
Joint Select Committee on Northern Australia

Final Report on the Cyclone Reinsurance Pool

March 2025

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Members

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ALP, Lingiari, NT

Deputy Chair

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ALP, QLD

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LP, WA

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ALP, WA

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LNP, Dawson, QLD

Former Members

Senator Penny Allman-Payne (to 25 March 2024)

AG, QLD

Senator Patrick Dodson (to 13 June 2023)

ALP, WA

Secretariat

Alan Raine, Committee Secretary

Ros Hewett, Principal Research Officer

Kate Gauthier, Principal Research Officer

Jason See, Senior Research Officer

Monique Nielsen, Senior Research Officer

Jessica Brown, Administrative Officer

Nina Mihaljcic, Administrative Officer

PO Box 2600

Parliament House

Canberra ACT 2600

Telephone: 02 6277 3547

northernaustralia.joint@aph.gov.au

List of recommendations

Recommendation 1

- 5.14 The committee recommends that the Australian Government must proceed with the planned legislated review of the Cyclone Reinsurance Pool in 2025.**

Recommendation 2

- 5.29 The committee recommends that the Australian Government publish modelling on the cost and benefits of the inclusion of marine insurance in the Cyclone Reinsurance Pool.**

Recommendation 3

- 5.49 The committee strongly recommends that the Australian Government support an ongoing, national resilience program on a permanent basis.**

Recommendation 4

- 5.50 The committee recommends that the Australian Government consider a range of measures to improve resilience and mitigation of high-risk homes in Northern Australia, including:**
- providing targeted tax offsets for eligible households in Northern Australia; and**
 - providing direct subsidies to eligible households in Northern Australia.**

Recommendation 5

- 5.54 The committee recommends the Australian Competition and Consumer Commission, in its insurance monitoring role, investigate the impact of current taxation methods on insurance premium pricing.**

Recommendation 6

- 5.58 The committee recommends that the Australian Government fund the Australian Competition and Consumer Commission to continue its insurance monitoring role until at least 2030.**

Recommendation 7

- 5.59 The committee recommends that the Australian Government fund and expand the remit of the Australian Competition and Consumer Commission to examine the extent to which insurers are reducing insurance premiums in response to mitigation and resilience measures.**

Recommendation 8

- 5.61** The committee recommends that the Australian Government publish the report of the 2025 scheduled review into the *Terrorism and Cyclone Insurance Act 2003* once the report is finalised.

Chapter 1

Introduction

- 1.1 This is the Joint Select Committee on Northern Australia's second report on the operation and implementation of the Cyclone Reinsurance Pool (the pool).
- 1.2 As a parliamentary committee, the Joint Select Committee on Northern Australia is responsible for scrutiny and oversight of the work of executive government related to Northern Australia.¹ In particular, the committee's role includes:
- ensuring that government policy and programs for Northern Australia are fit-for-purpose and address the issues that they are designed to address; and
 - making recommendations to executive government to improve policy and programs for Northern Australia, based on issues identified by civil society, peak bodies, industry, businesses and individuals.
- 1.3 Insurance affordability and availability is a key concern for many residents of Northern Australia, and a major factor in the decision to move to the region or stay in the region. The Cyclone Reinsurance Pool is one of the major levers used by the Australian Government to influence insurance affordability and availability in cyclone-prone areas of Northern Australia.
- 1.4 The committee's interest in conducting an inquiry into the pool arose because of concerns about:
- the implementation of the pool to date;
 - the reasons for a slow initial take-up of the pool by insurers;
 - whether the pool is reducing the cost of insurance premiums for consumers to the extent anticipated; and, relatedly
 - community expectations about the extent and timeframe of the anticipated premium reductions.²
- 1.5 All insurers required to join the pool have joined as they were required to do by 31 December 2024 (for small insurers) and by 31 December 2023 (for large insurers).
- 1.6 The Australian Government is required, under section 41 of the *Terrorism and Cyclone Insurance Act 2003*, to review the Act 'as soon as practicable after 1 July

¹ See Chapter 16 of *Odgers Australian Senate Practice*, 14th edition with updates to 30 June 2022, www.aph.gov.au/About_Parliament/Senate/Powers_practice_n_procedures/Odgers_Australian_Senate_Practice (accessed 22 November 2024).

² Joint Select Committee on Northern Australia, *First Report on the Cyclone Reinsurance Pool*, March 2023, p. 1.

2025' and 'prepare a report that reviews the need for this Act to continue in operation'.

- 1.7 As such, this report is timely. It is now two years since the committee tabled the First Report. The pool has been operating fully since 1 January 2025, and a review into the need for the scheme to continue is scheduled to occur later this year.
- 1.8 This report examines in further detail whether the pool is operating as intended and meeting its policy objective of 'improving insurance access and affordability for households and small businesses in cyclone-prone areas of Australia'.³ The report is divided into five chapters:
- this chapter provides a brief background to the pool and notes the findings of this inquiry's report tabled in March 2023, the *First Report on the Cyclone Reinsurance Pool*;
 - Chapter 2 summarises the current state of play by outlining the present status of the pool and recent relevant findings of the Australian Competition and Consumer Commission (ACCC) and the Australian Reinsurance Pool Corporation (ARPC);
 - Chapter 3 examines the evidence presented to the committee on the operation of the cyclone reinsurance pool, including areas where stakeholders suggested it could be improved;
 - Chapter 4 considers other measures proposed to improve insurance availability and affordability in Northern Australia; and
 - Chapter 5 presents the committee's views, recommendations, and proposed next steps.

Conduct of the inquiry

- 1.9 Following a referral received on 11 October 2022 from the Assistant Treasurer and Minister for Financial Services, the Hon Stephen Jones MP, the Joint Select Committee on Northern Australia undertook to inquire into and report on the operation and implementation of the Cyclone Reinsurance Pool.⁴
- 1.10 The committee wrote to relevant industry, consumer and government entities seeking submissions. The committee received 14 submissions, which are published on the inquiry webpage and listed at Appendix 1.

³ Treasury Laws Amendment (Cyclone and Flood Damage Reinsurance Pool) Bill 2022, *Explanatory Memorandum*, p. 1.

⁴ Joint Select Committee on Northern Australia, *Cyclone Reinsurance Pool*, www.aph.gov.au/Parliamentary_Business/Committees/Joint/Northern_Australia/CycloneReinsurancePool (accessed 26 February 2025).

- 1.11 The committee held three public hearings:
- 25 November 2022, in Canberra;
 - 19 April 2024, in Brisbane, Queensland; and
 - 7 February 2025 in Canberra.⁵
- 1.12 Transcripts are available on the inquiry webpage. Witnesses are listed at Appendix 2.
- 1.13 Hansard references in this report may refer to proof or final transcripts. Page numbers may vary between proof and final Hansard transcripts.
- 1.14 Written questions on notice were answered by various Commonwealth entities and industry bodies. These are published on the inquiry website along with tabled documents, additional information and answers to questions taken at public hearings. The full list of documents the committee received can be found in Appendix 1.
- 1.15 The committee thanks all those who have contributed to this inquiry by making submissions, giving evidence at public hearings and responding to questions on notice.

Note on terminology

- 1.16 To assist readers, three key definitions are provided below on how terms are used in this report:
- **Reinsurance:** Reinsurance is where an insurer pays a premium to transfer part of its claims risk to a reinsurer. This allows the original insurer to underwrite larger or unique risks; in effect, it is insurance for insurers. For the purposes of this inquiry, it refers to reinsurance of cyclone-related damage risks.
 - **Resilience:** In this report, resilience refers to the physical capacity of a building to withstand cyclone and flood damage.
 - **Mitigation:** Mitigation refers to measures taken to improve the physical resilience of buildings to cyclone and flood damage.

How the pool operates

- 1.17 The pool is a reinsurance arrangement underwritten by the Australian Government for insurers who offer coverage for cyclone and related flood damage. The purpose of the pool is to improve 'insurance access and

⁵ Joint Select Committee on Northern Australia, *Public hearings*, www.aph.gov.au/Parliamentary_Business/Committees/Joint/Northern_Australia/CycloneReinsurancePool/Public_Hearings (accessed 26 February 2025).

affordability for households and small businesses in cyclone-prone areas of Australia'.⁶

- 1.18 The legislative framework for the Cyclone Reinsurance Pool and the government agency that administers it (the Australian Reinsurance Pool Corporation, or ARPC) is set out in the *Terrorism and Cyclone Insurance Act 2003* and *Terrorism and Cyclone Insurance Regulations 2003*.
- 1.19 The pool covers reinsurance for household, strata and small business property insurance policies.⁷
- 1.20 Although the pool operates Australia-wide, it targets support to cyclone-prone areas—in other words, much of Northern Australia.⁸
- 1.21 The pool commenced operations from 1 July 2022. Participation in the pool is compulsory for Australian general insurers with eligible cyclone pool insurance contracts. Large insurers were required to join the pool by 31 December 2023, while small insurers were required to join by 31 December 2024. Joining is optional for insurers whose gross written premium is less than \$10 million in the most recent financial year, but they must notify the ARPC of their intention not to join the pool for that year.⁹
- 1.22 The pool is funded by charging reinsurance premiums to insurers who join the pool. The ARPC sets premium amounts, with the pricing formula designed to:
 - be cost-neutral to Government over the longer term;
 - lower the reinsurance cost for most policies with medium-to-high exposure to cyclone risk; and
 - maintain incentives for risk reduction and offer discounts for properties that undertake mitigation.¹⁰
- 1.23 The pool is backed by an annually reinstated \$10 billion guarantee from the Australian Government, which will cover any shortfall in reserves built up over time. The Australian Government has committed to increasing the guarantee if it is likely to be exceeded by a single cyclone event or series of cyclone events within a single year.¹¹

⁶ *Explanatory Memorandum – Treasury Laws Amendment (Cyclone and Flood Damage Reinsurance Pool) Bill 2022*, p. 1.

⁷ Australian Reinsurance Pool Corporation, *The Cyclone Pool*, https://arpc.gov.au/?page_id=2265 (accessed 25 November 2024).

⁸ *The Cyclone Pool*.

⁹ Australian Reinsurance Pool Corporation, *Insurer Onboarding*, <https://arpc.gov.au/reinsurance-pools/cyclone/insurer-onboarding/> (accessed 25 November 2024).

¹⁰ *Insurer Onboarding*.

¹¹ *Insurer Onboarding*.

- 1.24 The ARPC declares the start and end of a cyclone event for reinsurance purposes, based on advice from the Bureau of Meteorology. A ‘cyclone event’ is defined as the time a cyclone begins until 48 hours after it ends.¹²
- 1.25 Government departments and agencies responsible for matters related to the pool’s operation include:
- the ARPC, a public (government-run) financial corporation which provides reinsurance for cyclone (and terrorism) events, and has a ‘longer-term vision ... to support insurers to deliver affordable terrorism and cyclone insurance in Australia’;
 - the Bureau of Meteorology, which notifies the ARPC when a cyclone exists, or has re-intensified, that has potential to affect Australia, along with when a cyclone ends;
 - the ACCC, which monitors insurance pricing to determine the impact of the pool and whether the savings from the pool are being passed on to policy-holders; and
 - the Treasury, which has broader policy responsibility for matters related to the pool and administers the legislation underpinning the establishment of the pool.¹³
- 1.26 The *Terrorism and Cyclone Insurance Act 2003* is due to be reviewed ‘as soon as practicable after 1 July 2025’ and ‘at least once every 5 years after that day’, with the review report to consider ‘the need for this Act to continue in operation’.¹⁴

The First Report

- 1.27 In March 2023, the committee tabled its *First Report on the Cyclone Reinsurance Pool*. The two main concerns canvassed in evidence, as outlined in that report, were:
- the timing of the release of modelling by the ARPC; and
 - whether the anticipated savings generated by the pool for policy holders will materialise.¹⁵

¹² *The Cyclone Pool*.

¹³ See *Terrorism and Cyclone Insurance Act 2003* and *Terrorism and Cyclone Insurance Regulations 2003*. Australian Reinsurance Pool Corporation, *About us*, <https://arpc.gov.au/about/> (accessed 25 November 2024); Tessa Satherley, *Bills Digest: Treasury Laws Amendment (Cyclone and Flood Damage Reinsurance Pool) Bill 2022*, Bills Digest No. 54, 2021–22; Australian Reinsurance Pool Corporation, *The Cyclone Pool*.

¹⁴ *Terrorism and Cyclone Insurance Act 2003*, s. 41.

¹⁵ Joint Select Committee on Northern Australia, *First Report on the Cyclone Reinsurance Pool*, March 2023, p. 25.

- 1.28 Other concerns raised included what further incentives could be used to encourage insurers to offer coverage in Northern Australia (and join the pool), the impact of the 48-hour clause on the cost of insurance premiums in Northern Australia, and whether marine insurance would be included in the pool's coverage.¹⁶
- 1.29 The committee's recommendations included that the Australian Government:
- ensure that future releases of modelling are provided well in advance of key dates in the ongoing roll-out of the Cyclone Reinsurance Pool;
 - review the availability and coverage of insurance in Northern Australia, specifically the insured versus the uninsured, including non-participation;
 - review the impact of the 48-hour clause on the cost of insurance premiums, and the availability of insurance in the region, as part of a scheduled review in 2025;
 - direct the ACCC to monitor the cyclone insurance markets in Northern Australia, and report on thin markets, under-insurance and lack of insurance coverage in some areas;
 - announce a position on whether marine insurance will be included in the pool's coverage;
 - facilitate a coordinated approach to land use planning, building codes, mitigation and disaster resilience;
 - consider, in the scheduled 2025 review of the pool:
 - whether to 'sunset' the pool's coverage of policies for new builds past a certain date;
 - how to reinforce the policy objective of the pool to move to parity of cost and access for all Australians; and
 - consider, in future reviews of the pool, the sum insured limit under the business property policy.¹⁷
- 1.30 As of March 2025, the Australian Government had not yet responded to the committee's report and recommendations, despite being required to within three months of the report tabling.

¹⁶ *First Report on the Cyclone Reinsurance Pool*, p. 25.

¹⁷ *First Report on the Cyclone Reinsurance Pool*, pp. vii–viii.

Chapter 2

The current situation

- 2.1 This chapter provides an overview of how the pool is currently operating, as of March 2025. The chapter examines the findings of recent reports from the Australian Competition and Consumer Commission (ACCC) and the Australian Reinsurance Pool Corporation (ARPC). It then details the current status of the pool, including who has joined and the impact of the pool on premium costs for consumers, and discusses external factors affecting the price of insurance more broadly. The chapter closes with a brief examination of recent cyclones that have led to claims from the pool.

ACCC: Third insurance monitoring report

- 2.2 In September 2024, the ACCC released its third insurance monitoring report following the introduction of the Pool. The report found that the ‘pool is beginning to deliver premium relief for some consumers in some regions facing higher risk of cyclones’. Despite this, ‘the cost savings generated by the pool have been offset to varying extents by other cost increases’, with premiums remaining very high for many consumers, as insurance premiums rise around the country.¹

- 2.3 Key findings of the report are:

- **Most insurers are now in the pool:** as of April 2024, it is estimated that 95 per cent of the insurance market is covered by the pool.
- **Cost savings passed on:** generally, insurers are passing on savings from the pool in accordance with the policy intent of the pool.
- **Cost savings offset:** cost savings generated by the pool have been offset to varying extents by other cost increases.
- **Premiums still high:** while the pool may achieve some savings for consumers, premiums remain very high in Northern Australia and are generally rising around the country.
- **Insurance increases are smaller in Northern Australia:** while the nominal premiums were higher in the northern regions, in percentage terms the rise in the median annual premium for a combined home and contents policy was highest in other parts of Australia.
- **Premiums for new policies in higher cyclone risk regions are reducing:** home insurance premiums quoted in higher cyclone risk regions had an average decrease of 8–15 per cent per \$100 000 sum insured and up to 24 per cent decrease for regions with the highest risk.

¹ Australian Competition and Consumer Commission, *Insurance Monitoring: Third Report Following the Introduction of a Cyclone and Cyclone-Related Flood Damage Reinsurance Pool*, September 2024, p. 1.

- **No increase in insurance availability:** while the pool was designed to encourage insurers to enter or expand into Northern Australian insurance markets, insurers continue to maintain there are many other factors affecting their willingness to write policies in Northern Australia.
 - **Risk mitigation:** There has been some improvement in insurers' appetite to use the pool to motivate private risk mitigation.²
- 2.4 Overall, the report noted that rising premium costs have been impacted by 'economic and environmental factors beyond the pool, both locally and globally'. As a result, 'even consumers who are benefiting from the pool may still be experiencing premium increases overall'.³
- 2.5 The report did acknowledge that it may 'take several years before most consumers' experience the pool's 'full potential impact on their premiums', because of insurers entering the pool at different times, different pricing approaches, the time required for insurers to implement pricing changes, and the typical 12-month policy renewal cycles.⁴
- 2.6 The issues and findings of the September 2024 report are discussed in greater detail in Chapter 3, which undertakes an examination of the evidence given directly to this inquiry.
- 2.7 The ACCC noted its reporting establishes 'a dataset which allows an examination of the impact of the pool on prices, costs and profits of insurance' and that this reporting helps to inform views and expectations about the pool's effectiveness:
- Ultimately, this work should assist governments in evaluating whether the pool is operating and delivering outcomes as intended.
- With this third report showing a partial picture of the pool's impact, our future reporting will develop a more representative picture of the pool's potential to deliver cost savings to insurers, and the extent to which those savings can then be seen in the premiums consumers face.⁵

² *Insurance Monitoring: Third Report Following the Introduction of a Cyclone and Cyclone-Related Flood Damage Reinsurance Pool*, pp. 1–7.

³ *Insurance Monitoring: Third Report Following the Introduction of a Cyclone and Cyclone-Related Flood Damage Reinsurance Pool*, p. 1.

⁴ *Insurance Monitoring: Third Report Following the Introduction of a Cyclone and Cyclone-Related Flood Damage Reinsurance Pool*, p. 1.

⁵ *Insurance Monitoring: Third Report Following the Introduction of a Cyclone and Cyclone-Related Flood Damage Reinsurance Pool*, p. 7.

