Australian Government
Australian Reinsurance Pool Corporation

# The Cyclone Reinsurance Pool Onboarding Insurance Companies

DOCUMENT RELEASE DATE: 2022/12/15

DOCUMENT VERSION: V2.01

# Contents

## Change log

| Document Version | Date | Section | Change |
|---|---|---|---|
| v2.0 | 2022/11/23 | *Appendix A: Joining the Cyclone Pool: Thresholds and Eligibility* | Additional details provided regarding thresholds and sum-insured |
| v2.01 | 2022/12/15 | *Appendix A: Joining the Cyclone Pool: Thresholds and Eligibility* | Change to GWP calculation requirements for determining whether an insurer is small or large under the regulations |

# Joining the Pool

## 1. Background

The Terrorism Insurance Act 2003 (later renamed the Terrorism and Cyclone Insurance Act 2003) (the Act) was established following the terrorist attacks of 11 September 2001 and the withdrawal of terrorism insurance cover by insurance and reinsurance companies. The Act established the Australian Reinsurance Pool Corporation (ARPC) to provide reinsurance cover to insurers (the reinsured) for eligible terrorism losses. The ARPC administers the Terrorism Reinsurance Pool, which involves providing primary insurers with reinsurance for commercial property and associated business interruption losses arising from a declared terrorist incident.

## 2. Considerations

This document should assist insurance companies to join the Cyclone Reinsurance Pool (the Pool) by highlighting some of the considerations and detailing the processes involved in preparing to join the Pool. This is not an exhaustive list, and each insurer should consider, where there are options, what is best for them.

2.1 The reinsured should familiarise themselves with all the legislative documents to understand their rights and obligations.

2.2 The pertinent pieces of legislative documentation can be at the following links:

| | |
|---|---|
| Terrorism and Cyclone Insurance Act 2003 | *Terrorism and Cyclone Insurance Act 2003 (legislation.gov.au)* |
| Terrorism and Cyclone Insurance Act 2003: Explanatory Memorandum | *Treasury Laws Amendment (Cyclone and Flood Damage Reinsurance Pool) Bill 2022 (legislation.gov.au)* |
| Terrorism and Cyclone Insurance Regulations 2003 | *Terrorism and Cyclone Insurance Regulations 2003 (legislation.gov.au)* |
| Terrorism Insurance Amendment (Cyclone and Related Flood Damage Reinsurance Pool) Regulations 2022: Explanatory Statement | *Terrorism Insurance Amendment (Cyclone and Related Flood Damage Reinsurance Pool) Regulations 2022 (legislation.gov.au)* |

2.3 To be covered by the ARPC for cyclone losses the reinsured must enter into a reinsurance agreement with ARPC.

2.4 The reinsured are obliged under the reinsurance agreement to cede all “eligible” policies from the entire book of business for remittance and reporting to ARPC and will not have the option to self-select which policies are covered and which are not.

2.5 Eligible Classes of Business and Coverage Limits covered by the reinsurance agreement (See Appendix A)

a) All Domestic property wholly or mainly residential (Home and Contents (H&C) & Landlords) – No sum insured limit.

b) Small Medium Enterprise (SME) – Max AUD 5m sum insured limit.

c) Strata:

i. Residential (50% or greater where occupancy is split with commercial) - No sum insured limit.

ii. Commercial – AUD 5m sum insured.

## 3. Transitioning

3.1 Insurers have the option of how their brands and classes of business will be transferred into the Pool and consideration should be given to the complexity and timing of the transition. ARPC will work with insurers to facilitate a flexible and smooth transitioning process.

3.2 Transferred Contracts are defined in Clause 2(b) of the reinsurance agreement.

3.3 Insurers should consider what it would mean for them if they were to enter the scheme on a run-on basis or one-off-transfer basis as a run-on basis may lead to a split portfolio for the purposes of cyclone reinsurance protection and claim recovery allocation.

3.4 Insurance companies are not required to; publish the cyclone reinsurance premium or display the premium on insurance policy documentation. However, the ACCC will have an ongoing price monitoring role.

