



Australian Government

Australian Reinsurance Pool Corporation

ARPC Fact Sheet – Cyclone Reinsurance Pool

About ARPC

Australian Reinsurance Pool Corporation (ARPC) is a public financial corporation, originally established under the *Terrorism Insurance Act 2003* (TI Act) on 1 July 2003 to administer the Terrorism Reinsurance Pool (terrorism pool) following the 11 September 2001 attacks in the US.

On 5 May 2021, the Australian Government announced the intention to establish a reinsurance pool to cover cyclone and cyclone-related flood damage. The *Terrorism and Cyclone Insurance Act 2003* (TCI Act) was passed on 30 March 2022 with ARPC operating both the Terrorism Reinsurance Pool (terrorism pool) and the Cyclone Reinsurance Pool (cyclone pool) from 1 July 2022.

Purpose of the cyclone pool

The cyclone pool is designed to lower insurance premiums for households and small businesses with high cyclone and related flood damage risk **by reducing the cost of reinsurance**, which is a significant cost component of premiums for these policies.

Savings for consumers

The Australian Competition and Consumer Commission (ACCC) will monitor insurance premiums that insurance companies (insurers) charge consumers to ensure savings are passed through to policyholders.

Customers of the cyclone pool

The cyclone pool is a reinsurance arrangement between insurers and ARPC, so the customers of the pool are Australian insurers. Consumer policyholders – for example, homeowners with insurance policies – are NOT required to join the pool.

Geographic reach

The cyclone pool operates Australia-wide, but targets support to cyclone-prone areas, which are primarily located in northern Australia.

Insurers must join the pool

Insurers must reinsure the risk of claims for eligible cyclone events by joining the pool and purchasing cyclone reinsurance from ARPC.

Large insurers with Gross Written Premiums of \$300 million or more must join the cyclone pool before 31 December 2023. Small insurers with Gross Written Premiums under \$300 million have until 31 December 2024 to join the cyclone pool.

Insurers should assess their portfolios to see if they meet premium volume thresholds dictating if and when they must join the pool. The thresholds and dates for joining the pool are listed below.

If/when to join the pool	Threshold (GWP*)	Eligible classes*	Eligible regions
Exempt from joining	<=\$10m GWP	Householders/SME/Strata	Postcodes are exempt when specified by ARPC via notifiable instrument
Small (Join latest Dec 24)	< \$300m GWP	Householders	
Large (Join latest Dec 23)	> \$300m GWP	Householders	

*GWP definition is consistent with regulatory reporting and further relates to the [Financial Sector \(Collection of Data\) \(reporting standard\) determination No. 18 of 2013 \(legislation.gov.au\)](#). Classes should be defined according to Attachment B of APRA [GPS 001](#).

The Gross Written Premium (GWP) figure relates to the previous financial year. The GWP and class definitions used in the thresholds are consistent with regulatory reporting definitions. The TCI Act allows ARPC to determine, via notifiable instrument, certain areas where the risk of cyclone loss is so small it is negligible [8A, (7)]. This instrument may provide official information regarding which regions should be excluded in the above assessment of GWP. ARPC has not released a notifiable instrument at this time, however APRA has published a document on its website titled: *The Cyclone Reinsurance Pool: On-Boarding Insurance Companies* to assist companies in understanding their obligations for joining the pool.

Risks covered by the cyclone pool

The cyclone pool covers cyclone and cyclone-related flood damage. This includes wind, rain, rainwater, rainwater run-off, storm surge, and riverine flood damage caused by a cyclone.

The cyclone pool will cover claims for cyclone and cyclone-related flood damage arising during a cyclone event, which lasts from the time a cyclone begins until 48 hours after the cyclone ends – this is known as the Cyclone Event Period.

Cyclone declarations

The Bureau of Meteorology (BoM) will observe the date and time when a cyclone begins and ends, and in some cases re-intensifies. Based on the BoM notification, the ARPC must then declare the start or end of a cyclone. The declaration will be on ARPC's website <http://arpc.gov.au>

Cyclone pool coverage

The cyclone pool covers home, strata, and small business policies. This includes:

- residential home and contents, including landlord insurance and farm residential cover
- residential strata, including mixed-use strata schemes (where 50 per cent or more of floor space is used mainly for residential purposes)
- commercial property policies with less than \$5 million total sum insured across risks covered by the pool (property, contents, and business interruption)
- Small Medium Enterprise (SME) up to a maximum AUD \$5 million sum insured limit.

Funding the cyclone pool

The cyclone pool is funded by charging reinsurance premiums to insurers, consistent with the pool's expected claims and operating expenses. The reinsurance pricing formula uses property data, such as geography, building characteristics and mitigation. **The pool does not seek to make a profit**, so increases potential savings to insurers and policyholders and is designed to:

- lower the reinsurance cost for most policies with medium-to-high exposure to cyclone risk
- maintain incentives for risk reduction and offer discounts for properties that undertake mitigation
- encourage policyholders to engage in strategies to mitigate cyclone and related flooding risks, while the discounts will assist to improve affordability and sustainability of property insurance over time.

Government support

The cyclone pool is supported by an annually reinstated \$10 billion Government guarantee. Any shortfall in reserves will be paid for through the Government guarantee. If the \$10 billion guarantee is likely to be exceeded by a single cyclone event or series of cyclone events within a single year, the Government will increase the guarantee to help the cyclone pool meet its obligations.

Claims

Claims against the cyclone pool will be reimbursed to the insurer as per the Reinsurance Agreement with ARPC.

Important term

Reinsurance: Insurance for insurers – for example, to make sure they can pay many claims in a natural disaster, or to cover situations where they experience claims from policyholders that are higher than a certain value. ARPC operates a reinsurance pool for declared cyclones (and a separate pool for declared terrorist incidents).

Contacts and further information: This fact sheet is designed to provide media representatives with relevant information on the cyclone pool. For further information, please contact enquiries@arpc.gov.au or Alexander Drake, Head of Public Affairs on (02) [+ 61 2 8223 6777](tel:+61282236777)