

REINSURANCE POOL FOR CYCLONES AND RELATED FLOOD DAMAGE

Response to consultation paper
JUNE 2021

Introduction

The Chamber of Commerce and Industry Queensland (CCIQ) welcomes the opportunity to comment on the establishment of a federal government guaranteed reinsurance pool for cyclones and related flood damage, to improve the accessibility and affordability of insurance for households and small businesses in cyclone-prone areas (for the most part) located in northern Australia.

CCIQ is Queensland's peak industry representative organisation for small and medium businesses. We represent over 448,000 Queensland small and medium businesses who employ 44% of Queenslanders working in the private sector. CCIQ works with the regional and local chamber network across Queensland to develop and advocate for policies that are in the best interests of Queensland businesses, economy, and community.

CCIQ has prepared this response to the Consultation paper request for feedback to represent the interest of Queensland small businesses.

Insurance affordability and availability in northern Queensland

Northern Australia is more exposed to extreme weather events than other areas of Australia. The damage to property caused by cyclones and related floods in northern regions has led to insurers hesitant to operate in the northern market and/or providing insurance risk profiles which result in inequitable access to affordable insurance options.

The reduced financial capacity to recover from extreme weather events is also a concern. Where businesses are non-insured, underinsured, or have had to choose cover with high excess fees to afford to be insured, the ability for businesses and communities to bounce back is reduced.

It is also important to note that, due to the increasing climate change threat, the incidence of extreme weather events will be more frequent, adding further pressure to the risk of insurance market failure in northern Queensland. There is a need to ensure the design of the reinsurance pool can accommodate growing climate risks and support long-term sustainability of the insurance market in the northern regions.

Queensland business asks

On behalf of Queensland business, CCIQ has advocated for the following step changes to the insurance sector and policies:

- Addressing insurance premiums costs for disaster affected areas and businesses,
- Removal of GST on insurance premiums,
- To begin a shift towards reallocation of disaster funds to prevention and mitigation,
- The establishment of a reinsurance pool to cover extreme weather events, and
- To continue the shift towards disaster prevention and mitigation

CCIQ further supports our regional Chambers and members who have also been vocal on this issue. The Townsville Chamber of Commerce has stressed that, due to the complexities within the industry and to avoid further limitations being placed on Northern Australia's development, an environment must be created where there is not only a baseline for the essential service that insurance provides, but insurance at that baseline is affordable and healthy competition remains within the marketplace.

Townsville Chamber of Commerce's 2022-21 Federal Budget Submission outlined four main policy asks regarding insurance¹:

- *Establishment of a re-insurance pool, modelled after the terrorism event reinsurance pool*
- *Legal obligation for insurers to provide insurance for all of Australia*
- *National Insurer – to provide a baseline of insurance for all Australians (similar to healthcare model)*
- *Abolishment of stamp duty and GST on insurance premiums*

Principles for the design of the reinsurance pool

CCIQ supports the objectives and expected outcomes for the reinsurance pool outlined in the Consultation paper. As per the key areas of consideration outlined in the Consultation paper, CCIQ offers the following eight principles be considered in the design of the reinsurance pool. These principles are considered critical to ensuring that the anticipated benefits of the reinsurance pool can be realised and maximised.

Reinsurance pool coverage

Principle 1. The reinsurance pool should not leave anyone behind

It is critical to ensure no consumer markets are being left behind in the design of the reinsurance pool. Definitions of eligible parties should reflect this objective.

It is also important to realise that insurance covers property and assets, and insurance accessibility should not be determined by the type of tenant. This is critical when considering the definition of eligible business customers to this initiative. The reinsurance pool must have an objective to make insurance (and levels of insurance cover) accessible and affordable to all exposed by the threat of cyclone.

Storm surges are also climate related hazards which expose a similar risk of property damage and disruption to business as cyclone-related flooding, and so should also be included in the definition of cyclone-related flooding.

Reinsurance product design and insurer participation

Principle 2. The reinsurance pool must function to improve insurance market conditions in northern Australia and reduce the risk of market failure

The design of the reinsurance pool must effectively encourage insurance sector participation in the northern Australia market (and more generally, all of the Australian market) and effectively encourage a reduction in insurance premiums in cyclone effected areas. These objectives should continue to be a test for the design of the reinsurance pool, with a goal of market equalisation.

Principle 3. The consumer must have choice

¹ Townsville Chamber of Commerce, 2021-22 Federal Budget submission

The design of the reinsurance pool must effectively encourage insurance sector participation in the northern Australian market and promote robust market competition and offer a range of options to the consumer. Further, equitable access to all insurance providers should be a goal of the reinsurance pool.

This must also be balanced with the need for the reinsurance pool to have the capacity to make a significant impact on the availability of insurance and insurance price premiums where there is current a lack, as key objectives of this initiative.

Reinsurance pool governance and monitoring

Principle 4. Regular assessment of market conditions should continue to inform the design of the reinsurance pool

Assessment of market conditions and the risk of insurance market failure should be maintained throughout the lifespan of the reinsurance pool. Assessments should be conducted at regular interval as well as after extreme weather events. Where needed, adjustments should be made to ensure the anticipated benefits are being realised and are being equitably distributed.

Principle 5. The reinsurance pool should exist for as long the insurance risk profiles of cyclone and flood-related damage in northern Australia regions remain too high risk to achieve market equalisation.

Links to risk reduction

Principle 6. The design of the reinsurance pool should ensure that risk mitigation efforts are rewarded
Participating insurers should be required to demonstrate the risk-based price mechanisms, such as how factors such as mitigation efforts can be proven to show a reduction in price to the consumer.

Principle 7. The reinsurance pool should continue to be matched with investment for resilience and natural hazard risk mitigation

Considering the increasing frequency of extreme weather events, risk likely to result in more frequent extreme weather events, investment in resilience and natural hazard risk mitigation efforts should be maintained to support the long-term sustainability of the reinsurance pool and aim to reduce the severity of damage experienced in cyclone-prone areas.

Further Enquiries

CCIQ thanks the Australian Government and Cyclone Reinsurance Pool Taskforce for the opportunity to provide commentary. If there are any further questions in relation to this submission, please contact our Policy team at cciqadvocacy@cciq.com.au.

Note that CCIQ supports the Australian Chamber of Commerce and Industry's request to meet with the Taskforce to hold a discussion with interested chamber members on this topic. We look forward to progressing this conversation with you.