ARPC 2024 Financial Outlook Report

- 2.8 In June 2024, the ARPC estimated that on 1 July 2024, as a proportion of ultimate cyclone pool exposure, the cyclone pool would reinsure:
- 98 per cent of home properties;
 - almost 100 per cent of strata properties; and
 - 87 per cent of small-medium enterprise (SME) properties.⁶
- 2.9 However, the ARPC noted in its 2024 Financial Outlook Report that actual earned premium ‘was significantly lower than initial expectations, primarily driven by fewer properties taking out insurance than originally modelled’. The report noted that ‘non-insurance is an important social issue’, but went on to comment that lower earned premium was not affecting the operation of the pool, ‘as the reduced premium income is offset by a reduction in modelled claims costs’.⁷
- 2.10 The 2023–24 financial year saw total claims cost of \$155 million despite five declared cyclones, well below the average annual loss forecast of \$568 million, leading to an operating surplus for the ARPC of \$436 million. The ARPC projected that earned premium for the 2024–25 financial year would be ‘around 27 per cent lower than originally modelled when the pool was implemented, largely driven by fewer properties taking out insurance (that is, higher levels of non-insurance)’.⁸
- 2.11 The report further noted that ‘significant proportions of policy holders’ were opting out of flood coverage in South East Queensland, Mid Coast Queensland, Inland Queensland and Southern Western Australia.⁹
- 2.12 Despite this evidence of significant under-insurance or properties taking out no insurance, the ARPC was of the view that projected ‘overall premium adequacy levels are consistent with the cyclone pool’s target of a 100% premium adequacy ratio over the longer-term’.¹⁰
- 2.13 The ARPC committed in its *Financial Outlook Report* to:
- use property replacement cost data to provide insights into the impact, extent and spread of underinsurance; and

⁶ Australian Reinsurance Pool Corporation (ARPC), *Cyclone Reinsurance Pool Financial Outlook Report*, 30 June 2024, p. 12.

⁷ *Cyclone Reinsurance Pool Financial Outlook Report*, p. 10.

⁸ *Cyclone Reinsurance Pool Financial Outlook Report*, pp. 10, 12.

⁹ *Cyclone Reinsurance Pool Financial Outlook Report*, p. 41.

¹⁰ *Cyclone Reinsurance Pool Financial Outlook Report*, p. 10.

- use the cyclone pool exposure dataset and property replacement cost data to better understand the impact of under- and non-insurance on premium adequacy.¹¹
- 2.14 The ARPC also noted that ‘improving insurance take-up is a key objective of the cyclone pool’. It was of the view that if insurers change their practices when offering flood coverage in their insurance products, ‘this may have a material impact on take-up rates’. However, it stated that it was ‘seeking to further understand and quantify the drivers of non-insurance’.¹²

Current status of the pool

- 2.15 The pool has operated fully since 1 January 2025, at which point all eligible insurers had joined the pool.
- 2.16 For the first time, the pool has been able to collect information on insurance coverage, where data was unavailable previously and existed only for individual insurers. In Far North Queensland, for example, the ARPC has found that 78 per cent of households have insurance. ARPC aims to use the data they are collecting to ‘highlight’ how insurance coverage is changing over time.¹³

Membership

- 2.17 All eligible insurers have joined the pool, as they were required to by 31 December 2024. The pool now covers 2.9 million households, 90 000 small businesses and 78 000 residential strata properties, including small commercial strata.¹⁴
- 2.18 According to the ARPC’s *2024 Financial Outlook Report*, as of 30 June 2024, the pool was ‘close to having full coverage of expected ultimate exposure, with the overall outlook consistent with what was expected when the cyclone pool commenced’.¹⁵ Further, all large insurers ‘had entered the pool by the 31 December 2023 deadline and small insurers have indicated they are on track to enter the pool by the 31 December 2024 deadline’. Many smaller insurers

¹¹ *Cyclone Reinsurance Pool Financial Outlook Report*, pp. 15, 17.

¹² *Cyclone Reinsurance Pool Financial Outlook Report*, p. 41.

¹³ Dr Christopher Wallace, Chief Executive Officer, Australian Reinsurance Pool Corporation, *Committee Hansard*, 7 February 2025, p. 39.

¹⁴ Australian Reinsurance Pool Corporation, *Insurer Onboarding*, <https://arpc.gov.au/reinsurance-pools/cyclone/insurer-onboarding/> (accessed 25 November 2024); Dr Christopher Wallace, Australian Reinsurance Pool Corporation, *Committee Hansard*, 7 February 2025, p. 33.

¹⁵ *Cyclone Reinsurance Pool Financial Outlook Report*, p. 10 and 15.

indicated their timing of entry is related to private reinsurance renewal periods and implementing necessary system and process changes'.¹⁶

The impact of the pool for consumers

- 2.19 Overall, evidence to this inquiry has shown that the pool is reducing the cost of insurance premiums to some extent, but these reductions have been offset by higher costs in external factors such as increased building costs.
- 2.20 The ARPC advised the committee that, according to its Premium Assessment report, 'the cyclone pool focuses its benefit towards those areas at greater risk of cyclone damage'. Their report noted some regional areas generating quotes 38 per cent lower for both home and small business insurance as a consequence of the pool.¹⁷
- 2.21 The ARPC further advised that as there has been a 'significant reduction in average policyholder premiums for the highest risk bands following entry to the cyclone pool', this is 'a positive sign that cyclone pool premiums are increasing insurance availability and insurer underwriting appetite in high cyclone risk regions'.¹⁸
- 2.22 The Insurance Council suggested that 'there has been a mixed bag of results' and noted that the success of the pool will depend on 'the appetite for insurers to extend their coverage into the north'.¹⁹
- 2.23 Witnesses at the February 2025 hearing emphasised the following positive impacts of the pool:
- Several new insurers have entered the market.²⁰
 - Because of the presence of new insurers, there are more options for consumers, more choice and competition and significant savings for some consumers as a result.²¹

¹⁶ *Insurance Monitoring: Third Report Following the Introduction of a Cyclone and Cyclone-Related Flood Damage Reinsurance Pool*, pp. 15–16.

¹⁷ Australian Reinsurance Pool Corporation, answers to written questions on notice, 12 February 2025 (received 24 February 2025), p. [2].

¹⁸ Australian Reinsurance Pool Corporation, answers to written questions on notice, 12 February 2025 (received 24 February 2025), p. [3].

¹⁹ Mr Andrew Hall, Executive Director and Chief Executive Officer, Insurance Council of Australia, *Committee Hansard*, 7 February 2025, pp. 3 and 5. See also Insurance Council of Australia, answers to spoken and written questions on notice from the public hearing on 7 February 2025 (received 21 February 2025), p. 2.

²⁰ Mr Andrew Hall, Insurance Council of Australia, *Committee Hansard*, 7 February 2025, p. 3.

²¹ Mr Tyrone Shandiman, Chairperson, Australian Consumers Insurance Lobby, *Committee Hansard*, 7 February 2025, p. 12.

- Cyclone reinsurance is now affordable for some insurers who previously would have been unable to afford it in the private market, meaning they are able to offer policies where they were previously unable to.²²

2.24 The committee heard directly from insurers as to the premium discounts that were being generated from the pool. At the inquiry hearing in April 2024 the committee was told:

- Insurance Australia Group noted that since joining the pool it reduced related premiums by an average of 17 per cent, with premiums in high and extreme cyclone risk zones discounted up to 40 or 50 per cent.²³
- Suncorp had similarly reduced premiums by the mid- to high-teens, with a very small portion of policy-holders given premium reductions of over 50 per cent.²⁴
- QBE had reduced premiums by around 18 per cent for householders.²⁵
- The Australian Consumers Insurance Lobby told the committee the pool has delivered ‘meaningful results’, with large strata buildings that previously relied on the insurer of last resort achieving premium reductions of up to 73 per cent.²⁶

2.25 The ACCC, in its September 2024 review of the pool, emphasised that:

It is important to bear in mind the pool was not designed to deliver premium savings to consumers in northern Australia facing low or no cyclone risk, nor to solve more generally the very acute affordability concerns facing some consumers. Where there continue to be other significant risks and factors that are acting together to sustain very high premiums, those risks and factors may ultimately limit the northern Australian community’s perceptions and expectations of the impact of the pool.²⁷

2.26 However, the ACCC noted the following views expressed by insurance consumers:

- There were persistent concerns about high and rising premiums, and the impact of this on the liveability of communities, widespread across

²² Mr Andrew Hall, Insurance Council of Australia, *Committee Hansard*, 7 February 2025, p. 5.

²³ Mr George Karagiannakis, Executive Manager, Government and Industry Affairs, Insurance Australia Group, and Ms Corinne Glasby, Executive General Manager, Product, Pricing and Governance, Direct Insurance, *Committee Hansard*, 19 April 2024, p. 7.

²⁴ Mr Andrew Huszczo, Appointed Actuary and Reinsurance Executive General Manager, Suncorp, *Committee Hansard*, 19 April 2024, p. 16.

²⁵ For example, Mr Andrew Ziolkowski, Chief Underwriting Officer, Australia Pacific, QBE Insurance Australia Ltd, *Committee Hansard*, 19 April 2024, p. 23.

²⁶ Mr Tyrone Shandiman, Chairperson, Australian Consumers Insurance Lobby, *Committee Hansard*, 7 February 2025, p. 11.

²⁷ *Insurance Monitoring: Third Report Following the Introduction of a Cyclone and Cyclone-Related Flood Damage Reinsurance Pool*, p. 19.

Northern Australia, with uncertainty as to whether the pool will be able to deliver the types of savings that consumers are hoping for.

- There are growing concerns about the risks and impacts of underinsurance and non-insurance on individuals and communities, with consequences that can be profound, long-lasting and widespread.
- While the ACCC observed increasing potential for insurers to reward private mitigation actions and improve risk reduction and premium outcomes over time, consumers argued there appears to be no standardisation of risk mitigation measures that insurers will recognise and that incentives for the installation of mitigation measures are not being applied consistently.
- The design of the pool is not widely understood by stakeholder groups.²⁸

2.27 Specific proposals witnesses put forward to improve the pool are discussed in Chapter 3 and Chapter 4.

External factors affecting the price of insurance

2.28 As noted by the ACCC in its September 2024 review of cyclone reinsurance, insurers have reported that obtaining reinsurance for cyclone events under the pool has led to cost savings compared with the prior year; however, despite any savings generated by the pool, reinsurance costs for most insurers have increased overall.²⁹

Figure 2.1 Generalised process diagram for calculating a retail premium



Source: Australian Competition and Consumer Commission, *Insurance Monitoring: Third Report Following the Introduction of a Cyclone and Cyclone-Related Flood Damage Reinsurance Pool*, September 2024, p. 53.

2.29 The above figure outlines the broad parameters under which retail insurance premiums are calculated. The ACCC further noted that two key factors influencing the increasing price of insurance premiums are the more frequent instances of extreme weather events resulting in more insurance claims,

²⁸ *Insurance Monitoring: Third Report Following the Introduction of a Cyclone and Cyclone-Related Flood Damage Reinsurance Pool*, pp. 20–22.

²⁹ *Insurance Monitoring: Third Report Following the Introduction of a Cyclone and Cyclone-Related Flood Damage Reinsurance Pool*, p. 52.

combined with higher building material and labour costs to rebuild when a weather event causes damage.³⁰

- 2.30 It was reported to the ACCC that ‘reinsurance costs generally rose to 20-year highs following local and global extreme weather events, and contributed to increases in premiums’. This resulted in a reduced appetite for reinsurers to provide catastrophe cover given the frequency of such events in Australia.³¹
- 2.31 The Royal Automobile Club of Queensland (RACQ) informed the committee that the pool assisted in reducing what would have been much larger premium rises due to these external factors. RACQ noted that the pool had kept ‘a cap on what the increase could have been for people. The average increases last year were early double-digit percentages. They would have been higher if the cyclone pool hadn’t been in operation’.³²

Recent cyclones and claims on the pool

- 2.32 A number of severe tropical cyclones have affected North Queensland since the start of the pool, leading to significant claims being made on collected pool premiums. These include Tropical Cyclones Jasper (December 2023) and Kirrily (January 2024).
- 2.33 Severe Tropical Cyclone Jasper was the first cyclone event declared by the ARPC for the 2023–24 season, running from 10–14 December 2023, with the pool’s claims period ending on 16 December 2023. The ARPC commented that ‘Jasper resulted in extreme impacts on the communities affected, but, from a global reinsurance perspective ... was a relatively small to modest sized disaster’. As at April 2024, the ARPC estimated it would receive \$83 million in claims from insurers covered under the pool.³³
- 2.34 Chapter 3 examines in more detail evidence suggesting that insurers were unable to claim significant losses arising from Tropical Cyclone Jasper from the pool because of the pool’s coverage being limited to 48 hours after a cyclone is downgraded.

³⁰ *Insurance Monitoring: Third Report Following the Introduction of a Cyclone and Cyclone-Related Flood Damage Reinsurance Pool*, pp. 59–60. See also Mr Andrew Hall, Insurance Council of Australia, *Committee Hansard*, 7 February 2025, p. 5.

³¹ *Insurance Monitoring: Third Report Following the Introduction of a Cyclone and Cyclone-Related Flood Damage Reinsurance Pool*, pp. 58–59.

³² Mr David Carter, Managing Director and Group Chief Executive Officer, Royal Automobile Club of Queensland (RACQ), *Committee Hansard*, 7 February 2025, pp. 23, 24.

³³ *Insurance Monitoring: Third Report Following the Introduction of a Cyclone and Cyclone-Related Flood Damage Reinsurance Pool*, p. 17.

- 2.35 Severe Tropical Cyclone Kirrily's cyclone event period ran from 24–26 January 2024, with the claims period ending on 28 January 2024. As at April 2024, the ARPC said it estimated that there would be \$94 million in pool related claims arising from Kirrily.³⁴
- 2.36 At the time of drafting this report, ex-Tropical Cyclone Alfred had caused damage and widespread flooding across southeast Queensland and northern New South Wales. This included major flooding that occurred after the claims period for the pool had ended (6am Australian Eastern Standard Time on Monday 10 March 2025, 48 hours after the cyclone was downgraded).³⁵
- 2.37 As of March 2025, the full combined impact of Severe Tropical Cyclone Sean, Severe Tropical Cyclone Zelia and ex-Tropical Cyclone Alfred on claims to the pool was not yet apparent.

³⁴ *Insurance Monitoring: Third Report Following the Introduction of a Cyclone and Cyclone-Related Flood Damage Reinsurance Pool*, pp. 17–18.

³⁵ Australian Reinsurance Pool Corporation, [Tropical Cyclone Alfred ends](#), 8 March 2025.

Chapter 3

Issues with the operation of the pool

- 3.1 As outlined in Chapter 2, the Cyclone Reinsurance Pool is clearly having a positive impact, even if it is not as much as expected. However, under-insurance and non-insurance remain problematic in some areas, and the high inflation of insurance around Australia is impacting premium pricing.
- 3.2 Witnesses at the committee's public hearings were largely in agreement that further changes could improve the operation of the pool. For example, the Royal Automobile Club of Queensland (RACQ) told the committee that 'the pool could have been a lot better than was ultimately legislated'.¹
- 3.3 The Australian Consumers Insurance Lobby acknowledged in February 2025 that it was somewhat more optimistic about the benefits of the pool than it was when it gave evidence at the April 2024 public hearing. However:
- ... the promises were that savings would be significantly more than what they are. They're not. The reason for optimism is that we are here today to outline changes that are needed to get to that level of saving ... Consumers are not seeing the savings that they need or expect, but we do believe that, with the right changes, you can get there.²
- 3.4 The key questions the committee considered during this inquiry included the following:
- Whether certain aspects of the pool should be amended to improve its policy objective of 'improving insurance access and affordability for households and small businesses in cyclone-prone areas of Australia'.³
 - Whether the pool should be expanded in terms of the types of risks it covers – in particular, floods unrelated to a cyclone event.
 - What other measures are or should be in place to improve insurance availability and affordability.
- 3.5 Accordingly, this chapter considers the key reasons for the increased cost of insurance across Australia, which has reduced the anticipated benefits from the establishment of the pool. The chapter then outlines proposals in evidence about

¹ Mr David Carter, Managing Director and Group Chief Executive Officer, Royal Automobile Club of Queensland (RACQ), *Committee Hansard*, 7 February 2025, p. 23.

² Mr Tyrone Shandiman, Australian Consumers Insurance Lobby, *Committee Hansard*, 7 February 2025, p. 13.

³ Treasury Laws Amendment (Cyclone and Flood Damage Reinsurance Pool) Bill 2022, *Explanatory Memorandum*, p. 1.

possible changes to the pool to improve outcomes for consumers in Northern Australia. These include:

- whether marine insurance should be covered by the pool;
- the expansion of business insurance above the current threshold of \$5 million total sum insured;
- ongoing issues with strata insurance coverage and cost in Northern Australia; and
- whether the pool should continue to provide cover for 48 hours after the end of a cyclone, or for a longer period.

3.6 Chapter 4 examines other measures to address insurance availability and affordability, including whether the pool should be expanded to cover flood risk. The committee's view on the matters and recommendations discussed in both chapters are set out in Chapter 5.

3.7 The committee also received a small amount of evidence calling for changes to other areas related to the pool's scope, including:

- farm insurance;⁴
- motor insurance;⁵
- changes to how aged and disability settings are recognised;⁶
- subsidisation 'from some of the lower risk consumers to high-risk consumers' to bring down premium prices;⁷ and
- barriers to entry for new insurers to the market, including mutuals.⁸

3.8 Given the limited amount of evidence received on these matters, the committee does not discuss these issues further in this report.

Increased cost of insurance

3.9 In its September 2024 monitoring report into the implementation and impact of the pool, the ACCC noted the pool 'is beginning to deliver premium relief for some consumers in some regions facing higher risk of cyclones' but that these

⁴ Mr Tyrone Shandiman, Chairperson, Australian Consumers Insurance Lobby, *Committee Hansard*, 19 April 2024, p. 26.

⁵ Mr David Carter, Managing Director and Group Chief Executive Officer, Royal Automobile Club of Queensland (RACQ), *Committee Hansard*, 7 February 2025, p. 23.

⁶ Mr Tyrone Shandiman, Australian Consumers Insurance Lobby, *Committee Hansard*, 19 April 2024, p. 26.

⁷ Mr Tyrone Shandiman, Australian Consumers Insurance Lobby, *Committee Hansard*, 7 February 2025, p. 14.

⁸ Mr Bradley Heath, Managing Director, Sure Insurance, *Committee Hansard*, 7 February 2025, p. 20.

‘cost savings generated by the pool have been offset to varying extents by other cost increases’.⁹

- 3.10 RACQ noted that it had seen increases in the amount of excess that policy holders are opting for in their policies, indicating potential issues with premium affordability. In addition, RACQ had ‘seen coverage on contents often being reduced or dropped altogether and we have seen some people reduce their sum insured, which we take to be an affordability issue’.¹⁰
- 3.11 In April 2024, the ARPC acknowledged that communities in Northern Australia ‘would like to see larger savings’ but also noted that Northern Australia is likely ‘the only part of Australia that’s getting price reductions at the moment in the insurance sector’ because of ‘significant price increases’ in the cost of insurance.¹¹
- 3.12 The committee received evidence outlining three key reasons for increases in the cost of insurance premiums in Northern Australia, namely:
- increased building costs, in the face of a national housing crisis;
 - an increase in extreme weather events, causing broader increases in the price of insurance around the world; and
 - whether insurance companies were posting record profits because of the premiums they are charging policy holders.

