



UNDER the COVER

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Message from the CEO

Welcome to a special edition of our newsletter

ARPC ready to support new reinsurance pool

This special edition of Under the Cover is the first in a series addressed to you, our stakeholders, to update you on the progress of the proposed new cyclone and related flooding reinsurance pool.

ARPC welcomes Prime Minister Scott Morrison's 4 May announcement regarding the intention to establish a reinsurance pool for cyclone and cyclone-related flooding events.

ARPC stands ready to support the Australian Department of the Treasury as it undertakes the detailed design of the new pool.

With deep experience running a Government-backed reinsurance pool, ARPC is well positioned to engage with stakeholders in the development of the new pool.

We look forward to sharing more details with you as these emerge.

This newsletter focuses on the policy intent of the new pool as provided by the Australian Government so far. We hope you find it valuable.

Please note that ARPC remains true to its original purpose and stands ready to respond to a Declared Terrorism Incident.

Dr Christopher Wallace | Chief Executive Officer

The new policy proposal announcement

The Australian Government has announced that it intends to establish a reinsurance pool to cover cyclone and related flood damage to commence from 1 July 2022.

The policy is intended to improve the affordability and accessibility of insurance in cyclone-prone areas, predominantly located in northern Australia, and is a significant policy announcement for the insurance sector and for the residents and small businesses in those areas.

The reinsurance pool was announced at a media doorstep in Cairns, far north Queensland, on 4 May 2021, by The Hon. Scott Morrison MP, Prime Minister of Australia; The Hon. Michael Sukkar MP, Assistant Treasurer, Minister for Housing, Minister for Homelessness, Social and Community Housing; The Hon. Warren Entsch MP, Member for Leichhardt; and Mr. Phillip Thompson OAM, MP, Member for Herbert.

Further information can be found in the joint media release issued 4 May 2021 by The Hon. Scott Morrison MP, Prime Minister; The Hon. Josh Frydenberg MP, Treasurer; The Hon. David Littleproud, Minister for Agriculture, Drought and Emergency Management; and The Hon. Keith Pitt MP, Minister for Resources, Water and Northern Australia.

The joint media release containing the Prime Minister's announcement can be found [here](#). The Cairns media doorstep transcript can be found [here](#).

In response to the Prime Minister's announcement, ARPC issued a media release welcoming the cyclone reinsurance pool proposal and committed to supporting Treasury as it completes the detailed design of the pool.

ARPC's media release can be read [here](#).

What do we know about the cyclone and related flooding reinsurance pool so far?

At this stage, we know that:

- The reinsurance pool would cover cyclone and cyclone-related flood damage in cyclone-prone areas, predominantly located in northern Australia, from 1 July 2022.
- Northern Australia comprises that part of Australia lying north of the Tropic of Capricorn, including northern Queensland, the Northern Territory and northern WA.

- The pool would be administered by ARPC and cover home insurance, strata insurance and small business property insurance in cyclone-prone areas.
- The Government would provide a \$10 billion annually reinstated guarantee to ARPC in support of administering the reinsurance pool.
- Details of the intended guarantee will be subject to consultation and further Government consideration. The guarantee may be called upon during a year in which there are a high number of cyclones and related flooding, to ensure ARPC can pay any liabilities.
- The reinsurance pool will be designed to be cost-neutral to the Government over the long term, based on the predicted cost and frequency of cyclone events. Further modelling on the potential costs of the guarantee will be undertaken during the design process.
- The pool implementation will be subject to a Treasury-led Taskforce and industry consultation on its design and will ultimately require Parliamentary approval.
- There are more than 500,000 insurance policies expected to be eligible to be covered by the new reinsurance pool.
- The new proposed \$10 billion Commonwealth guarantee is expected to be separate to the existing ARPC terrorism reinsurance pool guarantee.

What premium savings can consumers expect?

According to the Government announcement, the cyclone and related flooding reinsurance pool would reduce premiums across northern Australia by more than \$1.5 billion over 10 years for households, strata and small businesses.

ARPC expects premium savings to occur through the pool setting a reinsurance price that does not charge a profit margin and being backed by a government guarantee.

What happens next?

A Treasury-led Taskforce will work to develop the final design of the reinsurance pool in close consultation with industry. Pool design will be finalised following the consultation process.

In the 11 May Federal Budget papers, the Government stated that it would provide \$2.4 million in 2021-22 to the Department of the Treasury to establish the Reinsurance Pool Taskforce to consult industry and

experts on the design and implementation of the reinsurance pool.

For the reinsurance pool to commence on 1 July 2022, the following steps will need to be completed:

Australian Government	ARPC actions
4 May 2021 announcement on proposed new pool with further details provided in the 2021-22 Federal Budget.	<ul style="list-style-type: none"> ARPC acknowledges the Government policy intent (publishes ARPC media release). Provides information to ARPC stakeholders on Government policy intent (this newsletter).
Treasury-led Taskforce to undertake industry consultation and recommend a final scheme design to Government for consideration. \$2.4 million provided to Treasury to fund the Taskforce work.	<ul style="list-style-type: none"> ARPC will support Treasury's work on scheme design and facilitate industry consultation as needed. Secondment of some ARPC employees to Treasury.
Legislative implementation, that is, the normal Parliamentary process for considering and approving new legislation must be completed.	<ul style="list-style-type: none"> ARPC will support Treasury with technical input to legislation or regulations as required.
Pool implementation following confirmation of the legislation.	<ul style="list-style-type: none"> ARPC recruits additional employees. Implementation of ARPC system changes ARPC works with insurers to support their system changes Operational changes to ARPC on premises and procedures. Confirmation of reinsurance contracts and pool pricing. Communication of detail of new pool design to insurers.
Commencement of the new pool, including coverage, intended from 1 July 2022.	<ul style="list-style-type: none"> Commence writing new business. Communication on progress on onboarding insurers.

More detail about how the scheme will operate will emerge in the coming months as the Treasury-led Taskforce gets underway.

Questions



ARPC can forward stakeholder questions to the Treasury-led Taskforce.

Email questions to: enquiries@arpc.gov.au