3.5 Premium due to ARPC is reinsurance premium and the reinsured are not required to implement this into their IT systems. The reinsured will have the option to hold the reinsurance costs 'off-system' or fully implement the pricing into their IT infrastructure: it is at the discretion of the reinsured how they chose to manage the ARPC reinsurance premium - noting premium will be subject to periodic audit and review.

3.6 Reinsurance premium reporting conventions are contained within the reinsurance agreement.

3.7 Calculating the Cyclone Written Premium – The reinsured should use the ARPC rates provided by ARPC and use the assistance of the premium rater tools provided.

3.8 In deciding when to best join the Pool The reinsured should consider:

a) When it is mandatory for them to join the Pool (depending on the size of their premium income)

b) Their current reinsurance arrangements and the periods of coverage

c) The impact on final pricing to consumers

d) How much time it takes to get any pricing changes out to market; and,

e) Time required for any implementation of pricing changes and ARPC data transfer requirements

3.9 ARPC encourage insurers to review their responsibilities under GPS 320 Actuarial and Related Matters and seek guidance regarding the following:

a) Capital implications of the Pool

b) When is a convenient time for the insurer to join the Pool

c) What are the ARPC reinsurance premium pricing and reporting requirements, and the possible impact on policies, processes, or procedures.

## 4. One-off-Transfer & Run-on

4.1 Premium will be calculated using the ARPC cyclone premium rates.

4.2 Insurers should join the Pool at a defined quarterly reporting period agreed with ARPC.

4.3 It is suggested, where possible, data should be provided in-line with and reconcilable with the entity's APRA returns. This will provide; the ability to reconcile the figures reported to ARPC and APRA, avoid duplication of effort and to enable a smooth cedant review and audit process.

4.4 Premium Raters will be provided to the reinsured to enable them to calculate cyclone premium at a risk level using the following tools:

a) Pricing algorithm rater - will be provided to the reinsured in excel for their information
b) Rater in a box – to be made available to insurance companies to run test scenarios (this will be made available at a later stage).

4.5 After joining the pool the reinsured should calculate their per policy Annual Cyclone Ri Premium by taking the defined sum insured and applying ARPC's risk characteristics modifiers eg. Building type, Year of construction, etc, for each relevant peril. The contained within the ARPC rating algorithm and tables (within the raters):

$$Annual\ Cylcone\ Ri\ Premium = \ Sum\ insured\ \ x\ modifiers\ x\ rates$$

4.6 **All-cyclone-exposure** premium transfer basis for in-force premium at the reinsurance inception date using the 365 days method:

$$Daily\ Cyclone\ Ri\ Premium = \frac{Annual\ Cyclone\ Ri\ Premium}{365\ (days)}$$

$$Ri\ Premium = Daily\ Cyclone\ Ri\ Premium\ x\ days\ on\ risk\ at\ and\ post\ Ri\ inception$$

4.7 **Run-On Basis** where policy inception occurs on the date of or after the reinsurance contract incepts:

$$Annual\ Cyclone\ Ri\ Premium = ARPC\ Ri\ Premium$$

4.8 **Transitioning Premium and discounts** – After joining the pool the reinsured will not have to retrospectively apply any cyclone reinsurance premium rates or discounts to policies that incepted prior to the date their reinsurance contract with ARPC incepts. It is expected that the reinsured adjust their rates at the earliest opportunity after joining the Pool. For example: it is expected that an insurer will pass on the adjusted premiums to in-force policyholders at the following renewals and adjust the new business rates as at the date of exposure transfer.