Increased building costs

- 3.13 According to the Insurance Council of Australia (Insurance Council), the benefits of the pool on premium costs ‘are being eroded because of inflation and other price pressures’, such as a ‘40 per cent increase in the cost of rebuilding in three years’ and a national housing crisis to accommodate builders and tradespeople.¹² In particular, the Insurance Council pointed to inflationary pressures in construction, noting that the ‘cost of repairing or rebuilding a home

⁹ Australian Competition and Consumer Commission, *Insurance Monitoring: Third Report Following the Introduction of a Cyclone and Cyclone-Related Flood Damage Reinsurance Pool*, September 2024, p. 1.

¹⁰ Mr David Carter, Managing Director and Group Chief Executive Officer, Royal Automobile Club of Queensland (RACQ), *Committee Hansard*, 7 February 2025, p. 25.

¹¹ Dr Christopher Wallace, Chief Executive Officer, Australian Reinsurance Pool Corporation, *Committee Hansard*, 19 April 2024, p. 38.

¹² Mr Andrew Hall, Executive Director and Chief Executive Officer, Insurance Council of Australia, *Committee Hansard*, 7 February 2025, pp. 1, 3. See also Mr David Carter, Managing Director and Group Chief Executive Officer, Royal Automobile Club of Queensland Limited, *Committee Hansard*, 19 April 2024, p. 18.

is now 27 per cent higher than it was at the start of the COVID-19 pandemic', with Queensland experiencing the highest growth rate.¹³

- 3.14 The committee examined the issue of housing affordability and availability in Northern Australia at length in the Workforce Development inquiry, in acknowledgement of housing being one of the key issues for workforce development in the region. The First Report for that inquiry, tabled in November 2023, made four recommendations intended to improve housing supply and the cost of housing.¹⁴ The Australian Government is yet to respond to those recommendations, or a further recommendation the committee made on housing in the Final Report for that inquiry, tabled in November 2024.¹⁵

Impact of natural disasters on the cost of insurance

- 3.15 The Insurance Council also highlighted the 'increasing frequency and severity of natural disasters' and referenced 2022 research projecting that the cost of extreme weather events is anticipated to grow by five per cent each year. They reported that reinsurance premiums have increased by up to 30 per cent because of the risk posed by Australia's worsening weather, and the recent wildfires in Los Angeles may lead to increasing pressure on reinsurance premiums globally.¹⁶
- 3.16 At the April 2024 hearing, Suncorp similarly informed the committee that the reinsurance market is currently 'what's called a "hard market". Global premiums for reinsurance are actually higher'.¹⁷

Insurer profits

- 3.17 In response to questions about recent, significant year-on-year increases to insurer profits,¹⁸ the Insurance Council argued that these reflected a recent recovery from relatively low levels and informed the committee that, between 2020 and 2023, insurers made, on average, \$1.50 for every \$100 of premium collected. This compared to \$5 for every \$100 of premium collected from 2012 to

¹³ Insurance Council of Australia, answers to spoken and written questions on notice from the public hearing on 7 February 2025 (received 21 February 2025), pp. 1, 2. See also Dr Christopher Wallace, Chief Executive, Australian Reinsurance Pool Corporation, *Committee Hansard*, 19 April 2024, p. 25.

¹⁴ Joint Select Committee on Northern Australia, *Northern Australia Workforce Development: First Report*, November 2023, pp. 58–60.

¹⁵ *Northern Australia Workforce Development: Final Report*, p. 149.

¹⁶ Insurance Council of Australia, answers to spoken and written questions on notice from the public hearing on 7 February 2025 (received 21 February 2025), pp. 1, 3.

¹⁷ Mr Andrew Huszczo, Appointed Actuary and Reinsurance Executive General Manager, Suncorp, *Committee Hansard*, 19 April 2024, p. 13. A 'hard market' refers to conditions when demand for insurance is higher than the supply.

¹⁸ Australian Competition & Consumer Commission, *Insurance Monitoring: Second Report Following the Introduction of a Cyclone and Cyclone-Related Flood Damage Reinsurance Pool*, December 2023, p. 35.

2020. In addition, the Insurance Council suggested that this ‘recovery’ in recent years was not necessarily a reflection of more income generated from premiums but, rather, from ‘investment returns. In other words, the higher interest rates that the country has been enduring actually return more money to insurers’, with business insurance cross-subsidising home and contents insurance ‘for a number of years’.¹⁹

3.18 On being asked what levers are being used so insurers are actually passing on savings generated from the pool to consumers, the Insurance Council responded:

The ACCC’s most recent insurance monitoring report demonstrates that all insurers in the Pool intend to pass through any savings achieved by the Pool to consumers. There are varied approaches in how insurers are passing on the ARPC reinsurance premiums to consumers, and this is due to different systems and existing (pre-Pool) pricing approaches.

The Insurance Council does not collect data on profitability in particular areas ²⁰

Proposed changes to the pool

3.19 The committee heard that, as currently structured, the pool is not providing sufficient coverage in several key areas:

- marine insurance;
- insurance for businesses;
- strata insurance; and
- damage caused beyond the 48 hours after a cyclone is downgraded, despite this damage in some instances being more significant than the damage caused during the cyclone itself.

Marine insurance

3.20 In the First Report for this inquiry, tabled in March 2023, the committee recommended that the Australian Government announce a position on the inclusion of marine insurance in the pool.²¹ Following the tabling of the First Report, the committee received subsequent evidence calling for the inclusion of marine insurance in the pool’s coverage.²²

¹⁹ Mr Andrew Hall, Insurance Council of Australia, *Committee Hansard*, 7 February 2025, p. 2.

²⁰ Insurance Council of Australia, answers to spoken and written questions on notice from the public hearing on 7 February 2025 (received 21 February 2025), p. 3.

²¹ Joint Select Committee on Northern Australia, *First Report on the Cyclone Reinsurance Pool*, March 2023, Recommendation 4, p. 60.

²² Letter from Australian Consumers Insurance Lobby regarding marine insurance, received 28 August 2023; Letter from Marina Industries Association regarding marine insurance, received 28 August 2023; and Letter from Australian Consumers Insurance Lobby regarding the Cyclone Reinsurance Pool, received 19 September 2023.

- 3.21 The Australian Consumers Insurance Lobby critiqued what it argued are ‘misleading claims’ from the insurance industry ‘that marina insurance in the pool would have only a five per cent impact on consumers’.²³
- 3.22 Insurance Australia Group considered that including marine-related infrastructure in the pool’s coverage ‘would likely involve additional cost to the ARPC and a higher premium charge by the cyclone reinsurance pool to insurers’. It expressed its commitment to working ‘constructively with the government on solutions to improve the affordability of marine insurance in Northern Australia’.²⁴
- 3.23 Conversely, Suncorp, while acknowledging that it had only a ‘small book of marine insurance’, suggested that expanding the pool to cover marine insurance would ‘probably not’ be ‘a significant cost to the pool’ because marine insurance claims for losses from cyclones tend to be ‘fairly small’ relative to large property losses.²⁵
- 3.24 The Australian Consumers Insurance Lobby also questioned whether the inclusion of marine insurance would ‘blow the cost of [reinsurance] out’. Mr Tyrone Shandiman argued:
- The first thing is that you've got two types of marine insurance. You've got fixed infrastructure and then you've got boats, which are not fixed. I think, at the very least, just focus on fixed infrastructure like marinas, jetties and pontoons. To suggest that that's going to blow the cost of insurance out—I would completely disagree with that, because if you look at things like the Airlie Beach marinas in your area, they're \$20 million to rebuild. The pool collects \$1 billion a year. How is that going to blow costs out significantly for consumers? So I don't agree with the assertion that this is going to significantly increase the cost of insurance because I don't believe there is enough property there to have such a significant impact on the pool. We would at least advocate, at the very minimum, looking at fixed marine infrastructure and including that in the pool.²⁶
- 3.25 At the April 2024 hearing, QBE proposed further modelling be undertaken ‘to understand whether, in fact, there is much relief that the pool could provide to marine before we seek to include marine policies into the pool’.²⁷

²³ See Ms Aparna Reddy, General Manager Policy and Regulatory Affairs, Insurance Council of Australia, *Committee Hansard*, 25 November 2022, p. 20.

²⁴ Insurance Australia Group (IAG), answers to questions taken on notice - public hearing, 19 April 2024, Brisbane (received 17 May 2024), p. 2.

²⁵ Mr Andrew Huszczo, Suncorp, *Committee Hansard*, 19 April 2024, p. 16.

²⁶ Mr Tyrone Shandiman, Chairperson, Australian Consumers Insurance Lobby, *Committee Hansard*, 7 February 2025, p. 14.

²⁷ For example, Mr Andrew Ziolkowski, Chief Underwriting Officer, Australia Pacific, QBE Insurance Australia Ltd, *Committee Hansard*, 19 April 2024, p. 23.

- 3.26 The committee has not yet received a response from the Australian Government to its previous recommendation. In response to a question about this matter at the public hearing on 7 February 2025, Treasury informed the committee that it had conducted modelling on the impact of the inclusion of marine insurance in the pool in 2022, and:

... we are aware of that recommendation. Treasury has provided advice to government on that matter. The timing and release of any government position on marine insurance, or, for that matter, the recommendations of the report, is a matter for government.²⁸

Business insurance

- 3.27 The pool currently covers commercial property policies with less than \$5 million total sum insured across risks covered by the pool and Small Medium Enterprises (SMEs) up to a maximum of \$5 million sum insured.²⁹
- 3.28 However, the Townsville Chamber of Commerce (the Chamber) informed the committee that insurance was unavailable for some businesses, 'including and above \$5 million ... because of the lack of competition in the marketplace'.³⁰
- 3.29 The Chamber acknowledged that in previous submissions, it had 'highlighted the issue of defining a business size by sum insured'. However, it suggested that businesses are now unable to access attainable and affordable insurance. The Chamber argued that 'businesses need affordable and attainable insurance to operate freely, borrow money, employ staff and comply with their statutory obligations'. They called for the cap to be removed to assist businesses, arguing that removing the cap would help the pool to achieve its objectives, and increase the premiums the pool collects, thereby 'ensuring the pool is cost neutral to the federal government'.³¹
- 3.30 The Australian Consumers Insurance Lobby also called for the commercial limit for buildings to be increased to \$20 million.³²
- 3.31 In the First Report, tabled in March 2023, the committee recommended that 'future reviews of the Cyclone Reinsurance Pool consider the sum insured limit'

²⁸ Mr Robb Preston, Assistant Secretary, Financial System Division, Department of the Treasury, *Committee Hansard*, 7 February 2025, p. 33.

²⁹ Australian Reinsurance Pool Corporation, *Cyclone pool fact sheet*, <https://arpc.gov.au/resources/cyclone-reinsurance-pool-fact-sheet/> (accessed 18 February 2025).

³⁰ Townsville Chamber of Commerce, *Insurance: The Market Failure of an Essential Service*, tabled by Mr Andrew Willcox MP at the public hearing on 7 February 2025, p. 4.

³¹ Townsville Chamber of Commerce, *Insurance: The Market Failure of an Essential Service*, tabled by Mr Andrew Willcox MP at the public hearing on 7 February 2025, p. 4.

³² Mr Tyrone Shandiman, Chairperson, Australian Consumers Insurance Lobby, *Committee Hansard*, 19 April 2024, p. 26.

for businesses.³³ The Australian Government is yet to respond to this recommendation.

Strata insurance

- 3.32 It is a mandatory, legislative requirement across all jurisdictions to purchase strata insurance at full replacement value. According to the Insurance Council, this requirement is in place ‘to ensure consumers are protected from economic losses arising from damages and to minimise the risk of underinsurance’.³⁴
- 3.33 According to the ACCC, median strata prices for insurance premiums have fallen in some high-risk cyclone areas.³⁵
- 3.34 Insurance Australia Group stated at the April 2024 hearing that ‘for strata properties that have good building quality and are covered by the pool, there will definitely be savings passed through’.³⁶
- 3.35 At the April 2024 hearing, Allianz informed the committee that some of its policy-holders had seen savings of up to 40 or 50 per cent for strata insurance because of the pool, although average savings were far less than that amount.³⁷
- 3.36 At the April 2024 hearing, the Chairperson of the Australian Consumers Insurance Lobby (ACIL) acknowledged ‘promising developments ... for large strata properties in Northern Australia’ which historically have had high insurance premiums. In particular, the ACIL reported that some larger strata buildings, whose insurance premiums were 10 to 20 times the cost of insurance premiums in other parts of Australia, had seen strata premium rates reduce to about three to four times the cost of insurance premiums in the rest of Australia. Even so, the ACIL pointed to ‘real problems in the strata space’ because of the limited number of insurers in the pool offering strata insurance for buildings with a sum insured of over \$20 million.³⁸

³³ Joint Select Committee on Northern Australia, *First Report into the Cyclone Reinsurance Pool*, March 2023, p. 63 (Recommendation 7).

³⁴ Ms Leisha Watson, Director, Regulatory and Consumer Policy, *Committee Hansard*, 7 February 2025, p. 8.

³⁵ Mr Michael Eady, Australian Competition and Consumer Commission, *Committee Hansard*, 7 February 2025, p. 29.

³⁶ Ms Christa Marjoribanks, Executive General Manager, Product, Pricing and Governance, Intermediated Insurance, Insurance Australia Group, *Committee Hansard*, 19 April 2024, p. 10.

³⁷ Mr James Fitzpatrick, Chief Technical Officer, Allianz Australia Limited, *Committee Hansard*, 19 April 2024, p. 32.

³⁸ Mr Tyrone Shandiman, Chairperson, Australian Consumers Insurance Lobby, *Committee Hansard*, 19 April 2024, p. 25.

- 3.37 The ACIL suggested that some insurers are not writing new businesses in strata, telling the committee that Allianz and Chubb ‘still refuse to underwrite new business in strata’. ACIL claimed that the ‘industry justifies this by essentially saying they might have to pay a claim, which of course is the entire purpose of why they’re in business’.³⁹
- 3.38 Where a body corporate in Queensland is unable to insure particular buildings for full replacement value, the body corporate is able to make an adjudication application for an alternative order.⁴⁰
- 3.39 While not directly raised in evidence to this inquiry, the committee is aware that in some instances, major strata properties valued at \$15 million or more are not covered by the pool because they are unable to obtain standard insurance. Some of these properties may be underwritten by international underwriters who are not members of the pool.
- 3.40 The Insurance Council informed the committee that from the perspective of the insurance industry, strata ‘insurance priced at full replacement value helps owners corporations afford the rebuild cost of their strata complex following an insured event and reduces the risk of underinsurance’. They further argued:
- Apartment owners have the benefit of sharing the cost of insurance between multiple lots of a strata complex, which helps to improve the affordability of strata insurance compared to other home buildings insurance. An insurance premium for a single lot of a strata complex is, on average, 32–26 per cent lower than that of a detached home building.⁴¹
- 3.41 The Insurance Council noted ‘bigger challenges ... in some of the southern states around strata insurance, and it’s largely due to building quality and waterproofing’. Further, insurers ‘are seeing costs blow out enormously in strata claims, largely driven by water damage, and that is not just cyclone related. That’s across the country’. The Insurance Council pointed to recent work in New South Wales on building standards for strata, arguing that ‘other states need to start following suit to just bring about a level of confidence for underwriters that these apartment blocks ... are going to be durable for the conditions that they’re being built for’.⁴²

³⁹ Mr Tyrone Shandiman, Chairperson, Australian Consumers Insurance Lobby, *Committee Hansard*, 7 February 2025, p. 11.

⁴⁰ Insurance Council of Australia, answers to spoken and written questions on notice from the public hearing on 7 February 2025 (received 21 February 2025), p. 4.

⁴¹ Insurance Council of Australia, answers to spoken and written questions on notice from the public hearing on 7 February 2025 (received 21 February 2025), p. 4.

⁴² Mr Andrew Hall, Insurance Council of Australia, *Committee Hansard*, 19 April 2024, pp. 3–4.

3.42 In a similar vein, Suncorp also noted that ‘it’s fairly well known that there are some challenges in the whole strata insurance space which are outside cyclone pool-type issues’.⁴³

3.43 The ARPC will provide insurers with premium discounts for mitigation in strata buildings from April 2025.⁴⁴

The 48-hour rule

3.44 As it currently stands, the pool covers the full duration of a cyclone as declared by the Bureau of Meteorology, regardless of how long a cyclone lasts, plus an additional 48 hours of cover after the cyclone is downgraded. The 48-hour stipulation is set out in delegated legislation.⁴⁵

3.45 The current industry standard allows insurers to recover the cost of event claims from private reinsurers up to a maximum of 168 hours, or seven days, from a point that an insurer chooses as the start of the event. Some insurers may purchase reinsurance contracts for more than 168 hours, depending on their commercial negotiations for how they place their risk internationally.⁴⁶

3.46 According to the Australian Government Actuary, the Australian Government initially decided on the 48-hour period because:

- insurers wanted a clear start and end date to the period of coverage;
- insurers wanted the statement on the end of a cyclone to be impartial and a scientific decision; hence, the decision that the Bureau of Meteorology would declare the beginning and the end of a cyclone event for the purposes of the pool; and
- the available data and analysis suggested that the longer the period of time, the higher the likelihood that the resources of the pool would be drawn on for a broader geographic area, with the benefits of the pool spread across more policy holders paying lower premiums, who were not necessarily the reason why the pool was established.⁴⁷

⁴³ Mr Andrew Huszczo, Suncorp, *Committee Hansard*, 19 April 2024, p. 13.

⁴⁴ Australian Reinsurance Pool Corporation, answers to written questions on notice, 12 February 2025 (received 24 February 2025), p. 7.

⁴⁵ Dr Christopher Wallace, Chief Executive Officer, Australian Reinsurance Pool Corporation, *Committee Hansard*, 7 February 2025, p. 34.

⁴⁶ Mr Bradley Heath, Sure Insurance, *Committee Hansard*, 7 February 2025, p. 17; Mr David Carter, Royal Automobile Club of Queensland (RACQ), *Committee Hansard*, 7 February 2025, pp. 23, 26; Dr Christopher Wallace, Australian Reinsurance Pool Corporation, *Committee Hansard*, 7 February 2025, p. 37.

⁴⁷ Mr Guy Thorburn, Australian Government Actuary, Department of the Treasury, *Committee Hansard*, 7 February 2025, p. 37.

