



Australian Government
Australian Reinsurance Pool Corporation

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Cyclone Reinsurance Pool Premium Assessment

April 2024

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1: Executive summary

ARPC has analysed insurer quote data to assess the Cyclone Reinsurance Pool (cyclone pool) premiums against legislative objectives. Average policyholder premiums for the highest cyclone risk bands decreased by 38% from pre-cyclone pool premiums to January 2024. Over the same period, quote success rates have increased for policies with high cyclone risk. This analysis suggests that the cyclone pool is improving insurance affordability and availability in high cyclone risk areas.

2: Purpose and approach

2.1 Purpose

The cyclone pool covers cyclone and cyclone-related flood damage to insured residential (Home), strata (Strata), and small business (SME) properties. The cyclone pool is designed to improve insurance affordability and availability in areas with medium to high cyclone risk. Cyclone pool premium rates are set by ARPC, in line with the four legislative objectives specified in the *Terrorism and Cyclone Insurance Act 2003* (TCI Act):

1. to be cost-neutral to the government over the long-term
2. to deliver reinsurance to medium and high-risk properties at the lowest cost possible
3. to keep premiums for low-risk properties at a level comparable to what would be charged in the private market, and
4. to maintain incentives to reduce and mitigate the risk of losses.

This report analyses online insurer quote data¹ to assess the extent to which cyclone pool premium rates are meeting objectives two and three, and if there are any improvements in insurance affordability and availability in cyclone risk areas. The analysis in this report will also provide valuable input into future cyclone pool pricing reviews.

2.2 Approach

The insurer quote data captures online insurer premiums using a consistent set of risk profiles each quarter. Sums insured are not inflated between quote collection periods. Quotes are analysed for Home (Buildings only) and SME new business quotes. Online quote information is not readily available for Strata policies as these are generally distributed through intermediaries like brokers.

The analysis uses two key metrics to assess the impact of the cyclone pool:

- change in average policyholder premium, and
- change in quote success rate.

The metrics are analysed using data from before insurers joined the cyclone pool and compared to the most recent data available (January 2024).

Seven major insurers are represented in the analysis, with one brand included per insurer. Results are aggregated giving equal weight to each insurer. Quotes are analysed in groups according to the ARPC Wind Risk Band² (risk band). Table 3 in Appendix A maps CRESTA zones to ARPC Wind Risk Bands.

¹ Insurer quote data is provided by Finity Consulting. Quote data collection commenced in October 2022 for Home, and July 2023 for SME.

² ARPC Wind Risk Bands have been grouped into five categories (B-F, G-K, L-P, Q-S, T-W) for the purpose of this analysis.

Table 1 provides a snapshot of inforce cyclone premium by class and cover. More than three quarters (77 per cent) of inforce cyclone pool premium is currently made up of Home Buildings, with smaller proportions for other classes and covers.

Table 1 – Cyclone pool inforce premium by class and cover as at 1 July 2023

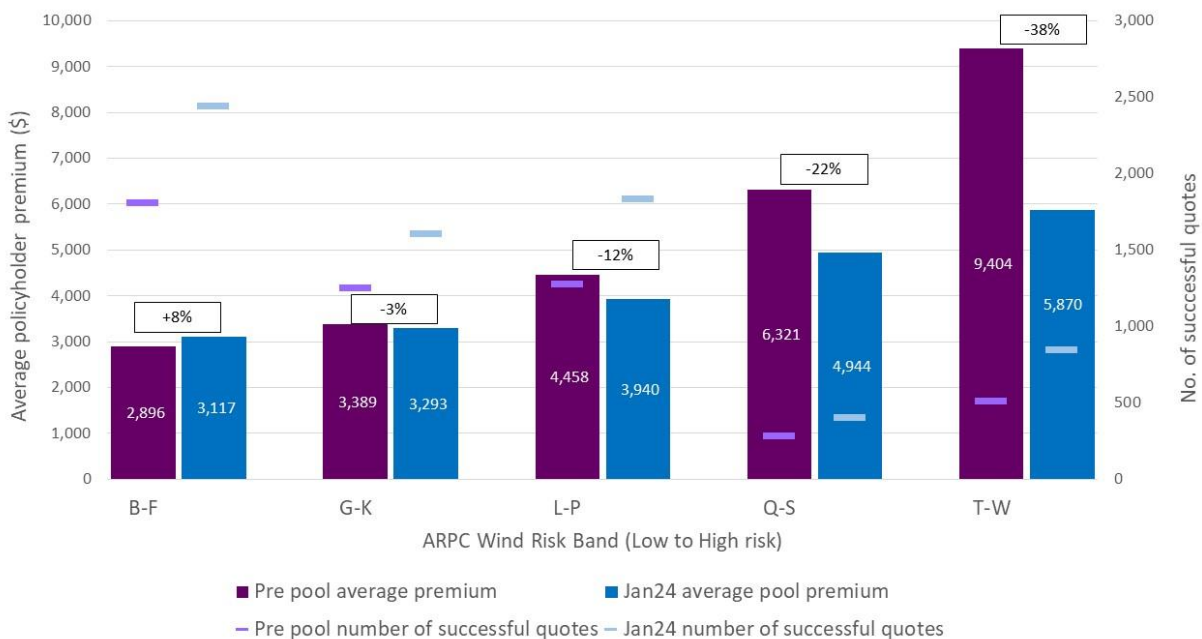
Class	Cover	Proportion of in-force cyclone pool premium
Home	Buildings	77.3%
	Contents	10.7%
SME	Buildings	2.3%
	Contents	0.5%
	Business Interruption	0.7%
Strata	Buildings	8.6%

3: Home insurance

3.1 Policyholder premium impacts

Two key legislative objectives for cyclone pool premiums are to reduce premiums for medium and high-risk properties and to maintain premiums at a level comparable to the private market for low-risk properties. Figure 1 shows the average Home policyholder premium by risk band and compares insurance premiums prior to cyclone pool entry³ with premiums quoted in January 2024.

