manage aggregation, meaning insurers can write more risks and/or write risks at higher limits knowing that the risk is being shared.
- Create a manageable portfolio – reinsurance enables insurers to create portfolios of risk that are more balanced and homogenous, making results more predictable.

Having regard to the above, the LGAQ understands an objective of the reinsurance pool is to put downward pressure on prices by increasing the supply of insurance and encouraging a greater degree of competition in the northern Australia insurance market. Conceivably this would be achieved by enabling existing participants to spread risk and manage their aggregate exposure (enabling them to accept more risks) and encouraging new entrants by providing access to reinsurance to enable them to manage their exposure (i.e. accept risks they otherwise wouldn’t without the benefit of reinsurance).

While the premise for the reinsurance pool is to create greater capacity in the insurance market and coverage for affected communities by reducing longer term premiums through increased market competition is noted, a number of other issues and limitations have also been identified. These include, but are not limited to, the following:

- **Transitional provisions and phased approach to implementation** - While the commencement date for the Bill is set down for 1 July 2022, the transitional approach to implementation of the reinsurance pool means that large insurers will have an 18-month transition period (i.e. until 31 December 2023) to have all cyclone-risk policies included in the pool, and small insurers will have an additional 12-month transition period thereafter (i.e. until 31 December 2024). For customers of certain smaller insurers, it has been raised that this is a long time to wait for a reduction in insurance premiums.
- **Current market conditions, volatility and pricing increases across all major coverage lines in the Pacific region** - According to insights from the *Global Insurance Market Index*⁸ published by Marsh in July 2021, “overall insurance pricing in the second quarter of 2021

⁸ Global Insurance Market Index Report (July 2021) – available online [here](#).

in the Pacific region increased 23%, continuing an upward trend that began in 2015” and property insurance pricing increased by 14%. In addition, the number of insurers globally that are reducing capacity in the market and increasing exclusions for high risk covers (where they might be subject to significant loss), creates uncertainty as to whether these markets will still be available in 5-10 years.

- **Ongoing risk to private insurers** - It is unclear how much risk primary insurers will be expected to retain under the proposed model. Ordinarily, this is determined by an insurer’s own risk appetite. If the attachment point is higher than an insurer’s risk appetite it may not work to incentivise their participation in this segment of the market (on the basis that they will be required to retain a greater proportion of the exposure than they may be willing to). In addition, concerns have been raised that the proposed model still exposes a large amount of risk to the private market, thus creating a degree of uncertainty that premiums for elements of an insurance policy not covered by the Australian Reinsurance Pool Corporation will actually reduce. Clause 1.15 in the draft explanatory memorandum for the exposure draft legislation is cited as a specific example of this: *Insurers, however, can obtain additional reinsurance from the private market for any of their retained risks that are not covered under the cyclone reinsurance scheme. This ensures that all risks held by insurers can be subject to appropriate reinsurance arrangements [Schedule C, item 8, section 8A (2) of the Act].*
- **Risk-based pricing signals** – Concerns have been raised that the reinsurance pool may have the effect of diluting risk based pricing signals, thereby reducing the incentive for policyholders to undertake mitigation and improve the underlying risk exposure. Longer term savings are only likely to be achieved through improving the underlying risk by either reducing the hazard (i.e. the severity and frequency of events), reducing the exposure (i.e. the underlying assets insured that could be affected by a hazard) or reducing the vulnerability to loss (i.e. improving the resilience of the assets insured to reduce the likelihood of damage). As such, the reinsurance pool should be considered as one solution amongst many required to effectively address the financial and insurance implications associated with natural hazards. As the most fiscally constrained level of government, Queensland councils specifically seek Federal Government funding to support ongoing targeted disaster mitigation, implementation of coastal hazard adaptation strategies and climate adaptation initiatives more broadly as well – see recommendation 8 below.
- **Role of the Federal Government** - It is also noted that the reinsurance pool will be ‘backed by a \$10 billion Government guarantee’. However further clarity is required as to whether this means the reinsurance pool will be underwritten by the Federal Government as an incentive for insurers to participate.
- **Translation of reduced costs for reinsurance into lower insurance premiums for homeowners and businesses** - The LGAQ acknowledges the reinsurance pool is not intended to operate with any profit margin, which will reduce the overall cost of reinsurance. The cost of reinsurance is one element that makes up the total premium cost paid by an insured and as such, by operating without any margin for profit there will be savings relative to the cost of commercial reinsurance. However, on the basis that the profit margin is likely to only be in the vicinity of 15% (maximum) and will only apply to that proportion of the total premium relating to reinsurance, it is not anticipated that these savings will deliver significant reductions in cost. For example, if 60% of the total premium reflects the reinsurance cost, then a saving of 15% on those costs is only likely to translate to a 9% overall reduction.

Further clarity and evidence is therefore required to confirm the expected extent and timing of reductions in insurance premiums for North Queensland residents and businesses, and demonstrate that the current scope, application and intended rollout of the reinsurance pool will result in meaningful price reductions to insurance premiums, particularly where risk drivers such as climate change are only likely to increase the severity and frequency of natural disasters.

Recommendation 5: The LGAQ recommends that the Federal Government provide further clarification of the economic benefits expected to be realised for local communities from the proposed legislation and introduction of the reinsurance pool as well as the forecast timing of these.

Recommendation 6: The LGAQ seeks the agreement of the Federal Government to participate in a facilitated online information session with Queensland councils prior to the introduction of any legislation into Parliament to enable any outstanding questions and issues to be discussed.

Recommendation 7: The LGAQ recommends that an evaluation and review process be established to assess the effectiveness of the proposed reinsurance pool in reducing insurance premiums, no more than 24 months after commencement to minimise the risk of any unintended consequences or unrealised benefits.

Recommendation 8: The LGAQ recommends the Federal Government complements the introduction of the reinsurance pool with ongoing financial support to target disaster management, coastal hazard adaptation and climate adaptation initiatives. As previously raised with the Federal Government by the LGAQ, the following funding would build resilience at the local level and reduce long-term disaster recovery costs:

- \$500 million per year for four years to support the local government implementation of coastal hazard adaptation strategies,
- \$128 million in funding to Queensland councils to progress shovel-ready disaster mitigation projects,
- \$200 million over four years to support implementation of climate adaptation initiatives.