- 3.47 At the April 2024 hearing, the ARPC informed the committee that ‘roughly 55 per cent of flood exposure in Northern Australia is modelled as being included in the pool. The balance—the 45 per cent—is the part that needs to be reinsured by insurers into the global market’.⁴⁸
- 3.48 The Insurance Council did not have a view at the February 2025 hearing on whether to extend to seven days, suggesting only that such a change would increase the premiums the ARPC charges insurance companies.⁴⁹ Previously, however, at the public hearing in April 2024, the Insurance Council suggested that, given the loss rate the insurance industry experiences in Northern Australia and the fact that the Government is not subsidising the pool, ‘it’s hard to see how any changes to the 48-hour rule would really, in effect, provide any relief from a premium perspective. But it’s something that could be modelled...’.⁵⁰
- 3.49 On the other hand, some insurers were strongly in favour of extending the period. For example, RACQ argued this would ‘align’ the pool with global reinsurance terms.⁵¹
- 3.50 Similarly, Sure Insurance, which is not a member of the Insurance Council, called for the current 48-hour window of cover to be extended to 168 hours, suggesting that this would lead to further premium savings for customers. Sure Insurance pointed to its recent experience with cyclones to support this proposal:

[There is a] need to ensure that there are no gaps between the cyclone pool coverage and what traditional reinsurance cover provides—essentially to ensure that customers are not paying twice. Unfortunately, our previous concerns have been highlighted in the Tropical Cyclone Jasper scenario.

Sure holds the second-largest market share, we believe, in the Cairns home insurance market, and Sure Insurance losses from Jasper were over \$94 million. However, under the current 48-hour cover definition, only 22.8 per cent of that loss will be recovered from the pool. In comparison, had the 168-hour coverage period been in place, we estimate 99.3 per cent of the losses would have been recoverable from the pool ... The question is: how has this scenario impacted the cost of insurance for Sure customers? Unfortunately, the answer is in direct conflict with the government's current cost-of-living relief efforts, with premium increases of 20 plus per cent plus being

⁴⁸ Dr Christopher Wallace, Chief Executive Officer, Australian Reinsurance Pool Corporation, *Committee Hansard*, 19 April 2024, p. 37.

⁴⁹ Mr Andrew Hall, Insurance Council of Australia, *Committee Hansard*, 7 February 2025, p. 7.

⁵⁰ Mr Andrew Hall, Insurance Council of Australia, *Committee Hansard*, 19 April 2024, p. 3.

⁵¹ Mr David Carter, Royal Automobile Club of Queensland (RACQ), *Committee Hansard*, 7 February 2025, p. 23.

immediately requested by Sure's capacity providers when it was apparent that the majority of the loss would not be covered by the insurance pool.⁵²

- 3.51 RACQ informed the committee that 68 per cent of the claims made to it that were associated with the cyclone were not covered by the pool. RACQ noted that its earlier submissions had argued that one in two cyclones would not be 'substantially covered' by the pool as designed, and pointed to the pool only covering one of the two most recent cyclones at the time of giving evidence (Tropical Cyclone Jasper versus Tropical Cyclone Kirrily).⁵³
- 3.52 At the April 2024 hearing, RACQ stated that it was 'sensing ... that the reinsurance markets are observing that the pool did not cover much of [Tropical Cyclone Jasper], so they now need to think about the residual risk. The residual risk we see in cyclone events is post the cyclone being a cyclone'.⁵⁴
- 3.53 Sure Insurance acknowledged that coverage of the pool depends on the event, noting that costs arising from Tropical Cyclone Kirrily were '100 per cent covered'. However, Sure informed the committee that the recent view of reinsurers from an overseas market was 'they can't give the discount that they would be able to give if it were the full 168 hours. They have to assume the worst-case scenario'. As such, if 'certainty were created for reinsurers [around the pool covering a longer window of time], it's quite clear from them that the price would be reduced'.⁵⁵
- 3.54 Sure Insurance argued that given the pool's current surplus, 'the annual average cost of adding the 168-hour provision can clearly be accommodated'. They informed the committee that under current reinsurance arrangements, customers will be subject to, on average, a \$500-plus increase per policy, as compared with a \$5 increase, on average, per policy, if the period of reinsurance the pool covers was extended to seven days after a cyclone is downgraded. In particular, 'we can undertake that a five per cent increase in pool costs by extending the time coverage will result in a net premium benefit for Sure customers by avoiding some of the duplicated reinsurance costs our customers currently incur'.⁵⁶
- 3.55 Other insurers, such as Insurance Australia Group, also had most of their claims for Tropical Cyclone Jasper fall outside of the 48-hour period. However, on the matter of extending the 48-hour rule, Insurance Australia Group suggested that

⁵² Mr Bradley Heath, Sure Insurance, *Committee Hansard*, 7 February 2025, p. 16.

⁵³ Mr David Carter, Royal Automobile Club of Queensland (RACQ), *Committee Hansard*, 7 February 2025, p. 23.

⁵⁴ Mr David Carter, Managing Director and Group Chief Executive Officer, Royal Automobile Club of Queensland Limited, *Committee Hansard*, 19 April 2024, p. 17.

⁵⁵ Mr Bradley Heath, Sure Insurance, *Committee Hansard*, 7 February 2025, p. 17.

⁵⁶ Mr Bradley Heath, Sure Insurance, *Committee Hansard*, 7 February 2025, p. 16.

extending the rule would mean ‘a lot more flood damage. That would mean a lot more losses for us and in the flow on to the ARPC, which would mean, in consequence, higher insurance premiums from the ARPC back to us’. Insurance Australia Group argued that extending the 48 hours would ‘effectively’ mean that the Cyclone Reinsurance Pool would become ‘a flood pool ... [W]e need to look at [flood affordability] holistically rather than simply extending the 48-hour limit’.⁵⁷

- 3.56 The broader question about whether the pool should be expanded to include flood is considered in Chapter 4.
- 3.57 At the April 2024 hearing, Suncorp was of the view that ‘it would make sense’ to expand coverage to accord roughly with reinsurance coverage, although ‘it’s probably not going to make a huge difference in cost to ... the government or ... to customers in terms of savings in premium. Cyclone Jasper was unusual ... Most cyclones do downgrade very quickly and, in terms of material insurance losses, dissipate very quickly’.⁵⁸
- 3.58 QBE at the same hearing also reiterated its support for ‘further analysis and consideration by government to consider the 48 hours and whether that should be closer aligned to the seven days or similar effect that we see in commercial reinsurance markets’.⁵⁹
- 3.59 The committee in its First Report considered concerns from Allianz that extending the 48-hour period would mean ‘a dilution’ of the savings generated through the pool for people in Northern Australia, given the geographical scope of the pool could be expanded with cyclones tracking to the south over the extended period of time.⁶⁰ At the hearing in April 2024, Allianz reiterated their view that extending the 48-hour period ‘will not deliver savings to high-cyclone-risk customers and is counter to the policy intent of improving affordability in these areas’. Allianz gave the following reasons for their position:
- Extending the timeframe would effectively move claims further from cyclone affected areas, potentially as far south as Melbourne, thereby diluting savings.
 - Insurers are able to handle additional post-48-hour flood claims through their own funds and the private reinsurance market.
 - An extension of the 48-hour period would primarily be a flood pooling arrangement, but the pool’s design would not be effective for high-risk

⁵⁷ Mr George Karagiannakis, Insurance Australia Group, *Committee Hansard*, 19 April 2024, p. 7.

⁵⁸ Mr Andrew Huszczo, Suncorp, *Committee Hansard*, 19 April 2024, p. 12.

⁵⁹ For example, Mr Andrew Ziolkowski, QBE Insurance Australia Ltd, *Committee Hansard*, 19 April 2024, p. 20.

⁶⁰ *First Report on the Cyclone Reinsurance Pool*, March 2023, p. 42.

flood customers, and no public modelling demonstrates that such an expansion would see premium savings for high cyclone risk.⁶¹

3.60 Allianz also argued that the extension from 48 hours to seven days was more likely to lead to an increase in premium costs, rather than a decrease.⁶²

3.61 In response to this evidence, Sure Insurance's Managing Director informed the committee that they had consulted with two senior global reinsurers who 'would have a contrary view to that ... [W]e believe the change to 168 hours, certainly in our case, would have a direct and immediate effect on being able to reduce premiums. I can't talk for Allianz's business model; I can only talk for mine'.⁶³

3.62 In March 2023, the committee recommended in the First Report for this inquiry that the Australian Government, as part of the scheduled review of the legislation due to take place later in 2025, consider 'the impact of the 48-hour clause on the cost of insurance premiums for Northern Australians, and the availability of insurance in the region ... and adjust this clause if necessary'.⁶⁴

3.63 The Australian Government has not yet responded to the committee's recommendation on the 48-hour rule. Treasury informed the committee at the February 2025 hearing that:

We're conscious that one of the [committee's] recommendations relates to the 48-hour rule, so, while there hasn't been a government response, we're obviously monitoring carefully the progress of this inquiry. The minister wrote to the ARPC to conduct some modelling on that issue, which the ARPC released in September of last year. So there has been activity in relation to your work. We continue to closely monitor commentary and developments in the pool ... [T]here is an upcoming review ... in 2025. That will be an opportunity to more thoroughly ventilate some of the issues that have been canvassed today.⁶⁵

3.64 According to the ARPC-commissioned modelling, a change from 48 hours to 168 hours would likely cost the pool an additional \$20 to \$35 million per annum, with the additional cost comprising around five per cent of the pool's current estimate of expected annual claims costs—in other words, the additional total

⁶¹ Mr James Fitzpatrick, Chief Technical Officer, Allianz Australia Limited, *Committee Hansard*, 19 April 2024, p. 31.

⁶² Mr James Fitzpatrick, Chief Technical Officer, Allianz Australia Limited, *Committee Hansard*, 19 April 2024, p. 31.

⁶³ Mr Bradley Heath, Sure Insurance, *Committee Hansard*, 7 February 2025, p. 18.

⁶⁴ *First Report on the Cyclone Reinsurance Pool*, March 2023, Recommendation 2, p. 59.

⁶⁵ Mr Robb Preston, Department of the Treasury, *Committee Hansard*, 7 February 2025, pp. 33–34.

premium that the pool would need to collect in aggregate to meet these increased costs.⁶⁶

- 3.65 As a result, the pool would likely need to change its premium rates and, potentially, its premium rating formula because ‘maintaining the current structure and premium rating parameters will not collect the additional premium needed to meet the increased cost’.⁶⁷
- 3.66 According to the modelling report, more policy holders would observe increases in their premium costs than those seeing decreases. However:
- most policy holders would be offered very small increases, under \$5 on average; while
 - policy holders benefiting from reductions would be likely to be offered much larger premium reductions, of \$100 or more on average.⁶⁸
- 3.67 The report noted that the pool was designed to deliver the greatest benefit to the highest risk properties. Consumers in high flood risk regions, such as South East Queensland, would likely benefit the most from such a change. The report also referenced Northern New South Wales as an area subject to large exposure from cyclone-related flooding, suggesting that ‘consumers in these regions would stand to benefit the most from the increased coverage offset by modest premium increases across lower risk consumers’.⁶⁹
- 3.68 Mr Robb Preston from the Treasury informed the committee that if there was a large cyclone event, claims arising because of a change to 168 hours may ‘then exceed any capital buffers that ARPC has. In that case, it might lead to or increase the probability of the government guarantee to the ARPC being triggered’. In addition:

The pool is required by law to be budget neutral in expectation. The board of the ARPC would have to change the premium rates, and that would have a distributional impact. I would crudely categorise it, my take on the modelling that ARPC conducted, as saying it reduced, slightly, the benefits that are available in high-wind risk areas and [would] increase the benefits that are available in the flood areas that are brought in through the extension ... What our evidence is saying is that there would not be a large amount likely of additional aggregate savings that could be distributed. Extending the pool would change how the savings are distributed.⁷⁰

⁶⁶ Dr Christopher Wallace, Australian Reinsurance Pool Corporation, *Committee Hansard*, 7 February 2025, p. 34; Finity, *Estimating Cyclone Pool Premiums with 168 Hour Coverage Period*, September 2024, p. 2.

⁶⁷ Finity, *Estimating Cyclone Pool Premiums with 168 Hour Coverage Period*, September 2024, p. 2.

⁶⁸ Finity, *Estimating Cyclone Pool Premiums with 168 Hour Coverage Period*, September 2024, p. 2.

⁶⁹ Finity, *Estimating Cyclone Pool Premiums with 168 Hour Coverage Period*, September 2024, p. 2.

⁷⁰ Mr Robb Preston, Department of the Treasury, *Committee Hansard*, 7 February 2025, pp. 35, 36, 38.

- 3.69 The Australian Government Actuary considered that an extension to the 48-hour rule would be 'unlikely on average to generate significant additional savings'. He did note, however, that 'it's a matter of judgement' as to whether to extend the 48-hour period or not.⁷¹
- 3.70 Similarly, Mr Preston from the Treasury was of the view that changing the 48-hour rule would not 'lead to large improvements in affordability in general'. However, he believed that it would likely lead to benefits for high-risk properties and could see premium changes for some households of several hundred dollars.⁷²
- 3.71 The ARPC noted that the private reinsurance market typically provides cover for seven days overall, regardless of how long a cyclone is. The ARPC acknowledged that the current settings have created 'some boundary issues for insurers. There is some friction around the way that they insure their flood risk'.⁷³
- 3.72 The ARPC considered that the 'cost to the pool to increase the period is quite modest'. However, they argued that because the 'legislation for the Cyclone Reinsurance Pool provides cover for the full duration of [a] cyclone plus an additional two days of cover', the 'consequence of changing that policy setting from a factual perspective is that the pool would cover a greater period of cover than would be covered in the international reinsurance markets'. In addition:
- ... there are risks to the public, because the pool is made up of public funds. A consequence of extending the post-cyclone cover for flood will mean that areas of low cyclone risk will have much greater coverage of flood and there will be potential unintended consequences of having to extend payments into broader areas, which could cost the public funds.
- That's the reason why the legislation did try to contain the duration of the cyclone, to provide maximum savings to medium- and high-risk areas.⁷⁴
- 3.73 The ARPC made the following additional points on extending the 48-hour period:
- The modelling was based on assumptions and projections, and actual outcomes will likely be different.
 - A longer period of cover would lead to more claims, with these likely to be from broader areas.

⁷¹ Mr Guy Thorburn, Department of the Treasury, *Committee Hansard*, 7 February 2025, p. 37.

⁷² Mr Robb Preston, Department of the Treasury, *Committee Hansard*, 7 February 2025, p. 36.

⁷³ Dr Christopher Wallace, Australian Reinsurance Pool Corporation, *Committee Hansard*, 7 February 2025, p. 34.

⁷⁴ Dr Christopher Wallace, Australian Reinsurance Pool Corporation, *Committee Hansard*, 7 February 2025, pp. 34–35.

- There would be an increased likelihood of the government balance sheet being drawn on for flooding in areas further from a cyclone.⁷⁵

3.74 With these caveats, the ARPC informed the committee that it 'has the capabilities, systems and processes to be able to make that change'.⁷⁶

3.75 In January 2024, the Assistant Treasurer and Minister for Financial Services, the Hon Stephen Jones MP, stated that he had 'an open mind' about the 48-hour window.⁷⁷

⁷⁵ Dr Christopher Wallace, Australian Reinsurance Pool Corporation, *Committee Hansard*, 7 February 2025, p. 38.

⁷⁶ Dr Christopher Wallace, Australian Reinsurance Pool Corporation, *Committee Hansard*, 7 February 2025, p. 35.

⁷⁷ The Hon Stephen Jones MP, Assistant Treasurer and Minister for Financial Services, [Transcript: Interview with Amanda Cranston](#), 17 January 2024.

Chapter 4

Other measures to address insurance availability and affordability in Northern Australia

- 4.1 While the focus of this inquiry is the operation and the implementation of the Cyclone Reinsurance Pool, the committee learned during the course of the inquiry that broader conditions, including inflation and severe weather events, are increasing the cost of insurance premiums, thereby eroding or offsetting the benefits that many consumers expected would arise once their insurer joined the pool.
- 4.2 Evidence pointed to the importance of other measures to address the issues of insurance availability and affordability. The success of the pool is interwoven with the success, or otherwise, of these measures. As such, the committee considered in detail:
- the appropriateness of taxes applied to insurance premiums—namely, GST and stamp duty;
 - whether the Cyclone Reinsurance Pool should be expanded to cover flood more broadly, or whether Northern Australia needs a flood reinsurance pool to cover extreme rainfall events that do not meet the definition of a cyclone; and
 - mitigation and resilience measures, including whether existing programs funded by the Australian Government are sufficient, and whether insurers are passing on premium decreases in response to mitigation and resilience measures that consumers carry out at the household and business level.

How to improve insurance affordability

- 4.3 Typically, measures to improve the affordability of insurance can be grouped into three categories:
- cost-sharing, with all households contributing and lower-risk households cross-subsidising costs for higher risk households, as is the case with the Cyclone Reinsurance Pool;
 - risk reduction through mitigation and resilience measures, which reduce or shift the cost of premiums, and other measures to remove risk entirely, such as government-funded buyback programs to encourage residents to move from high-risk areas; and
 - government-funded measures, including subsidies and tax reforms.¹

¹ Actuaries Institute, [Funding for Flood Costs: Affordability, Availability and Public Policy Options](#), August 2023, p. 15.

- 4.4 Of the above measures, the general consensus is that risk reduction has the most meaningful, long-term impact for policy holders, but it may not always be possible, can be very expensive and may not immediately reduce the cost of insurance premiums. As such, policy-makers also typically consider cost sharing and government-funded measures.²
- 4.5 As noted above, the pool is an example of a cost sharing method. However, according to the Insurance Council of Australia, the ‘pool is not a long-term solution to managing risk and reducing upward pressure on insurance premiums ... The best way to address affordability problems is to reduce the risk in Northern Australia ... through resilience and mitigation investment’.³
- 4.6 Similarly, Insurance Australia Group acknowledged that ‘while reducing the cost of reinsurance is an important measure, the key lever is reducing or mitigating the level of risk faced by people and communities from severe weather’. Insurance Australia Group argued that reducing ‘risk protects lives, property and infrastructure and has a flow-on effect of reducing premiums’.⁴
- 4.7 At the April 2024 hearing, the Royal Automobile Club of Queensland (RACQ) suggested that ‘the pool needs to further improve’ to ‘increase competition in North Queensland or Northern Australia and to lower the premiums for the sums insured’. RACQ argued that it is ‘very hard to achieve significant dollar savings in total premiums without finding a way to subsidise, on average’.⁵
- 4.8 The Australian Competition & Consumer Commission (ACCC) told the committee in February 2025 that ‘the pool alone will not solve the very acute insurance affordability challenges facing some people in northern Australia’. The ACCC outlined areas of reform from their Northern Australia Insurance Inquiry that they considered could address the related issues of insurance affordability, under-insurance and non-insurance, including measures to:
- make it easier for consumers to search for and compare products;
 - make it easier for consumers to choose the appropriate amount of cover for their property;
 - address conflicts of interest in the insurance market;
 - improve consumers’ rights; and

² *Funding for Flood Costs: Affordability, Availability and Public Policy Options*, p. 15.