## 5. Next Steps

5.1 All insurers need to understand the following:

a) The deadline is for joining the Pool:

**Explanatory memorandum – 2.11**

*2.11 Insurers are expected to enter into reinsurance agreements with the ARPC that take effect from 1 July 2022. Large insurers have until 31 December 2023 to join the scheme, at which point they must have obtained reinsurance for all their eligible cyclone risks with the ARPC. Small insurers must reinsure all their eligible cyclone risks with the ARPC by 31 December 2024.*

b) What happens if an insurer passes the threshold for mandatory participation in the Pool:

**Explanatory memorandum – 1.133**

*1.133 The cyclone reinsurance Pool comes into effect on 1 July 2022 at which time insurers are expected to start joining the Pool. Insurers can enter into contracts with the ARPC prior to 1 July 2022. To mitigate costs and risks associated with transitioning from existing reinsurance contracts, insurers generally have until 31 December 2023 to reinsure all eligible cyclone insurance risks with the ARPC.*

*[Schedule 1, item 27, Application of section 8A of the Act]*

**Explanatory memorandum – 1.134**

*1.134 During the transition period between 1 July 2022 and 31 December 2023, cyclone losses can be gradually ceded to the reinsurance pool. That is, insurers can progressively transfer their eligible cyclone policies into the reinsurance pool during this period. From 1 January 2024, insurers with eligible cyclone losses will be subject to the participation mandate. Lloyd's syndicates and unauthorised foreign* *insurers who choose to reinsure eligible cyclone losses with the ARPC will be subject to the 'one-in all-in' rule from 1 January 2024. [Schedule 1, item 27, Application of section 8A of the Act]*

**Explanatory memorandum – 1.135**

*1.135 Small general insurers that enter into insurance contracts totalling less than $300 million of gross written premiums for household insurance in the last financial year before 31 December 2022 must reinsure eligible cyclone losses with the ARPC by 31 December 2024. The additional time for small insurers to reinsure with the ARPC provides them with additional flexibility to transition to the new arrangements.*

*[Schedule 1, item 27, application of section 8A of the Act]*

c) What happens if an insurer does not pass the threshold for mandatory participation in the Pool:

**Explanatory memorandum – 1.18**

*1.18 Some insurers are not required to participate in the cyclone reinsurance scheme. The following insurers have the option not to participate:*

- *general insurers with minimum exposure to policies with eligible cyclone risks, if their total gross written premiums for a calendar year are below the threshold amount prescribed by the regulations (exempt general insurer);* **[5A Premium income threshold for eligible cyclone loss cover - (1) For the purposes of subsection 8A(5) of the Act, the prescribed threshold amount is $10 million**.]
- *Lloyd's underwriters under the Insurance Act 1973; and*
- *unauthorised foreign insurers under the Insurance Regulations 2002.*

*[Schedule 1, items 5, 7 and 9, section 3 and subsections 8A(5), 8A(6), 8A(9) and 8A(10) of the Act]*

**Explanatory memorandum – 1.19**

*1.19 If an exempt general insurer does elect to participate in the cyclone reinsurance scheme, they must reinsure all eligible cyclone risks they hold with the ARPC for the period the contract of reinsurance is in force.*

**Explanatory memorandum – 1.25**

*1.25 Some insurers are excluded entirely from obtaining reinsurance under the cyclone reinsurance scheme to recognise that support is provided directly to insurers (other than State or Territory government insurers and most Commonwealth Government insurers) offering policies to individuals and businesses. The following insurers are unable to participate in the scheme even where a contract of insurance issued by the insurer would otherwise be considered eligible for pool coverage:*

*[Schedule 1, item 9, subsection 8B(9) of the Act]*

- *Reinsurers (except to the extent that they also provide direct insurance);*
  *[Schedule 1, item 9, paragraph 8B(7)(a) of the Act]*
- *State and Territory Government insurers;*
  *[Schedule 1, item 9, subsection 8B(8) of the Act]*
- *Commonwealth Government insurers (other than the Defence Service Homes Insurance Scheme).*
  *[Schedule 1, item 8, subsection 5(1) of the Act]*

5.2 To assist the reinsured to understand the eligible cyclone risks for the purpose of exposures and thresholds, ARPC will publish a list of areas that are not considered to meet the eligibility criteria where the risk of cyclones is low or negligible**.**

