



Cyclone pool fact sheet

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 of the cyclone pool

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

Insurers must join the cyclone pool

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

Large insurers with Gross Written Premiums (GWP) of \$300 million or more must join the cyclone pool before 31 December 2023. Small insurers with GWP 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 cyclone 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 cyclone pool's expected claims and operating expenses. The reinsurance pricing formula uses property data, such as geography, building characteristics and mitigation. ***The cyclone 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