³ Insurance Council of Australia, answers to spoken and written questions on notice from the public hearing on 7 February 2025 (received 21 February 2025), p. 2.

⁴ Mr George Karagiannakis, Executive Manager, Government and Industry Affairs, Insurance Australia Group, *Committee Hansard*, 19 April 2024, p. 7.

⁵ Mr David Carter, Managing Director and Group Chief Executive Officer, Royal Automobile Club of Queensland, *Committee Hansard*, 19 April 2024, p. 18.

- reduce risk and build better homes.⁶
- 4.9 In that report, the ACCC stated that they did ‘not consider government reinsurance pools or government insurers are well-suited to address affordability concerns in a targeted way’. Instead, the ACCC argued that reforms to stamp duty ‘have the potential to immediately relieve pricing pressure for all consumers in Northern Australia’. The ACCC proposed that the governments of Western Australia, the Northern Territory and Queensland levy stamp duties for home, contents and strata insurance with reference to the sum insured value, rather than the premium level. In addition, the ACCC proposed that part of the revenue collected from stamp duty be directed towards measures that would improve affordability for low-income consumers, or to fund mitigation works.⁷ Both of these proposals are addressed in further detail below.
- 4.10 The ACCC further proposed that governments consider direct subsidies based on premium level and income eligibility requirements over other measures if they wish to provide immediate relief to consumers.⁸
- 4.11 The ACCC also recommended that the Insurance Council of Australia work with the Australian Securities and Investments Commission (ASIC) to obtain ASIC approval for the General Insurance Code of Practice.⁹ Of note, the Insurance Council indicated to the House of Representatives Standing Committee on Economics in their 2023–2024 inquiry into insurers’ responses to 2022 major flood claims that they intend to register the Code with ASIC. That committee also recommended that the Insurance Council seek to have ASIC approve the Code after the Insurance Council has implemented relevant recommendations of the Independent Review of the 2020 General Insurance Code of Practice.¹⁰

Reforms to tax settings

- 4.12 GST is applied to ten per cent of an insurance premium nationally. In addition, all states and territories impose stamp duty on insurance premiums except the

⁶ Mr Michael Eady, General Manager, Insurance Monitoring, Australian Competition and Consumer Commission, *Committee Hansard*, 7 February 2025, pp. 29, 31; Australian Competition & Consumer Commission, *Northern Australia Insurance Inquiry: Final Report*, November 2020, pp. xv–xvi.

⁷ *Northern Australia Insurance Inquiry: Final Report*, pp. xvi, xxiv.

⁸ *Northern Australia Insurance Inquiry: Final Report*, p. xxiv.

⁹ *Northern Australia Insurance Inquiry: Final Report*, p. xxvii.

¹⁰ House of Representatives Standing Committee on Economics, *Flood Failure to Future Fairness*, October 2024, pp. 173, 194.

Australian Capital Territory.¹¹ In Queensland, for example, stamp duty of nine per cent is charged on both the premium and GST attached to the premium of home and contents insurance policies.¹²

- 4.13 In short, this means that when the cost of insurance premiums for consumers increases, the combined tax and duty applied to those premiums also increases, leading to a higher premium cost for consumers (in Queensland, around one-fifth of the total cost they pay for their premium) and greater revenue for governments.
- 4.14 Insurers at the February 2025 hearing were united in their calls for reduced taxes on insurance premiums.¹³
- 4.15 RACQ noted that ‘Northern Queensland is paying 50 per cent more in premiums [compared to the whole-of-Queensland average] and being charged higher taxes, but has lower sums insured’.¹⁴ RACQ proposed at the April 2024 hearing that governments remove GST and stamp duty on insurance policies for owner-occupied residential properties in North Queensland, thereby reducing the gap in premium costs between North Queensland and the rest of the state.¹⁵
- 4.16 On the matter of stamp duty, Sure Insurance suggested that the stamp duty formula be calculated on the basis of the sum insured (or the value of the home), rather than the cost of the premiums, noting that ‘much higher premiums are often associated not necessarily with high-value homes but with high-risk homes’. They argued that this would reflect how stamp duty on insurance was calculated in the Queensland market previously, which was based on the insured amount for the home rather than the cost of the premium.¹⁶
- 4.17 Other witnesses called for the money generated by taxes on insurance premiums to be used to fund mitigation and resilience programs. This evidence is discussed later in this chapter.
- 4.18 Tax reform to improve insurance affordability is not a new area of discussion. For example, the Senate Economics Legislation Committee, in its inquiry into

¹¹ Insurance Council of Australia, [*The Impact of Government Duties on Household Insurance*](#), November 2019, p. 5.

¹² Queensland Revenue Office, [*Insurance Duty Rates*](#), 4 February 2025 (accessed 20 February 2025); Mr Andrew Hall, Insurance Council of Australia, *Committee Hansard*, 7 February 2025, p. 4.

¹³ For example, Mr Andrew Hall, Insurance Council of Australia, *Committee Hansard*, 7 February 2025, p. 2.

¹⁴ Mr David Carter, Royal Automobile Club of Queensland, *Committee Hansard*, 7 February 2025, p. 23.

¹⁵ Mr David Carter, Royal Automobile Club of Queensland, *Committee Hansard*, 19 April 2024, p. 17.

¹⁶ Mr Bradley Heath, Managing Director, Sure Insurance, *Committee Hansard*, 7 February 2025, p. 21.

the bill that established the Cyclone Reinsurance Pool, received evidence calling for tax reform on insurance premiums.¹⁷

- 4.19 As noted above, the ACCC in their Northern Australia Insurance Inquiry proposed that the governments of Western Australia, the Northern Territory and Queensland levy stamp duties for home, contents and strata insurance with reference to the sum insured value, rather than the premium level.¹⁸
- 4.20 The House Standing Committee on Economics in its report on the Inquiry into Insurers' Responses to 2022 Major Floods Claims recommended that 'state and territory governments remove state-based taxes on general insurance products and shift the tax burden toward less distortionary taxes'. It also recommended that in this event, insurers commit to passing these savings on in full to consumers through lower premiums.¹⁹

Establishment of a flood reinsurance pool

- 4.21 Related to the 48-hour rule was the extent to which policy-holders are covered for flood damage caused by an initial cyclone that has been subsequently downgraded, and flood damage caused by separate lows that are not declared cyclone events. Committee members questioned witnesses closely at the April 2024 hearing and the February 2025 hearing about whether the pool should be expanded to cover floods, or whether another mechanism should be introduced, separate to the Cyclone Reinsurance Pool, to address the issue of increased insurance premiums arising because of flooding caused by lows in Northern Australia.
- 4.22 Some evidence raised concerns about the level of flood cover in Australia, with RACQ informing the committee that flood insurance is becoming quite expensive for over a million households in Australia, or 12 per cent of households. RACQ suggested that Australia could see a similar situation to the west coast of the United States of America (USA), where insurance companies refused to renew millions of policies for fire insurance in areas at high risk for wildfires, and the state has provided a last-resort insurance program with premiums costing more than the private market and providing less coverage.²⁰
- 4.23 The Insurance Council stated that one of the key issues with insurance that covers flooding is that homes in flood zones are largely in lower socio-economic

¹⁷ Senate Economics Legislation Committee, *Treasury Laws Amendment (Cyclone and Flood Damage Reinsurance Pool) Bill 2022 [Provisions]*, March 2022, pp. 25–27.

¹⁸ *Northern Australia Insurance Inquiry: Final Report*, p. xxiv.

¹⁹ *Flood Failure to Future Fairness*, p. xlvi (Recommendation 86).

²⁰ Mr David Carter, Royal Automobile Club of Queensland, *Committee Hansard*, 7 February 2025, p. 27; Chris Isidore, '[California's insurance is in crisis. The solution will cost homeowners a ton](#)', *CNN Business*, 9 January 2025.

areas, with ‘a very large percentage of people that are already living below the poverty line, and they’ve got very low insurance penetration because they can’t afford it’.²¹ The Insurance Council considered that ‘we’re at a tipping point in Australia, where we have an option of going down the path’ of a flood pool ‘and spending billions of dollars covering flood risk’, arguing that this will be ‘taxpayer dollars, and people who don’t live in flood zones would be covering it. Or we start making some hard decisions around land use planning and spending that money instead on flood mitigation’.²²

- 4.24 QBE noted there is ‘complexity’ to the question of whether to expand the Cyclone Reinsurance Pool to floods, telling the committee that for around ‘six per cent of properties that have a material exposure to flood broadly across Australia, there would be many questions and much analysis’ needed to answer the question of what the risks are and what ‘would be the most appropriate and effective funding mechanism’. They considered that ‘mitigation will ultimately remain the best solution’, particularly ‘to keep those communities and families out of harm’s way’.²³
- 4.25 Suncorp considered that the evidence does not support expanding the Cyclone Reinsurance Pool to cover flood in general ‘because flood is clearly a national exposure rather than a northern Australia exposure’. They further noted that ‘an exposure of the government’s balance sheet to risk would be substantially greater for a flood than it would be for just a cyclone’.²⁴
- 4.26 Sure Insurance proposed that the government give consideration to establishing a high-risk reinsurance pool for floods, given that not all major flooding events in Northern Australia are caused by cyclones or ex-tropical cyclones. They noted that in many instances, quotes of high premiums to customers are ‘because of their extreme flood risk, not necessarily their extreme cyclone risk’, acknowledging that there is a percentage of people in this group who are not insured because they cannot afford the premium costs.²⁵
- 4.27 RACQ considered it ‘inevitable a flood pool will be required if the predictions about where the weather is headed come true’. However, they were of the view that ‘at the moment ... the first and best and most important thing we can all do is improve resilience ... We can’t change the weather, but what can we do to prevent people suffering the damage in the first place?’ RACQ argued that

²¹ Mr Andrew Hall, Insurance Council of Australia, *Committee Hansard*, 7 February 2025, p. 3.

²² Mr Andrew Hall, Insurance Council of Australia, *Committee Hansard*, 19 April 2024, p. 3.

²³ For example, Mr Andrew Ziolkowski, Chief Underwriting Officer, Australia Pacific, QBE Insurance Australia Ltd, *Committee Hansard*, 19 April 2024, p. 21.

²⁴ Mr Andrew Huszczo, Appointed Actuary and Reinsurance Executive General Manager, Suncorp, *Committee Hansard*, 19 April 2024, p. 13.

²⁵ Mr Bradley Heath, Sure Insurance, *Committee Hansard*, 7 February 2025, p. 21.

without appropriate resilience measures, ‘a pool will probably become a necessary solution’. RACQ considered that such a pool, if designed like the Cyclone Reinsurance Pool, would see limited benefits in premiums, though likely improve competition and the accessibility of insurance.²⁶

- 4.28 At the hearing in April 2024, the Australian Consumers Insurance Lobby proposed a national pool covering terrorism, cyclone and flood. However, their chairperson emphasised the importance of the current ‘pool working ... [G]et this right for cyclone and then explore the issue of flood at a later date. But, right now, we don’t think the pool on the cyclone issue is working in its best capacity. It really just needs some tweaking’²⁷
- 4.29 The Actuaries Institute, in an analysis on policy options to address flood insurance unaffordability, suggested that flood risk ‘is highly localised and disproportionately affects a relatively small number of households’, who often experience affordability pressures. Conversely, cyclone risk tends to be more geographically widespread without differentiation between lower or higher socio-economic areas.²⁸
- 4.30 Further, most policyholders who have little or no flood risk pay no flood premium. The Actuaries Institute argued that if a flood pool only shared risk between policy holders who have meaningful exposure to flood risk, and therefore pay part of their premium to cover for flood risk, such a small group would be unlikely to significantly improve affordability given its size. However, the Institute did acknowledge that ‘Australian homeowners may be willing to accept some level of cross-subsidy and community rating, particularly if it is temporary in nature’, given there is precedent for similar aspects in other schemes, such as Compulsory Third Party motor insurance and private health insurance.²⁹
- 4.31 Nonetheless, the Actuaries Institute was of the view that if flood was included in the pool, the capital cost savings from the low-risk households would be a fraction of the total premiums from low and medium flood risk households, and therefore grossly insufficient to meaningfully reduce premiums for all households with high flood premiums. In particular, the Actuaries Institute suggested that:

... if the 171,000 high flood risk and affordability stressed households with a total estimated flood premium of \$1.5 billion per annum (after allowing

²⁶ Mr David Carter, Royal Automobile Club of Queensland, *Committee Hansard*, 7 February 2025, p. 27.

²⁷ Mr Tyrone Shandiman, Chairperson, Australian Consumers Insurance Lobby, *Committee Hansard*, 19 April 2024, p. 27.

²⁸ *Funding for Flood Costs: Affordability, Availability and Public Policy Options*, p. 5.

²⁹ *Funding for Flood Costs: Affordability, Availability and Public Policy Options*, pp. 5, 19–20.

for the impact of the existing Cyclone Pool) were to be fully insured, each of these households would have to pay an average flood risk premium of \$8,800. This is likely to be considered unaffordable by many. The cross-subsidy required to reduce this to an affordable level will therefore be very high.³⁰

- 4.32 The Actuaries Institute noted that if a multi-peril pool were considered to cover flood and other disasters, such as bushfires and cyclone, it:

... could also be more equitable if it is considered households facing high insurance affordability stress should be protected irrespective of the type of peril they face. While this would broaden the coverage and increase the cost of the pool, the benefits, as well as the costs, would be more widely shared. In addition, a multi-peril pool could derive diversification benefit across coverage of different perils compared to the aggregate cost of multiple single-peril pools.³¹

Views of other parliamentary committees on a flood reinsurance pool

- 4.33 This is not the only recent inquiry to receive evidence calling for the expansion of the Cyclone Reinsurance Pool to cover other disasters.
- 4.34 For example, the Senate Select Committee on the Impact of Climate Risk on Insurance Premiums and Availability, in its final report tabled in November 2024, ‘heard from a wide range of stakeholders who support[ed] the expansion of an improved reinsurance pool to cover other regions and types of disasters’.³²
- 4.35 The House of Representatives Economics Standing Committee (Committee on Economics) undertook an inquiry into insurers’ responses to the 2022 major flood claims. The inquiry’s October 2024 report, *Flood failure to future fairness*, noted that many inquiry participants supported further investigation into the feasibility of a reinsurance pool for flood, including the Australian Insurance Consumers Lobby, Disaster Legal Help Victoria, Ballina Shire Council, Financial Rights Legal Centre, CHOICE, Consumer Action Law Centre, Westjustice, and Legal Aid Queensland.³³
- 4.36 The report noted advice from the Productivity Commission that Australian governments should ‘avoid expansion of climate related insurance sector interventions, as it risks subsidising the movement of individuals, households and businesses into harm’s way, and increasing overall adaptation costs’.³⁴

³⁰ *Funding for Flood Costs: Affordability, Availability and Public Policy Options*, pp. 18, 19.

³¹ *Funding for Flood Costs: Affordability, Availability and Public Policy Options*, p. 18.

³² Senate Select Committee on the Impact of Climate Risk on Insurance Premiums and Availability, *Final Report: Impact of Climate Risk on Insurance Premiums and Availability*, November 2024, p. 52.

³³ *Flood Failure to Future Fairness*, pp. 296–297.

³⁴ *Flood Failure to Future Fairness*, p. 299.

- 4.37 However, ultimately the Committee on Economics found that ‘the number of households and businesses at risk of not being able to afford flood insurance will increase over time as major floods become more common and insurers continue to reassess their comfort with flood risk exposure’. Because of this, the committee was of the view that ‘government intervention may be necessary to improve the affordability of flood insurance’ as long as the interventions occur where ‘accompanying policy measures limit and, over time, reduce the underlying risk’.³⁵
- 4.38 The Committee on Economics recommended the Australian Government consider ‘the appropriateness of a government supported reinsurance arrangement’ for flood insurance, based on the following principles (among others):
- Flood insurance should be available to all Australian homeowners and body corporate lot owners at an affordable price, with conditions.
 - Any scheme involving public funding devoted to a reinsurance pool or subsidies should be phased out over time, in accordance with ongoing investment in mitigation to reduce the underlying risk.
 - Federal and state governments should commit to ongoing investment in community mitigation, including a guaranteed minimum annual investment level and the development of rigorous business cases.
 - Households and small businesses should be provided with information on mitigation options and their premiums should be reduced immediately when they undertake such mitigation.³⁶
- 4.39 That inquiry received evidence from Allianz on the forms a national flood reinsurance facility could take, including the possibility of expanding the Cyclone Reinsurance Pool to include cover for all high-risk flood nationally. The report examined views on whether the pool should only cover existing properties, or just properties within areas of coverage, to incentivise property development only in areas that are not at high risk of flooding. Of note, however, insurers and reinsurers who gave evidence to that inquiry were not in favour of government intervention to reduce premiums if this reduction was not driven primarily by efforts to reduce risks, such as through mitigation. Several global reinsurance providers considered premium reductions should only eventuate if such a pool was set up to put pressure on risk reduction.³⁷

³⁵ *Flood Failure to Future Fairness*, pp. 307–310.

³⁶ *Flood Failure to Future Fairness*, pp. xlii–xliii (Recommendation 70).

³⁷ *Flood Failure to Future Fairness*, pp. 296–299.

4.40 Of relevance to this inquiry, the Committee on Economics in its report also recommended:

- the Australian Government move towards a national, centralised, public-facing portal containing flood risk data at the household level for all households and small businesses, all land being considered for release for development, and land already released but not yet developed;
- the Australian Government commission research into effective ways of communicating flood risk to communities;
- the Australian Government investigate the advantages and risks of enabling access to the Home Equity Access Scheme³⁸ for resilience improvements by people who cannot afford or access flood cover;
- the Australian Government ensure funding of at least \$200 million per year ongoing for community level mitigation;
- a climate financing framework be developed for government mitigation and adaptation funding, to create incentives for public sector and private sector investment in mitigation and resilience;
- the General Insurance Code of Practice be amended to require insurers to consider relevant property-level mitigation measures in new or renewing insurance policies and to demonstrate how the proposed premium reasonably reflects those measures, with the Code to be registered with ASIC and the Treasurer to direct a regulator to review insurers' compliance with this clause; and
- state and territory governments develop buyback and resilience programs for households with very high flood risk where alternative mitigation measures are unlikely to manage the risk, with the Australian Government to consider working with the state and territory governments, including through co-funding models.³⁹

4.41 The Australian Government has not yet provided a formal response to that report.

Overseas experiences of a flood pool

4.42 In considering the merits of a flood pool and whether the Cyclone Reinsurance Pool should be expanded to cover flood risks, Australia could look to the experiences of government intervention in flood markets overseas, notably in the United Kingdom (UK) and the United States of America (USA).⁴⁰

³⁸ The Home Equity Access Scheme allows older Australians to access an Australian Government loan by using the equity in their home or other Australian real estate. See Department of Social Services, [Home Equity Access Scheme](#), 28 November 2024 (accessed 27 February 2025).