**Explanatory memorandum – 1.23**

*1.23 Additionally, the ARPC may determine, by notifiable instrument, that the risk of eligible cyclone losses in certain areas of Australia is so low as to be negligible. The annual premium income for cyclone losses arising in these determined areas will not count towards the premium income threshold. Insurers solely operating in these areas therefore will not be required (but may choose) to participate in the cyclone reinsurance scheme. [Schedule 1, item 9, subsections 8A(7) of the Act]*

5.3 If an insurer passes the threshold and/or is not exempt from joining the Pool, they should email ARPC requesting they would like to enter into a reinsurance agreement with ARPC (enquiries@arpc.gov.au). Prior to signing the agreement, the Insurer will need to do the following:

a. Confirm they have 'eligible' insurance contracts for risks located in Australia (Australia includes Norfolk Island, Christmas Island and Cocos (Keeling) Islands).

   i. Cyclone insurance for "eligible" policies is automatically provided by the reinsured via the Terrorism and Cyclone Insurance Act 2003.

b. The reinsured are obliged under the reinsurance agreement to cede all "eligible" policies from the entire book of business for remittance and aggregate reporting to ARPC and will not have the option to self-select which policies are covered and which are not.

c. ARPC only reinsures original risks and does not provide cover for reinsurance contracts. *[Schedule 1, item 9, paragraph 8B(7)(a) of the Act]*

d. The ARPC agreement is intended to provide coverage on an **All-cyclone-exposure** basis (Treaty) and thus should not be used as a facultative reinsurance facility.

e. The ARPC reinsurance agreement is made between the Insurer (cedant) and the ARPC and this is not intermediated either by a broker or agent of any type.

5.4 When an insurer decides to enter into a reinsurance contract for cyclone with ARPC, certain pieces of information will be collected for the reinsurance schedule and ARPC *PACE* insurance system. The list below is subject to change and is dependent on the final configuration of the ARPC PACE system:

1. Full Company Name Company
2. Registration Number (ABN) Requested Agreement
3. Inception Date
4. Company Street Address
5. Company Postal Address
6. General Contact Person
   a. Telephone Number
   b. Mobile Number
   c. Email Address
7. Backup Contact Person
   a. Telephone Number
   b. Mobile Number

*c.* Email Address

5.5 Once ARPC receives the above information a reinsurance agreement and schedule will be emailed to the insurer for their agreement and countersignature. When the countersigned version has been received, ARPC will provide the insurer with login details and a guide to our online submission system *PACE*.

# Appendix A: Joining the Cyclone Pool – Thresholds and Eligibility

## 1. General

The Cyclone pool will cover eligible cyclone losses across Australia for Home, SME and Strata classes of business as per the Terrorism and Cyclone Insurance Act 2003 & Treasury Laws Amendment (Cyclone and Flood Damage Reinsurance Pool) Act 2022. It is incumbent on insurers to understand whether their policies are eligible for the pool to ensure that, where appropriate, policyholders are given the benefit of the cyclone pool pricing.

**Links to relevant legislation and regulations:**

Terrorism and Cyclone Insurance Act 2003 (legislation.gov.au)

Treasury Laws Amendment (Cyclone and Flood Damage Reinsurance Pool) Act 2022 (legislation.gov.au)

Terrorism Insurance Amendment (Cyclone and Related Flood Damage Reinsurance Pool) Regulations 2022 (legislation.gov.au)

Treasury Laws Amendment (Cyclone and Flood Damage Reinsurance Pool) Bill 2022 (legislation.gov.au)

Insurers should assess their portfolios to determine whether they meet certain premium volume thresholds dictating if and when they are required to join the pool. The thresholds and dates for joining the pool are listed below, along with which classes and regions to include when deriving GWP for the threshold calculation.

| If & When to join… | Threshold (GWP*) | Classes* | 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 | All of Australia |
| Large (Join latest Dec 23) | > $300m GWP | Householders | All of Australia |

*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 Act provides ARPC the ability 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 have not released a notifiable instrument at this time, however APRC have published a document to assist companies in understanding their obligations for joining the pool:

ARPC - Implementation and Pricing Structure Guide - Appendix B – Subsection 8A(7) Postcode List - as at 01 October 2022