³⁹ *Flood Failure to Future Fairness*, pp. xiv, xl–xli, xlv, xlv (Recommendations 63, 64, 67, 74, 75, 76, 81)

⁴⁰ *Flood Failure to Future Fairness*, p. xiv.

- 4.43 The UK Flood Re Scheme raises £135m every year by requiring every insurer that offers home insurance in the UK to pay into the scheme, which then covers the flood risks in home insurance policies. The scheme operates behind the scenes, where insurers can choose to pass the flood risk element of an individual policy to the scheme for a fixed price. When a valid claim for flooding is made by a consumer, the insurer pays the claim and then seeks reimbursement from the Flood Re fund.⁴¹
- 4.44 The overall purpose of the scheme is to ‘promote the availability and affordability of household insurance for those most at risk of flooding’ and ‘manage, over its 25-year lifetime, the transition of the market to risk reflective pricing for home insurance for these households’. Notably, this scheme is not intended to be permanent and has a 25 year lifespan.⁴²
- 4.45 The second five-year (quinquennial) review of the scheme, released in July 2024, found that the scheme overall ‘has continued to serve its purpose very well and is continuing to meet its statutory objectives’.⁴³
- 4.46 Flood Re Scheme has a *Build Back Better* (BBB) program which reimburses insurers for costs relating to claims for repairs up to a value of £10 000 above the cost of like-for-like replacement. The intention of the program is to incentivise the uptake of property level flood resilience and adaptation measures.⁴⁴
- 4.47 The scheme is seeing increasing uptake by households. Around one-third of claims submitted to Flood Re for three UK storms in 2023–24 included BBB provisions, though BBB usage varied significantly among insurers, ranging from 4 to 56 per cent.⁴⁵
- 4.48 The Insurance Council noted that the UK consumer base is around 60 million people, while in Australia the consumer base is around eight or nine million people. However, the Insurance Council indicated that the number of homes eligible at high risk of flood would be around the same, meaning an Australian flood pool would ‘have a much, much higher cost base to cover [a pool] than the UK does. They’re the sorts of design choices governments will have to weigh up, because ultimately it will invariably cost people who don’t live in flood zones a lot of money’. Even so, the Insurance Council was in favour of the following elements of Flood Re:

⁴¹ Flood Re Limited, *How Flood Re works*, www.floodre.co.uk/how-flood-re-works/ (accessed 20 February 2025).

⁴² Flood Re Limited, *The Quinquennial Review July 2024*, pp. 6–7.

⁴³ *The Quinquennial Review July 2024*, p. 9.

⁴⁴ *The Quinquennial Review July 2024*, pp. 7–8.

⁴⁵ Katie Johnson, ‘[Flood Re demonstrates resilience amidst record number of claims](#)’, *Today’s Conveyancer*, 24 July 2024.

- Its time limited nature.
- No new properties can enter the scheme.
- It is designed to reinvest in resilience and mitigation and then sunset.⁴⁶

4.49 The USA has the National Flood Insurance Program (NFIP), which is managed by the Federal Emergency Management Agency (FEMA) and is delivered to the public by a network of more than 50 insurance companies and the NFIP Direct. Through the NFIP, flood insurance is available to anyone living in one of the almost 23 000 participating NFIP communities.⁴⁷

4.50 A report published in a US economic journal found that since the creation of the NFIP, the US government paid out over US\$51 billion to cover flood losses, with almost half of these payouts going to just 25 counties, which are also among the fastest growing counties by population. The report ultimately concluded:

Our findings show that population increases in flood-prone areas as a direct response to community enrollment into the NFIP. Moreover, we provide evidence of induced risk taking by demonstrating that the NFIP causes larger population increases in historically riskier areas. Thus, our findings suggest that the private benefit households receive in the form of a reduction in potential risks produces adverse behavior, imposing significant external costs.⁴⁸

4.51 It should be noted that according to the Insurance Council, ‘the US will give you plenty of examples of what you should never do. In the general insurance market now, because of interventions like pools and the rest, most major insurers in California, because of wildfire and flood risk, are no longer writing new policies’. In particular, the Insurance Council argued that US schemes have functioned as ‘a Trojan Horse for developers’ to continue development in high-risk areas.⁴⁹

Mitigation and resilience measures

4.52 The committee heard that mitigation and resilience are the number one factor, over the long-term, to reducing the cost of insurance. QBE Insurance, for example, stressed the importance of reducing, not masking, underlying risk ‘so that the impacts of natural disasters are lessened’.⁵⁰

⁴⁶ Mr Andrew Hall, Insurance Council of Australia, *Committee Hansard*, 19 April 2024, pp. 4–5.

⁴⁷ Federal Emergency Management Agency, *Flood Insurance*, www.fema.gov/flood-insurance (accessed 21 February 2025).

⁴⁸ Abigail Peralta and Jonathan B. Scott, ‘Does the National Flood Insurance Program Drive Migration to Higher Risk Areas?’, *Journal of the Association of Environmental and Resource Economists*, Vol 11, No 2, March 2024, <https://doi.org/10.1086/726155>.

⁴⁹ Mr Andrew Hall, Insurance Council of Australia, *Committee Hansard*, 19 April 2024, pp. 4–5.

⁵⁰ For example, Mr Andrew Ziolkowski, QBE Insurance Australia Ltd, *Committee Hansard*, 19 April 2024, p. 20.

- 4.53 Around 97 per cent of disaster funding is after an event.⁵¹ As the Insurance Council noted at the April 2024 hearing, ‘there is no better claim than the one that doesn’t need to happen’.⁵²
- 4.54 Governments in Australia have recognised the importance of resilience and mitigation and provided funding for programs to address these areas. These programs include:
- the Disaster Ready Fund;
 - the Hazards Insurance Partnership and Strategic Insurance Projects;
 - the Insurance Affordability and Natural Hazards Risk Reduction Taskforce;
 - the Resilient Homes Fund; and
 - the Strata Resilience Program.

Disaster Ready Fund

- 4.55 The Australian Government has provided up to a billion dollars through the Disaster Ready Fund, over five years from 1 July 2023. Projects funded through the Disaster Ready Fund address the physical and social impacts of disasters caused by climate change and other natural hazards on communities. The Fund is co-administered with state and territory government agencies responsible for emergency management. Co-contributions are required, either by the agency, the applicant or the delivery partners.⁵³
- 4.56 While supportive of the Disaster Ready Fund, Insurance Australia Group’s position was that the Disaster Ready Fund be ‘a 10-year rolling program’, noting that relocation of residents living in legacy homes in flood areas would require a multi-billion dollar program over a long period of time.⁵⁴

Hazards Insurance Partnership and Strategic Insurance Projects

- 4.57 The Australian Government has allocated \$22.6 million over four years through the Hazards Insurance Partnership and Strategic Insurance Projects to identify where insurance is an issue in high-risk areas, and develop policy solutions to reduce both risk and cost. The Hazards Insurance Partnership brings the Australian Government and the insurance industry together to discuss how to lower risk and better ways to collect and share information, while the Strategic Insurance Projects include:

⁵¹ Mr George Karagiannakis, Insurance Australia Group, *Committee Hansard*, 19 April 2024, p. 9.

⁵² Mr Andrew Hall, Insurance Council of Australia, *Committee Hansard*, 19 April 2024, p. 1.

⁵³ National Emergency Management Agency, [Disaster Ready Fund](#), 22 January 2025 (accessed 20 February 2025); See National Emergency Management Agency, *Disaster Ready Fund Round One Guidelines 2023–24*, p. 14; National Emergency Management Agency, *Disaster Ready Fund Round Two Guidelines 2024–25*, p. 16; National Emergency Management Agency, *Disaster Ready Fund Round Three Guidelines 2025–26*, p. 10.

⁵⁴ Mr George Karagiannakis, Insurance Australia Group, *Committee Hansard*, 19 April 2024, p. 9.

- creating a national library of actions individuals and communities can take to reduce their risks;
 - exploring public-private partnerships to incentivise and deliver risk-reduction initiatives;
 - collecting information about insurance affordability and under-insurance; and
 - reviewing standard insurance cover and definitions.⁵⁵
- 4.58 Material produced by the Hazards Insurance Partnership include a booklet on making homes storm and cyclone resilient with suggestions, along with estimated cost, covering areas such as:
- roof reinforcements, using a hip roof design with appropriate pitch, strong tie-downs and cyclone-related materials;
 - impact-resistant windows, using laminated glass windows or storm shutters;
 - reinforced garage doors to withstand high wind pressures; and
 - cyclone ties, bolts and straps to connect roofs to walls, walls to floors and floors to foundations.⁵⁶
- 4.59 The booklet also suggests that policy-holders ask their insurer how the Cyclone Reinsurance Pool affects their insurance, how their insurer defines ‘storm damage’, what additional coverage options are available for cyclone-related flood protection, and how the policy-holder can reduce their premiums by making their home more resilient to storms and cyclones. The booklet provides advice to policy-holders on what to check is included in their policy, such as whether:
- the sum insured is sufficient to rebuild their home and replace all contents;
 - the policy provides for temporary accommodation in the event a home is uninhabitable; and
 - the policy has an ‘averaging’ or co-insurance’ clause, as these terms may reduce a payout if the policy-holder is under-insured.⁵⁷

Insurance Affordability and Natural Hazards Risk Reduction Taskforce

- 4.60 The Australian Government announced in May 2024 that it would establish the Insurance Affordability and Natural Hazards Risk Reduction Taskforce ‘to develop an integrated, cross-government approach to minimising the impacts

⁵⁵ National Emergency Management Agency, [Hazards Insurance Partnership](#), 8 September 2024 (accessed 20 February 2025).

⁵⁶ National Emergency Management Agency, [Your Storm and Cyclone Resilient Home: Your Guide to Building, Maintaining and Insuring a Resilient Home](#), pp. 5–6 (accessed 20 February 2025).

⁵⁷ *Your Storm and Cyclone Resilient Home: Your Guide to Building, Maintaining and Insuring a Resilient Home*, pp. 17–18.

of disaster on the community and help address insurance costs driven by more frequent and intense weather events'. Issues the Taskforce is examining include:

- community-level risk reduction;
- hazard risk reduction;
- economic impacts of underinsurance;
- standardising natural hazard definitions; and
- other near-term solutions to improve affordability.⁵⁸

Resilient Homes Fund

4.61 The Queensland and Australian Governments' Resilient Home Fund (the fund) comprised \$741 million of funding to repair (enhance resilience), raise, demolish and rebuild homes impacted by the 2021–2022 flood event across 39 local government areas in Queensland. It also offered voluntary home buy-backs for the most impacted or high-risk homes. The fund provided financial assistance to:

- incorporate flood resilient design and materials in liveable rooms or areas;
- raise or relocate services essential to the continued liveability of the home;
- raise a home to reduce the impacts of future flood events; or
- demolish and rebuild or relocate a home above the assessed flood level and 2021–2022 flood event level.⁵⁹

4.62 RACQ provided the committee with an example of how the Resilient Homes Fund had led to improved resilience:

The Resilient Homes Fund has allowed us, in areas of South-East Queensland, with support from government funding, when we go back and do those claims to spend that extra money to lift those power points up to a place where it's less likely, the next time that property floods—hopefully, it won't, but next time—they won't have such a significant experience. They won't have to strip it all out.⁶⁰

4.63 Suncorp and QBE expressed their support for the proposal that the Resilient Homes Program be continued and provide support on an ongoing, rather than a one-off, basis.⁶¹

⁵⁸ The Hon Stephen Jones MP, Assistant Treasurer and Minister for Financial Services, [Media Release: Insurance Affordability and Natural Hazards Risk Reduction Taskforce](#), 31 May 2024 (accessed 20 February 2025).

⁵⁹ Queensland Government, *About the Resilient Homes Fund*, 19 December 2024, www.qld.gov.au/housing/buying-owning-home/financial-help-concessions/resilient-homes-fund/overview/about (accessed 19 February 2025).

⁶⁰ Mr David Carter, Royal Automobile Club of Queensland, *Committee Hansard*, 7 February 2025, p. 24.

⁶¹ Mr Andrew Huszczo, Suncorp, *Committee Hansard*, 19 April 2024, p. 16; For example, Mr Andrew Ziolkowski, QBE Insurance Australia Ltd, *Committee Hansard*, 19 April 2024, p. 24.

- 4.64 Allianz also stated that they ‘would fully support the extension of programs’ similar to the Resilient Homes Fund ‘across the whole of Australia, on an ongoing basis’.⁶²

Strata Resilience Program

- 4.65 The Strata Resilience Program (Strata program) was similarly funded by the Queensland and Australian Governments ‘in the area from 100 kilometres of the coastline from Rockhampton, north to the Torres Strait and west to the Queensland/Northern Territory border – to improve the resilience of ... strata properties against cyclones’. The Strata program provided funding of 75 per cent of the costs of approved eligible resilience strategies, up to \$15 000 per residential tenancy to a maximum grant value of \$150 000 per body corporate. Funding could cover resilience upgrades including:

- roof upgrades;
- window protection;
- external solid core doors;
- garage doors;
- box gutter overflows;
- old style louvres; and
- cyclone preparedness planning.⁶³

Evidence to this inquiry on mitigation and resilience

- 4.66 In January 2024, the Assistant Treasurer and Minister for Financial Services, the Hon Stephen Jones MP, stated that in 2023 he had a conversation with global insurers about how Australia could avoid market failure. According to the Assistant Treasurer, their advice was that Australia has ‘five years, it’s about mitigation, which is about firming up your infrastructure, ensuring that your houses are built to better standards’ and development approvals are not granted for high-risk areas.⁶⁴
- 4.67 Insurers at the 7 February 2025 hearing were all in favour of increased mitigation. For example, the Insurance Council argued that the pool ‘works best in concert with policies that reduce risk, such as programs to support household resilience to cyclones’.⁶⁵

⁶² Mr Nicholas Scofield, Chief Corporate Affairs Officer, Allianz Australia Limited, *Committee Hansard*, 19 April 2024, p. 32.

⁶³ Queensland Government, *About the Strata Resilience Program*, 19 June 2024, www.qld.gov.au/housing/buying-owning-home/financial-help-concessions/strata-resilience-program/about-the-strata-resilience-program (accessed 19 February 2025).

⁶⁴ The Hon Stephen Jones MP, Assistant Treasurer and Minister for Financial Services, [Transcript – Interview with Murray Jones](#), 17 January 2024.

⁶⁵ Mr Andrew Hall, Insurance Council of Australia, *Committee Hansard*, 19 April 2024, p. 1.

4.68 RACQ informed the committee that the ‘preferred course’ to reduce the cost of insurance ‘remains eliminating the social and economic cost of flooding by taking as much risk out of the system as possible’. RACQ was of the view that progress ‘by all levels of government on prevention and resilience has been inadequate to date’.⁶⁶

4.69 Sure Insurance informed the committee that because of improvements to building standards, ‘a large stock of homes out there’ have been subject to significantly more damage than newer homes:

... in previous cyclones we have seen the damage ratio between pre- and post-1982 constructed homes – that is, homes with or without cyclone standards – being a factor of four to one. A pre-1982 home will incur four times the amount of damage of that of a post-1982 claim in some cyclones.⁶⁷

4.70 The Insurance Council argued that for the pool to be more effective, ‘there needs to be a clear link reducing risk through increased investment in resilience and mitigation’, arguing that:

... public reinsurance pools established without any link to mitigation and resilience measures only serve to mask risk, placing more people in harm's way and increasing exposure in the long term. This ultimately builds a growing problem for governments and communities down the track, as we've seen in other markets like the US.⁶⁸

4.71 Policy solutions to improve resilience and mitigation that the Insurance Council pointed to included:

- better land use planning;
- better building standards;
- investment in community mitigation infrastructure; and
- household-level risk mitigation.⁶⁹

Funding government resilience and mitigation programs

4.72 As outlined below, proposals that witnesses put forward to increase mitigation and resilience included:

- the Australian Government providing incentives for other levels of government to increase uptake of resilience and mitigation;
- using tax collected on insurance premiums to fund mitigation programs; and
- using the pool's surplus to fund resilience and mitigation programs.

⁶⁶ Mr David Carter, Royal Automobile Club of Queensland, *Committee Hansard*, 7 February 2025, p. 23.

⁶⁷ Mr Bradley Heath, Sure Insurance, *Committee Hansard*, 7 February 2025, p. 18.

⁶⁸ Mr Andrew Hall, Insurance Council of Australia, *Committee Hansard*, 7 February 2025, p. 1.

⁶⁹ Mr Andrew Hall, Insurance Council of Australia, *Committee Hansard*, 7 February 2025, p. 2.

- 4.73 The Insurance Council suggested that particular ‘mitigation measures that do have a significant return on investment ... are just not being funded’. They argued that ‘year on year, state governments are collecting near on \$7 billion in stamp duty’. However, we ‘are not seeing \$7 billion go back into resilience and mitigation measures in this country’. The Insurance Council proposed that the Australian Government should provide money for local councils to work on the transition to more resilient homes, arguing:

I think what we’ve got to do is incentivise local councils to have a plan on how to do managed buybacks so that residents that haven’t moved aren’t left living in suboptimal conditions ... [A]ll of this needs to be linked with the plan that, while insurance affordability and availability is important, living in a safe home is what really matters. If you’re living in a home that’s got a 41 per cent chance of fully flooding in the next 10 years and government knows it, I think it’s incumbent on government to help those people find a way out of that....⁷⁰

- 4.74 The Insurance Council suggested that state governments are currently not incentivised to address disaster resilience, arguing that the Commonwealth is:

... the insurer of last resort. When these major floods and disasters happen, the Commonwealth is often called upon. It’s the first to put its hand in its pocket to provide the Army and to provide all of the other things on top of the state emergency response. Once it goes over a certain amount, like we saw with the Resilient Homes Fund, it’s the Commonwealth taxpayer who is paying for the buybacks, who is paying for the house razings. There needs to be a really thorough examination of Commonwealth-state financial relations to try to either incentivise the states to put more money into preparing communities against natural disaster or for the Commonwealth to take it all on and deal with it. But we’re in this problem where three levels of government are involved and one level of government is receiving all the revenue—that’s the middle level—and the top level of government is left to pick up the bill.⁷¹

- 4.75 Sure Insurance argued that retrofitting older homes to cyclone standards, particularly subsidising the cost of roof replacement, would have a considerable impact on their risk profiles. Sure Insurance called for money for mitigation in this area, suggesting the surplus from the pool could be used to this effect, as well as stamp duty.⁷²
- 4.76 The proposal that the pool’s surplus could be used to fund particular mitigation measures is discussed separately below.
- 4.77 RACQ proposed that a ‘significant proportion of GST and stamp duty on premiums, particularly in northern Australia but also in flood-prone areas more broadly in Australia’, be put ‘into resilient homes funds’. They also expressed

⁷⁰ Mr Andrew Hall, Insurance Council of Australia, *Committee Hansard*, 7 February 2025, p. 4.

⁷¹ Mr Andrew Hall, Insurance Council of Australia, *Committee Hansard*, 7 February 2025, p. 5.

⁷² Mr Bradley Heath, Sure Insurance, *Committee Hansard*, 7 February 2025, p. 18.

support for the proposal that the money generated from GST and stamp duty be used for broader mitigation efforts.⁷³

- 4.78 The Australian Consumers Insurance Lobby (ACIL) considered that ‘there is enough evidence now’ to show that mitigation ‘will reduce claims in the Cyclone Reinsurance Pool’ and ‘it’s time to now just do the implementation and actually make buildings resilient’. However, they also called for an actuarial report to conduct a cost-benefit analysis of mitigation, arguing that ‘it is important ... as policymakers, to know what the costs and benefits of any mitigation are, because there’s no point spending money if you’re not going to get a return’.⁷⁴
- 4.79 The ACIL also agreed with the proposal of an ongoing program to make homes more resilient, suggesting that such a program be funded in part through premiums collected through the pool (below), and through stamp duty revenue collected by state governments.⁷⁵
- 4.80 The ARPC advised the committee that risk mitigation is a ‘key focus area’ for them. Further, the ‘total discount for mitigation applied to in-force home insurance premiums as at 31 March 2024 was \$5.8 million, and ARPC will pursue further initiatives to improve take-up rates’.⁷⁶
- 4.81 The ARPC reported in April 2024 that its premium formula provides discounts for the following mitigation measures:
- Roller door bracing (for properties built before 2012).
 - Window protection measures.
 - Tied down roof.
 - New/replaced roof (for properties built before 1982).
 - Elevated ground floor.⁷⁷
- 4.82 At that time, ‘a small proportion of Home Buildings reinsured by the cyclone pool have completed mitigation and are accessing the cyclone pool premium discount allowances’. The ARPC expected ‘these figures to increase as insurers

⁷³ Mr David Carter, Royal Automobile Club of Queensland, *Committee Hansard*, 7 February 2025, pp. 24, 28.

⁷⁴ Mr Tyrone Shandiman, Australian Consumers Insurance Lobby, *Committee Hansard*, 7 February 2025, pp. 12, 13.

⁷⁵ Mr Tyrone Shandiman, Australian Consumers Insurance Lobby, *Committee Hansard*, 7 February 2025, p. 13.

⁷⁶ Australian Reinsurance Pool Corporation, answers to written questions on notice, 12 February 2025 (received 24 February 2025), p. [7].

⁷⁷ Australian Reinsurance Pool Corporation, *Cyclone Reinsurance Pool Premium and Exposure Statistics as at 31 December 2023*, April 2024, p. 7.

adjust their underwriting approaches and as policyholders are incentivised by cyclone pool premiums to implement mitigation measures'.⁷⁸

Using the pool's surplus to fund mitigation and resilience measures

4.83 As noted above, some witnesses called for the pool's surplus to be used to fund mitigation and resilience measures, while others urged caution.

4.84 For example, the Australian Consumers Insurance Lobby called for the pool's reserves, once they have reached 'sufficient levels to sustainably cover claims', to be used to:

- reduce premiums; and
- invest in community resilience measures, such as roof strengthening, debris management and securing outdoor structures.⁷⁹

4.85 The ACCC has also previously proposed that part of the revenue collected from stamp duty be directed towards measures that would improve affordability for low-income consumers, or to fund mitigation works.⁸⁰

4.86 The Insurance Council considered that the pool should have been designed so that 'in surplus years, money goes into a mitigation fund that people can apply for to have their home strengthened'. They did note, however, the need for the pool to build up reserves 'because we will have a \$10 billion event one day'.⁸¹

4.87 RACQ was cautious about the possibility of using the pool's surplus to fund subsidies to reduce premium costs, suggesting that 'if you get to a place where, over a five-to-10 year period, there are surplus funds then, yes, it would make sense to use those funds to drop the premiums'. However, it considered that the pool 'may not be able to generate that sort of surplus', given recent cyclones were relatively small.⁸²

4.88 The ARPC informed the committee that there are years where it will have surpluses and years where there are large deficits, with most years over a five year period expected to be in surplus, 'but one year in every five years will be very, very large in deficit – in the order of billions of dollars'. The ARPC is 'saving funds for the big loss event, which we haven't had yet'.⁸³

⁷⁸ *Cyclone Reinsurance Pool Premium and Exposure Statistics as at 31 December 2023*, April 2024, p. 7.

⁷⁹ Correspondence from the Australian Consumers Insurance Lobby, tabled at the public hearing on 7 February 2025, p. 1.

⁸⁰ *Northern Australia Insurance Inquiry: Final Report*, p. xxiv.

⁸¹ Mr Andrew Hall, Insurance Council of Australia, *Committee Hansard*, 7 February 2025, pp. 7–8.

⁸² Mr David Carter, Royal Automobile Club of Queensland, *Committee Hansard*, 7 February 2025, p. 27.

⁸³ Dr Christopher Wallace, Australian Reinsurance Pool Corporation, *Committee Hansard*, 7 February 2025, p. 39.

Chapter 5

Committee view and recommendations

- 5.1 The increasing prevalence and severity of cyclones—and the corresponding damage to homes, businesses and communities—has been a concern for many years, particularly in the high-risk areas of Northern Australia. One outcome of increased claims for cyclone-related damage has been the hesitancy of insurance companies to take on this ever-growing risk.
- 5.2 While some insurance companies operating in Australia are still willing to operate in this elevated risk environment, many global reinsurance conglomerates have been reluctant to continue to provide reinsurance and have withdrawn from the Australian market or have increased prices to a level that is unsustainable for policy-holders. These higher costs are being paid by Australian insurers, with a flow-on effect of insurance premiums skyrocketing to unaffordable levels for people and businesses in those regions. Many individuals, families and businesses are unable to afford the insurance premiums and have found themselves with not enough, or even without any, coverage during cyclone events.
- 5.3 The downstream effect for governments is that they must then step in to provide emergency relief for people with uninsured damage, which can often turn into long term welfare relief for families who may have lost their homes, or for employees of businesses that must close due to loss of assets. As noted in the explanatory memorandum for the bill establishing the Cyclone Reinsurance Pool:
- Households that are underinsured or have no insurance have reduced financial capacity to recover from a natural disaster or other event. Poor insurance coverage can exacerbate costs and pressures for communities and for governments through increased pressure on health, emergency and welfare systems. It can slow the economic recovery of a region following a disaster.¹
- 5.4 Clearly it was in the best interests of families, businesses and communities for government to step in to address this market failure. In early 2022, the Cyclone Reinsurance Pool (the pool) was established with bipartisan support, to allow insurance companies to transfer their risk for cyclones and cyclone-related flood damage.
- 5.5 Since the establishment of the pool, there have been a number of significant cyclone and flooding events. At the time of drafting this report, parts of Northern Australia had experienced the effects of recent cyclone and high

¹ Treasury Laws Amendment (Cyclone and Flood Damage Reinsurance Pool) Bill 2022, *Explanatory memorandum*, p. 4.

rainfall events, with devastating floodwaters still impacting many individual houses and entire communities. Members of this committee meet regularly, weekly even, with residents of Northern Australia whose homes have been flooded. People in Northern Australia are exhausted. They need certainty that they can continue to afford to live in parts of Australia that contribute significantly to Australia's GDP.

5.6 The key questions before the committee are:

- whether the pool is operating in the best interests of impacted people;
- if the pool is meeting its establishing principles to improve the accessibility and affordability of insurance for households and small businesses in cyclone-prone areas in Northern Australia; and
- whether the pool providing sufficient incentives for risk reduction and encouraging cyclone and flood-related mitigation over time.

5.7 The committee traversed many of these issues in its First Report of March 2023, which made 7 recommendations, for which the committee formally affirms its continued support.

Future of the pool

5.8 The committee acknowledges that the pool has been in operation for only a short time, with all eligible insurers joining by the 31 December 2024 deadline. Given the relative newness of the scheme, it would not be reasonable to expect significant changes to the overall cost of insurance premiums to consumers at this point.

5.9 However, as noted by the Australian Competition and Consumer Commission (ACCC) in its September 2024 monitoring report, the pool 'is beginning to deliver premium relief for some consumers in some regions facing higher risk of cyclones'.²

5.10 Even so, as the ACCC acknowledged, these premium reductions are being offset by premium increases caused by other cost increases. The report further noted that, so far, there has been no increase in insurance availability in Northern Australia. In addition, while the pool does not show signs of failing to meet objectives, it does not yet show any signs of significant success.

5.11 In January 2024, the Assistant Treasurer and Minister for Financial Services stated that the pool is 'a good thing' that will 'make a difference', but it will not 'be a silver bullet that halves insurance premiums ... So, what we need to do is ensure that it's operating as effectively as possible'. He considered that 'solutions in the area of insurance and insurance affordability actually lie outside of insurance and not inside', arguing that insurance 'is what happens

² Australian Competition and Consumer Commission, *Insurance Monitoring: Third Report Following the Introduction of a Cyclone and Cyclone-Related Flood Damage Reinsurance Pool*, September 2024, p. 1.

when everything goes wrong. The best solutions are about ensuring we have better buildings, better infrastructure and better resilience'.³

- 5.12 The committee notes there is a scheduled review due to take place after 1 July 2025, with the *Terrorism and Cyclone Insurance Act 2003* requiring the review report to consider 'the need for this Act to continue in operation'.⁴ Further, the Insurance Council has also called for the review to consider 'how appropriate sunsetting the pool's coverage would be to aid in forcing the market to deliver houses that can withstand cyclones'.⁵
- 5.13 It is clear that the pool is having a positive, if limited so far, impact on the cost of premiums; this is apparent in both evidence to this inquiry and in feedback committee members have heard from constituents in Northern Australia. Further, evidence indicates that the pool is reducing premium costs. The committee calls on the Australian Government to provide continued support for the pool, given:
- there has not yet been sufficient time to determine whether the pool is operating as intended;
 - the effect of mitigation and resilience measures on premium costs may take years to eventualise;
 - climate change is expected to lead to more disaster-level events; and
 - it is critical to Australia's economy that populations continue to live and work in Northern Australia.

Recommendation 1

- 5.14 The committee recommends that the Australian Government must proceed with the planned legislated review of the Cyclone Reinsurance Pool in 2025.**

Adjustments to the pool

- 5.15 Throughout the inquiry, stakeholders from all sides agreed that the pool is beneficial. However, many had differing ideas on how to improve its operations, including whether it should be expanded. The proposed areas for expansion, discussed further below, include:
- lifting the sum insured limits;
 - extending the 48-hour period for flooding to be considered cyclone related;
 - including marine insurance; and
 - the potential for adding coverage for non-cyclone related flooding.

³ The Hon Stephen Jones MP, Assistant Treasurer and Minister for Financial Services, [Transcript: Interview with Amanda Cranston](#), 17 January 2024.

⁴ *Terrorism and Cyclone Insurance Act 2003*, section 41.

⁵ Insurance Council of Australia, answers to written questions on notice from Senator Susan McDonald on 7 February 2025 (received 21 February 2025), p. 3.

Sum insured limit

- 5.16 The pool currently covers commercial property policies with less than \$5 million total sum insured (for risks covered by the pool) and small and medium enterprises (SMEs) up to a maximum of \$5 million insured. The First Report discussed calls to expand the sum insured limit for businesses. The committee recommended:

Recommendation 7

4.53 The committee recommends that future reviews of the Cyclone Reinsurance Pool consider the sum insured limit under the business property policy.

- 5.17 The committee has received additional evidence that insurance is unavailable or unaffordable for businesses who may need to insure above this limit, which can impede their ability to continue operating and providing important jobs in regional locations.
- 5.18 The committee reiterates its original recommendation that the limits should be reviewed for continued suitability.

48-hour rule

- 5.19 The First Report noted the 48-hour rule, in which the pool covers cyclone and cyclone-related flood damage that occurs from the time a cyclone begins until 48 hours after the cyclone ends, as declared by the Bureau of Meteorology. The First Report recommended:

Recommendation 2

4.28 The committee recommends that the Australian Government review ... the impact of the 48-hour clause on the cost of insurance premiums for Northern Australians, and the availability of insurance in the region as part of the built-in review in 2025, and adjust this clause if necessary.

- 5.20 Since the tabling of the First Report, the committee has reviewed this issue in greater depth, with evidence discussed in Chapter 3. While some insurance entities did not agree with proposals to extend the 48-hour time limit, others insurers called for the extension of this arbitrary time limit, noting that in some cases over 60 per cent of cyclone-related insurance claims were not covered by the pool.
- 5.21 Additionally, the committee gives great weight to evidence from Treasury that while extending the 48-hour rule would likely not lead to large, overall improvements in affordability, it would likely lead to benefits for high-risk properties.
- 5.22 Given the pool's overall objective in aggregating cyclone risk for homes and businesses in high-risk regions, the committee believes this is a worthy outcome and reiterates its recommendation that the 2025 review of the pool consider the benefits of extending the 48-hour damage period following the downgrading of a cyclone.

Marine insurance

- 5.23 The committee heard opposing views on whether insurance for marine-related infrastructure should be included in the pool. Some insurers argued that this would increase reinsurance costs and ultimately increase insurance premiums for consumers.
- 5.24 Conversely, other evidence argued that these increased costs would be minimal, and marine insurance should be included in some form, noting that there are two types of assets, being fixed assets like marinas and jetties, versus non-fixed assets such as boats. Extending the pool to fixed assets would be unlikely to increase costs significantly, due to the relatively small number of such assets across Northern Australia compared to other assets such as houses and other buildings.
- 5.25 In the First Report for this inquiry, the committee noted calls for modelling on marine insurance.
- 5.26 The committee was told by Treasury at the public hearing in February 2025 that Treasury had provided advice to government on the issue, and the timing and release of that advice or any government position on marine insurance is now in the hands of the Australian Government.
- 5.27 The committee previously made a recommendation regarding marine insurance in its First Report:

Recommendation 4

4.36 The committee recommends that the Australian Government announce a position on the inclusion of marine insurance in the Cyclone Reinsurance Pool.

- 5.28 The committee notes there has been no response from the Australian Government to date and reiterates its position. The committee further calls on the Australian Government to release modelling about the inclusion of marine insurance in the pool.

Recommendation 2

- 5.29 The committee recommends that the Australian Government publish modelling on the cost and benefits of the inclusion of marine insurance in the Cyclone Reinsurance Pool.**

General flood reinsurance pool

- 5.30 The committee expressly considered in this report whether the pool should be expanded from cyclone-related flooding (within the allotted time limits) to include a general flood reinsurance pool.
- 5.31 The committee heard from both consumer advocates and some insurers that without strong investment in resilience measures, a government-backed flood reinsurance pool may become a necessary solution. The committee also heard

that while flood risk impacts a much smaller number of homes and businesses, it is more geographically spread out across Australia. One common element, however, is that flood risk tends to be concentrated in areas of higher economic disadvantage.

5.32 This inquiry is not the first to turn its mind to the issue of flood insurance beyond cyclone-related floods. The House of Representatives Economics Standing Committee, in its October 2024 report, *Flood Failure to Future Fairness*, noted significant support for further investigation into the feasibility of a reinsurance pool for flood, and made a detailed recommendation for the Australian Government to consider the appropriateness of a government supported reinsurance arrangement for flood insurance.

5.33 The Australian Government has not yet responded to that inquiry report.

Mitigation

5.34 One of the purposes of the pool is to ‘keep [insurance] premiums as low as possible while maintaining incentives to reduce and mitigate the risk of eligible cyclone losses’.⁶ However, whether or not discounts are ultimately given to insurance policy holders for mitigation remains obscure. There appears to be no data collected to ensure this occurs proportionately, consistently, or even at all.

Mitigation discounts on insurance premiums

5.35 The committee notes the calls from the insurance industry for governments to commit to more resilience and mitigation efforts. The committee also recognises the Australian Government has made significant investments in programs to encourage mitigation and resilience, and the Australian Reinsurance Pool Corporation has applied premium discounts for insurers on the basis of particular mitigation efforts. However, such measures are only effective if they have a direct, measurable impact on the cost of insurance for consumers. The insurance industry has a key role to play in responding to mitigation by reducing the cost of insurance premiums accordingly, and by reassuring the public that it is doing so.

5.36 While there was evidence presented to the committee on mitigation initiatives that are, or could be in future, taken outside of the pool, there was conspicuously little evidence on the effectiveness of the pool in incentivising the mitigation of cyclone losses at an individual claimant level. This absence of evidence speaks volumes as to how well mitigation incentives are being incorporated into individual insurance contracts that are underwritten by the pool. Clearly, there needs to be greater focus on incentivising mitigation via the pool—that is, by ensuring there are appropriate premium discounts applied to individuals who undertake agreed mitigation improvements to their houses or businesses.

⁶ *Treasury Laws Amendment (Cyclone and Flood Damage Reinsurance Pool) Act 2022*, para. 8D(b).

- 5.37 The committee notes that the most recent independent review of the *General Insurance Code of Conduct* recommended that, subject to financial advice law, the code ‘should require insurers to provide transparency about the types of consumer risk-mitigation activities that result in a pricing benefit’.⁷ A similar recommendation was made by the House of Representatives Economics Committee’s October 2024 *Inquiry into insurers’ responses to 2022 major floods claims*.⁸
- 5.38 The Insurance Council of Australia published a joint response to the *General Insurance Code of Conduct* and the *Inquiry into insurers’ responses to 2022 major floods claims*, focusing on ‘recommendations across both reports that can be supported or where the industry can work constructively with others to explore implementation’.⁹ No comment appeared to be made in that response to the recommendation around greater transparency for mitigation-related insurance premium discounts.¹⁰ However, the Insurance Council did note that further progress will be outlined in early 2025, and separately stated in February 2025 that it ‘is now working on recommendations from the various inquiries and looks forward to consulting with consumer advocates and other key stakeholders on this work’.¹¹
- 5.39 The committee calls on the Insurance Council and other insurers to publicly commit to providing all insurance policyholders who engage in mitigation and resilience an estimate of how much these efforts have saved or will save them on their premium costs. The committee also calls on insurers to commit to publishing the overall net positive impact of mitigation and resilience measures on the cost of insurance premiums. The committee further calls on the Insurance Council and the insurers who have engaged in this inquiry to provide a public response to this recommendation.
- 5.40 The committee further believes there is a role for the ACCC to monitor whether insurers are passing on premium discounts to customers who undertake approved mitigation activities. This will require expanding the ACCC’s remit and appropriately funding it. The committee’s recommendation on this matter is set out below.