**Instructions for using the guide:**

- The insurer should calculate the total Gross Written Premium for the previous financial year in respect of policies located in the list of postcodes provided (see sheet 'Postcodes with CRP premium'). The premium for all eligible policies should be included in the calculation (i.e. eligible home, SME businesses, and strata insurance policies). For postcodes not in this list, ARPC intends to issue a notifiable instrument determining that the risk of eligible cyclone losses arising is so small as to be negligible.
- Where the total premium income for all policies located in the prescribed list of postcodes is below $10 million in the previous financial year, then the insurer may apply the exception and is therefore not required to participate in the pool. Insurers should notify ARPC of their intention to apply the exception and repeat the exception test annually.

- Where the total premium income for all **Householders** policies across all of Australia is above $300 million in the previous financial year, then the insurer is required to join the pool by 31 December 2023. Otherwise, the insurer is required to join the pool by 31 December 2024.

**See Appendix C for Subsection 8 of the Act.**

## 2. Home

- **Classification of Home –** is the building classified as Strata as defined below? If not, and the policy is a standalone residential property, then it is classified as Home for ARPC purposes.
  - For Farm policies, the cyclone pool covers the residential buildings and contents components of the policy.
- **Sum Insured Threshold –** there is no sum insured threshold for Home.

## 3. Strata

- **Classification of Strata –** does the policy satisfy the definition in items 4A (1) and (2), (3), or (4) of the Terrorism Insurance Amendment Regulations included in the exhibit below? If yes, then it is classified as Strata for ARPC purposes.

**Excerpt from Terrorism Insurance Amendment (Cyclone and Related Flood Damage Reinsurance Pool) Regulations 2022 (legislation.gov.au):**

**4A Definitions of *strata or community title development* and related terms**

1) For the purposes of the definition of strata or community title development in section 3 of the Act, a strata or community title development is an arrangement covered by subregulation (2), (3) or (4).

2) This subregulation covers an arrangement:

a. under which:

(i) the title (whether freehold or leasehold) to a portion of land is subdivided into separate freehold or leasehold titles relating to smaller portions of land within the first-mentioned portion; and

(ii) property that is common between the owners or occupiers of the smaller portions is owned or managed by a single body corporate (however described); and

*Example: An "owners corporation".*

b. that exists under a law, of the State or Territory in which the land is located, relating to "strata titles", "community titles", "unit titles", "cluster titles" or something referred to by another term reflecting the features referred to in paragraph (a).

3) This subregulation covers an arrangement under which:

a. body corporate owns an interest (whether freehold or leasehold) in land; and

b. under the constitution of the body corporate, a holder of shares in the body has, or may be granted, a right to occupy or use some or all of the land, whether the right is by way of a lease or licence or otherwise.

Note: This kind of arrangement is commonly referred to as "company title", and the body corporate is typically a company registered under the *Corporations Act 2001*.

4) This subregulation covers an arrangement if:

a. under the arrangement, an interest (whether freehold or leasehold) in land is held on trust; and

b. under the terms of the trust, a holder of an interest in the trust has, or may be granted, a right to occupy or use part of the land, whether the right is by way of a lease or licence or otherwise; and

c. the trustee of the trust is a body corporate; and

d. there are at least 2 distinct parts of the land for which paragraph (b) is satisfied.

- **Test 1: Usage Threshold –** is the property usage >50% residential?
    - **If Yes –** no sum insured threshold needs to be applied; **policy is eligible regardless of sum insured. The Sum Insured Threshold test does not need to be applied.**
    - **If No –** (i.e. the property usage is >50% commercial) then the Sum Insured threshold needs to be applied to check for eligibility
- **Test 2: Sum Insured Threshold –** is the commercial portion of the total policy sum insured <$5m?
    - **If Yes – policy is eligible**
    - **If No –** (i.e. commercial portion of insured is >$5m); **policy is not eligible**

**See Appendix C for strata policy coverage section of the explanatory memorandum.**

## 4. Small business

- **Classification of SME –** is the building classified as Strata as defined above? If not, and the policy is a commercial policy, then it is classified as SME for ARPC purposes.
- **Sum Insured Threshold –** is the commercial portion of the total policy sum insured (including business interruption) <$5m? (Note: where a policy has multiple locations, sum insured should be aggregated across all locations. Where a location on a policy is classed as residential, the residential portion of the sum insured is not included in the threshold calculation.)
    - **If Yes – policy is eligible**
    - **If No –** (i.e. commercial portion of sum insured is >$5m); **policy is not eligible**

**See Appendix C for small business policy coverage section of the explanatory memorandum.**

**See Appendix B for examples of how eligibility testing is applied in different scenarios.**

## Appendix B: Examples of Eligibility Testing

| Scenario | Maximum SI Test Application | Policy's Eligibility |
|---|---|---|
| 1. A non-strata commercial policy with $10mil total SI<br>($4mil residential property;<br>$4mil non-residential property;<br>$2mil business interruption cover) | $6mil non-residential > $5mil threshold | Not eligible |
| 2. A non-strata commercial policy insuring an aged care facility with $10mil total SI<br>($6mil residential; $4mil non-residential) | $4mil non-residential < $5mil threshold | Eligible |
| 3. A non-strata commercial policy insuring 5 buildings across different states, each with $2mil SI and one of them is a residential building<br>($2mil residential; $8mil non-residential) | $8mil non-residential > $5mil threshold | Not eligible |
| 4. A commercial strata policy with 60% floor space used for residential purpose and $10mil total SI<br>($6mil residential; $4mil non-residential) | Not subject to maximum SI test because at least 50% of floor space is used for residential purpose | Eligible |
| 5. A commercial strata policy with 30% floor space used for residential purpose and $10mil total SI<br>($3mil residential; $7mil non-residential) | Subject to maximum SI test, $10mil non-residential > $5mil threshold | Not eligible |
| 6. A commercial strata policy with 33% floor space used for residential purpose and $6mil total SI<br>($2mil residential; $4mil non-residential) | Subject to maximum SI test, $4mil non-residential < $5mil threshold | Eligible |
| 7. A policy insuring $2mil of farm business assets and $1mil of residential buildings on the farm property | Not subject to maximum SI test | Only the $1mil residential property is eligible |

## Appendix C: Extracts from Legislation and Regulations

Terrorism and Cyclone Insurance Act 2003 (legislation.gov.au)

### Part 2A—Cyclone and related flood damage reinsurance pool

#### 8A When cyclone risks must be reinsured with the Corporation

1) If a general insurer carries on insurance business that includes undertaking liability, under pool insurance contracts, in respect of eligible cyclone losses, the insurer must maintain contracts of reinsurance with the Corporation that:

   a. cover the insurer's liability, under all pool insurance contracts that it enters into, in respect of all eligible cyclone losses; and

   b. insure against 100% of the insurer's liability, under each of those pool insurance contracts, in respect of all eligible cyclone losses.

   Note: A pecuniary penalty may be imposed for a contravention of this subsection: see section 127F of the *Insurance Act 1973*.

2) Subsection (1) has effect subject to a direction that is in force under section 38 and provides for the extent to which risk is to be retained by reinsureds under the relevant contracts of reinsurance.

3) Subsection (1) has effect even if the general insurer has entered into a contract of reinsurance otherwise than with the Corporation.

4) The Corporation may enter into contracts of reinsurance that insure against the reinsureds' liability, under pool insurance contracts, in respect of eligible cyclone losses arising on and after 1 July 2022.

   Exception where premium income is below prescribed threshold in previous financial year

5) Subsection (1) does not apply to a general insurer during a calendar year if the amount worked out under subsection (6) does not exceed the threshold amount prescribed by the regulations.