⁷ Insurance Council of Australia, *General Insurance Code of Practice, Independent Review: Final Report*, December 2024, p. 27.

⁸ *Flood failure to future fairness*, Recommendation 76.

⁹ Insurance Council of Australia, [‘Insurers Respond to Parliamentary Inquiry and Code Review recs’](#), Media Release, 18 December 2024.

¹⁰ Insurance Council of Australia, [Initial Industry Response: The General Insurance Code of Practice Independent Review and the 2022 Flood Inquiry Recommendations](#), December 2024.

¹¹ Insurance Council of Australia, [Advancing Australia’s Resilience: Policy Recommendations for the Next Australian Government](#), February 2025, p. 4.

Mitigation incentives through tax relief

- 5.41 The committee notes evidence calling for money from the pool's surplus to be used for resilience and mitigation measures and to reduce the cost of premiums. However, the Australian Reinsurance Pool Corporation (ARPC) gave evidence that they are maintaining reserves for a 'big loss event', modelled to occur on average once every five years and cost billions of dollars. As such, the committee considers that it will be several years before the ARPC can safely consider using any surplus funds for such an initiative, without needing to draw on the Australian Government's guarantee. Alternative mechanisms to incentivise mitigation should therefore be sought in the short-term.
- 5.42 The committee acknowledges the Australian Government's significant work in this space already, including up to a billion dollars provided through the Disaster Ready Fund, the Hazards Insurance Partnership and Strategic Insurance Projects, and the Insurance Affordability and Natural Hazards Risk Reduction Taskforce.
- 5.43 However, the committee is also persuaded by arguments that more can and should be done, given the science indicating that climate change will lead to increased severity and intensity of weather events over the coming decades.
- 5.44 The committee is of the view that consideration should be given to funding cyclone damage mitigation via a tax offset. This would enable more homes, including those homeowners who may be ineligible for existing subsidies, to be made more resilient, thereby reducing the long-term costs of insurance premiums.
- 5.45 Any offset should be time-limited, restricted to existing homes in particular regions, and apply only to specific upgrades, such as those outlined in the National Emergency Management Agency's booklet on building, maintaining and insuring a resilient home.¹² Care should also be taken to ensure that homeowners are unable to 'double-dip' through other tax offsets, such as capital gains tax, or through other, government-funded programs to subsidise the cost of cyclone-proofing their homes, such as the Household Resilience Program.
- 5.46 As an alternative, the Australian Government could consider providing direct subsidies to eligible households in Northern Australia to engage in household resilience and mitigation. However, this would require more government resources to administer such a program.
- 5.47 The committee further notes the extensive state and federal government programs that fund, incentivise and otherwise provide support for improving resilience against climate-related damage to home and businesses. In particular, witnesses acknowledged the positive impact of the Resilient Homes Program

¹² National Emergency Management Agency, [*Your Storm and Cyclone Resilient Home: Your Guide to Building, Maintaining and Insuring a Resilient Home*](#), pp. 5–6 (accessed 20 February 2025).

and Strata Resilience Program on improving cyclone and flood-related building resilience. There was strong support in evidence to this inquiry for programs such as these to become longer-term programs rather than offered as a one-off. The House of Representatives Standing Committee on Economics in its *Flood Failure to Future Fairness* report noted a significant body of evidence calling for policy solutions to reduce flood risk. This evidence proposed increased government investment in community mitigation infrastructure and expansion of the federal-Queensland Resilient Homes Fund beyond the southeast corner of Queensland. That report noted that ‘insurers may be more willing to re-enter the local market’ if they determine that resilience measures have materially reduced flood risk.¹³

- 5.48 Given resilience and mitigation measures over the long-term reduce underlying risk and, therefore, premium costs, the committee concurs with the strong evidence given to both inquiries calling for a national, ongoing program to improve household resilience and mitigation.

Recommendation 3

- 5.49 The committee strongly recommends that the Australian Government support an ongoing, national resilience program on a permanent basis.**

Recommendation 4

- 5.50 The committee recommends that the Australian Government consider a range of measures to improve resilience and mitigation of high-risk homes in Northern Australia, including:**

- **providing targeted tax offsets for eligible households in Northern Australia; and**
- **providing direct subsidies to eligible households in Northern Australia.**

- 5.51 An additional issue is the matter of taxation applied to insurance premiums. Currently, most insurance premiums are subject to state and territory stamp duty of around 10 per cent. Once stamp duty is added to the total, an additional 10 per cent is calculated for the Goods and Services Tax (GST).
- 5.52 And of course, as insurance premiums rise, the tax also rises, creating a doubling up effect on consumers. The median cost of premiums for combined home and contents insurance increased by 11 per cent for north Queensland and the Northern Territory in 2023.¹⁴ The cost of insurance overall across Australia rose

¹³ *Flood failure to future fairness*, pp. 222, 274–277.

¹⁴ Australian Competition & Consumer Commission, *Insurance Monitoring: Third Report Following the Introduction of a Cyclone and Cyclone-Related Flood Damage Reinsurance Pool*, September 2024, p. 4.

by 11 per cent in the twelve months to the December 2024 quarter.¹⁵ Given the increasing frequency and intensity of severe weather events, we can expect the cost of insurance to only increase over the coming years.

- 5.53 The committee believes that greater investigation of the impact of current taxation methods on insurance premium pricing would be beneficial.

Recommendation 5

- 5.54 The committee recommends the Australian Competition and Consumer Commission, in its insurance monitoring role, investigate the impact of current taxation methods on insurance premium pricing.**

Insurance monitoring

- 5.55 The ACCC, in its insurance monitoring role, provides reassurance to committee members and the public that the Cyclone Reinsurance Pool is contributing to lower insurance premiums as offered by insurers to consumers. The ACCC's reports are an important accountability mechanism for insurers and give an indication as to whether the pool, as a policy lever, is working.
- 5.56 Given the pool has only just commenced fully operating, the scale of changes required to see it operate more effectively, and broader inflationary pressures leading to increases in the cost of insurance, it is more important than ever that the ACCC is funded to continue this important role. As such, the committee takes the view that the ACCC should continue performing this important function until at least 2030, when the second scheduled review of the *Terrorism and Cyclone Insurance Act 2003* is due to occur again.
- 5.57 In addition, the committee considers that the ACCC's role should be expanded to monitor the extent to which mitigation measures are reducing the cost of insurance premiums. This expanded role is crucial, in light of increased spending by governments in the form of billions of dollars on mitigation and resilience. The insurance industry has called for more spending on mitigation, arguing that this is the major factor to decrease the cost of premiums. If governments are to spend (or are already spending) this much money on mitigation and resilience, certainty should be provided that taxpayers' money is achieving the intended effects by improving insurance affordability.

Recommendation 6

- 5.58 The committee recommends that the Australian Government fund the Australian Competition and Consumer Commission to continue its insurance monitoring role until at least 2030.**

¹⁵ Australian Bureau of Statistics, [Consumer Price Index, Australia – December Quarter 2024](#), 29 January 2025.

Recommendation 7

5.59 The committee recommends that the Australian Government fund and expand the remit of the Australian Competition and Consumer Commission to examine the extent to which insurers are reducing insurance premiums in response to mitigation and resilience measures.

5.60 Finally, given the committee's recommendations that the scheduled review consider many of the issues raised in evidence to this inquiry, the committee calls on the Australian Government to commit to publicly releasing the report of the upcoming review. This would provide certainty to insurers, policyholders and committee members that the review has given serious consideration to these issues before forming a view on the future of the Cyclone Reinsurance Pool.

Recommendation 8

5.61 The committee recommends that the Australian Government publish the report of the 2025 scheduled review into the *Terrorism and Cyclone Insurance Act 2003* once the report is finalised.

Ms Marion Scrymgour MP
Chair

Hon Warren Entsch MP
Deputy Chair

Additional comments from Senator McDonald

Inclusion of agricultural industry

- 1.1 Senator Susan McDonald proposes that the Cyclone Reinsurance Pool gives consideration to the agricultural industry, to include buildings that are on the same property where crops and/or livestock are produced to be covered by the Pool.
- 1.2 The agricultural industry is critical to the continued development of Northern Australia communities, employment opportunities, critical supply chains and providing food security to the whole of Australia, and hence should be incentivised and supported.

The law of large numbers – Geographical spread of risk

- 1.3 Senator Susan McDonald proposes that the Australian Government intervenes to review insurer licencing requirements so that insurance providers are obligated to offer products across the whole of Australia, rather than regionalising profitability and exiting marketplaces with lower profitability, such as Northern Australia.
- 1.4 The development and growth of Northern Australia relies on affordable and attainable insurance, and any insurer selectivity sets a dangerous precedent for other parts of regional Australia.

Senator Susan McDonald

LNP Senator for Queensland

Shadow Minister for Northern Australia

Shadow Minister for Resources

Appendix 1

Submissions and additional information

- 1 Ms Margaret Shaw OAM
- 2 National Insurance Brokers Association of Australia
- 3 Australian Consumers Insurance Lobby
- 4 Australian Competition & Consumer Commission
- 5 Bureau of Meteorology
- 6 Australian Reinsurance Pool Corporation
- 7 RACQ
 - Attachment 1
 - Attachment 2
- 8 Allianz
- 9 Townsville Chamber of Commerce
- 10 Insurance Council of Australia
- 11 Adjunct Professor Colin Dwyer
- 12 Townsville Enterprise
- 13 Townsville Lot Owners Group
 - Attachment 1
- 14 Sure Insurance

Additional Information

- 1 Letter from Australian Consumers Insurance Lobby regarding marine insurance, received 28 August 2023
- 2 Letter from Marina Industries Association regarding marine insurance, received 28 August 2023
- 3 Letter from Australian Consumers Insurance Lobby regarding the Cyclone Reinsurance Pool, received 19 September 2023
- 4 Call to action flyer from the Australian Consumers Insurance Lobby regarding the Cyclone Reinsurance Pool, received 19 September 2023
- 5 Letter from NQ Strata Action Group regarding the Cyclone Reinsurance Pool, received 30 September 2023
- 6 Letter from Australian Consumers Insurance Lobby regarding urgent action needed to ensure northern residents' interests are considered in the ARPC review, received 19 July 2024
- 7 Additional information from the Australian Consumers Insurance Lobby following the public hearing on 7 February 2025, received 12 February 2025

Answers to Questions on Notice

- 1 Australian Reinsurance Pool Corporation, answers to questions on notice, 25 November 2022 (received 13 December 2022)
- 2 Australian Competition and Consumer Commission, answers to questions on notice, 25 November 2022 (received 19 December 2022)
- 3 Bureau of Meteorology, answers to questions on notice, 25 November 2022 (received 21 December 2022)
- 4 Insurance Council of Australia, answers to questions on notice, 25 November 2022 (received 21 December 2022)
- 5 Bureau of Meteorology, answers to written questions on notice, 16 December 2022 (received 16 January 2023)
- 6 QBE, answers to written questions on notice, 16 December 2022 (received 16 January 2023)
- 7 Australian Reinsurance Pool Corporation, answers to written questions on notice, 16 December 2022 (received 16 January 2023)
- 8 Insurance Council of Australia, answers to written questions on notice, 16 December 2022 (received 16 January 2023)
- 9 Department of the Treasury, answers to written questions on notice, 16 December 2022 (received 17 January 2023)
- 10 IAG, answers to written questions on notice, 16 December 2022 (received 20 January 2023)
- 11 Allianz, answers to written questions on notice, 16 December 2022 (received 20 January 2023)
- 12 Department of the Treasury, answer to a written questions on notice, 16 December 2022 (received 10 February 2023)
- 13 Australian Reinsurance Pool Corporation, answers to questions taken on notice – public hearing, 19 April 2024, Brisbane (received 10 May 2024)
- 14 Australian Consumers Insurance Lobby, answers to questions taken on notice – public hearing, 19 April 2024, Brisbane (received 2 May 2024)
- 15 Insurance Council of Australia, answers to questions taken on notice – public hearing, 19 April 2024, Brisbane (received 13 May 2024)
- 16 Insurance Australia Group (IAG), answers to questions taken on notice – public hearing, 19 April 2024, Brisbane (received 17 May 2024)
- 17 Suncorp, answers to questions taken on notice - public hearing, 19 April 2024 (received 10 May 2024)
- 18 Australian Competition & Consumer Commission, answers to written questions on notice (received 13 September 2024)
- 19 Insurance Council of Australia, answers to spoken and written questions on notice from the public hearing on 7 February 2025 (received 21 February 2025)
- 20 Australian Reinsurance Pool Corporation, answers to written questions on notice, 12 February 2025 (received 24 February 2025)
- 21 Department of the Treasury, answers to questions on notice, 7 February 2025 (received 21 March 2025)

Tabled Documents

- 1 Opening statement, QBE, tabled at the public hearing on 25 November 2022
- 2 Opening statement, RACQ, tabled at the public hearing on 25 November 2022
- 3 Townsville Chamber of Commerce, Insurance: The Market Failure of an Essential Service, tabled by Mr Andrew Willcox MP at the public hearing on 7 February 2025
- 4 Correspondence from the Australian Consumers Insurance Lobby, tabled at the public hearing on 7 February 2025

Appendix 2

Public hearings and witnesses

Friday 25 November 2022

Main Committee Room

Parliament House

Canberra and via videoconference

Australian Consumers Insurance Lobby (via videoconference)

- Mr Tyrone Shandiman, Chairperson

National Insurance Brokers Association (via videoconference)

- Mr Philip Kewin, Chief Executive Officer
- Mr Steven Hill, Queensland Divisional Chairperson
- Ms Allyssa Hextell, Policy & Research Manager

Insurance Council of Australia

- Mr Andrew Hall, Chief Executive Officer
- Ms Aparna Reddy, General Manager Policy Regulation (via videoconferencing)

QBE

- Mr Andrew Ziolkowski, Chief Underwriting Officer

RACQ

- Mr Josh Cooney, General Manager Advocacy
- Mr Trent Sayers, Group Executive Insurance

Allianz

- Mr Nicholas Scofield, Chief Corporate Affairs Officer
- Mr James Fitzpatrick, Chief Technical Officer

Insurance Australia Group (IAG)

- Mrs Christa Marjoribanks, Executive General Manager, Product, Pricing and Governance, Intermediated Insurance

NT Chamber of Commerce (via videoconference)

- Mr Stephen Goodall, Chief Policy Officer
- Mr Brett Hagan, Member/Authorised Representative

Townsville Chamber of Commerce (via videoconference)

- Mr Chris Rockemer, President
- Mr Michael Kern, Chief Executive Officer

Australian Competition & Consumer Commission (via videoconference)

- Ms Sarah Proudfoot, Executive General Manager Infrastructure Division
- Mr Michael Eady, General Manager Insurance Monitoring

Department of the Treasury

- Ms Mohita Zaheed, Acting First Assistant Secretary, Financial System Division
- Mr Robb Preston, Banking, Credit and Insurance Branch
- Mr Guy Thorburn, Australian Government Actuary

Bureau of Meteorology

- Dr Peter Stone, Group Executive, Business Solutions

Australian Reinsurance Pool Corporation

- Dr Christopher Wallace, Chief Executive
- Mr Alexander Drake, Head of Public Affairs
- Mr Pulkit Jain, Head of Actuarial
- Ms Samantha Lawrence, Chief Risk and Governance Officer

Friday 19 April 2024

Terrace Room

Hotel Grand Chancellor Brisbane

23 Leichhardt Street

Spring Hill

Insurance Council of Australia

- Mr Andrew Hall, Executive Director and Chief Executive Officer
- Ms Alexandra Hordern, General Manager, Regulatory and Consumer Policy

Insurance Australia Group (IAG)

- Ms Corinne Glasby, Executive General Manager, Product, Pricing & Governance, Direct Insurance
- Ms Christa Marjoribanks, Executive General Manager, Product, Pricing and Governance
- Mr George Karagiannakis, Executive Manager Government & Industry Affairs

Suncorp

- Mr Andrew Huszczo, Appointed Actuary and Executive General Manager Reinsurance

The Royal Automobile Club of Queensland Limited - RACQ Ltd

- Mrs Karen Parkin, General Manager Insurance Product and Distribution
- Mr David Carter, Managing Director and Group Chief Executive Officer

QBE Insurance (Australia) Ltd (via teleconference)

- Mr Andrew Ziolkowski, Chief Underwriting Officer
- Mr Chris Esson, Chief Financial Officer

Australian Consumers Insurance Lobby Inc

- Mr Tyrone Shandiman, Chairperson

Allianz Australia Insurance Ltd (via teleconference)

- Mr Nicholas Scofield, Chief Corporate Affairs Officer
- Mr James Fitzpatrick, Chief Technical Officer
- Mr Scott Cooper, National Manager Disaster and Recovery

Australian Reinsurance Pool Corporation

- Dr Christopher Wallace, Chief Executive
- Mr Jason Flanagan, Chief Claims Officer
- Ms Victoria Simpson, Chief Operations Officer
- Mr Alexander Drake, Head of Public Affairs and Communications

Friday 7 February 2025

Committee Room 2S3

Australian Parliament House

Canberra

Insurance Council of Australia

- Mr Andrew Hall, Executive Director and CEO
- Ms Leisha Watson, Director, Regulatory and Consumer Policy

Australian Consumers Insurance Lobby

- Mr Tyrone Shandiman, Chairperson (via videoconference)

Sure Insurance

- Mr Bradley Heath, Managing Director (via videoconference)

RACQ (via videoconference)

- Mr David Carter, Managing Director and Group Chief Executive Officer
- Mr Joshua Cooney, General Manager Advocacy

Australian Competition & Consumer Commission

- Mr Michael Eady, General Manager, Insurance Monitoring
- Ms Nicole Ross, Executive General Manager, Infrastructure Division

Department of the Treasury

- Mr Danial Gaudry, Director
- Mr Robb Preston, Assistant Secretary
- Mr Guy Thorburn, Australian Government Actuary

Australian Reinsurance Pool Corporation

- Dr Christopher Wallace, Chief Executive Officer
- Mr Jason Flanagan, Chief Claims Officer