6) For the purposes of subsection (5), the amount is the total gross written premiums that the reporting standard prescribed by the regulations for the purposes of this subsection would require the general insurer to report to APRA:

   a. in respect of the last financial year of the general insurer that ended before the start of the calendar year referred to in subsection (5); and

   b. for a class of direct business consisting of contracts of insurance:

      (i) that the general insurer enters into as insurer; and

      (ii) that are wholly or partly pool insurance contracts; and

      (iii) under which the insurer undertakes any liability in respect of eligible cyclone losses (whether or not the contracts cover other risks) other than eligible cyclone losses arising at a place covered by a determination in force under subsection (7);

   if such contracts were a distinct class of direct insurance business.

7) The Corporation may, by notifiable instrument, determine areas where, in its opinion, the risk of eligible cyclone losses arising is so small as to be negligible.

   *One in, all in rule for exempt general insurer*

8) However, if a general insurer enters into a contract of reinsurance with the Corporation that insures against the insurer's liability under a pool insurance contract in respect of eligible cyclone losses, subsection (5) does not apply to the general insurer while that contract of reinsurance is in force.

Treasury Laws Amendment (Cyclone and Flood Damage Reinsurance Pool) Bill 2022 (legislation.gov.au)

Treasury Laws Amendment (Cyclone and Flood Damage Reinsurance Pool) Act 2022 (legislation.gov.au)

## Policy coverage

### Strata policies

1.59 Building and contents cover for strata title and community title developments are eligible for cover by the reinsurance pool and not subject to a maximum sum insured test, where at least 50 per cent of floor space of units in the development is used wholly or mainly for residential purposes and the insured is the body corporate.
***[Schedule 1, item 9, subsection 8B(3)(c) of the Act]***

1.60 Strata or community title development will be defined in the regulations (see 1.74 of this Explanatory Memorandum).

***[Schedule 1, item 7, section 3 of the Act]***

1.61 Strata arrangements that do not meet the 50 per cent threshold may still be eligible, subject to the maximum sum insured test (see 1.67 of this Explanatory Memorandum: *Terrorism Insurance Amendment (Cyclone and Related Flood Damage Reinsurance Pool) Regulations 2022, 5B Definition of pool insurance contract , (10) For the purposes of paragraph 8B(3)(d) of the Act,* **the prescribed amount is $5 million.**).

### Small business property policies

1.62 Eligible small business property policies are subject to a maximum sum insured test and comprise the following:

- commercial building cover including cover for commercial strata arrangements (where less than 50 per cent of floor space is used wholly or mainly for residential purposes), commercial contents cover; and
- commercial business interruption cover, which refers to losses suffered by a business because of an inability to trade for a period of time due to cyclone or related flood damage.

***[Schedule 1, item 9, subsection 8B(3)(d) of the Act]***

1.63 For example, insurance contracts providing building and contents cover for a hotel, motel, boarding house or aged care facility are eligible under the cyclone reinsurance scheme, subject to the maximum sum insured test.

1.64 However, any property used for residential purposes (for example, residences in a retirement village) does not count towards the maximum sum insured test.

1.65 The regulations will prescribe a definition of 'building' (see 1.74 of this Explanatory Memorandum).
***[Schedule 1, item 9, subsection 8B(4) of the Act]***

### Maximum sum insured test

1.67 The sum insured is the maximum amount a policyholder can claim under their policy if their property is damaged or destroyed due to an insured event.

**5B Definition of *pool insurance contract***

(10) For the purposes of paragraph 8B(3)(d) of the Act, the prescribed amount is $5 million.

1.73 In instances where a policy covers both residential and non-residential buildings or contents, only the non-residential coverage counts towards the maximum sum insured test. If the non-residential coverage exceeds the maximum sum insured threshold, then the entire policy (including the residential component) is not eligible for pool coverage. However, residential buildings or their contents may still

be eligible for pool coverage if they are insured separately from any non-residential buildings that exceed the maximum sum insured test.
***[Schedule 1, item 9, subsections 8B(6) and (9) of the Act]***

**Definitions**

1.74 The definitions of building, body corporate (in relation to strata and community title developments), contents (in relation to the cyclone reinsurance scheme), home building, strata or community title development and unit will be made through regulations.
***[Schedule 1, items 5, 7 and 9, section 3 and subsection 8B(4) of the Act]***