Figure 1 – Average Home policyholder premium by risk band (pre-cyclone pool vs January 2024)⁴



Source: Quote data provided by Finity Consulting

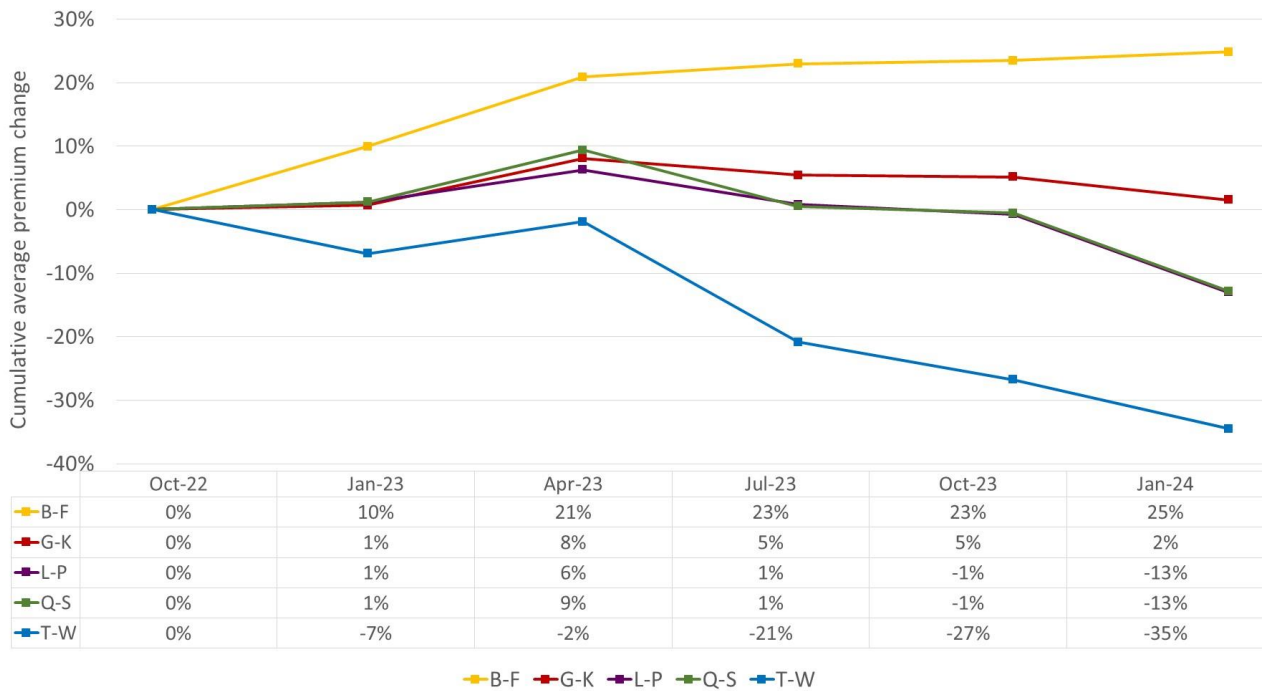
³ Insurers joined the cyclone pool at different dates, but all large insurers joined by 31 December 2023. ‘Pre-cyclone pool’ metrics are derived from data aggregated across multiple time periods.

⁴ The number of quotes has increased between the pre-cyclone pool period and January 2024 as quote samples changed. The total number of quotes in the new sample is larger.

This analysis shows that there has been a significant reduction in average policyholder premiums for the highest risk bands following entry to the cyclone pool. By contrast, sample quotes in the lowest risk bands increased 8 per cent over the period. This increase was likely caused by market movements in Home insurance rates over the past 18 months which are largely unrelated to the cyclone pool.

Figure 2 shows the cumulative average premium change by risk band from before any insurers joined the cyclone pool (October 2022) up to the most recent data collection (January 2024).

Figure 2 – Cumulative average Home premium change by risk band (October 2022 to January 2024)



Source: Quote data provided by Finity Consulting

Since October 2022, insurance premiums for policyholders in high risk bands have fallen significantly, with premiums for the highest risk bands decreasing by 35 per cent on average.

Premiums for the lowest risk bands increased by 25 per cent on average over the same period.⁵

The observed outcomes provide a meaningful signal that cyclone pool premium rates are achieving their intended objectives and leading to significant premium reductions for medium and high-risk policyholders. Increases for low-risk policyholders are likely unrelated to the cyclone pool and suggest that premium reductions for medium and high-risk policyholders may have been even greater if the introduction of the cyclone pool had not occurred in a high inflation environment with increasing reinsurance costs.

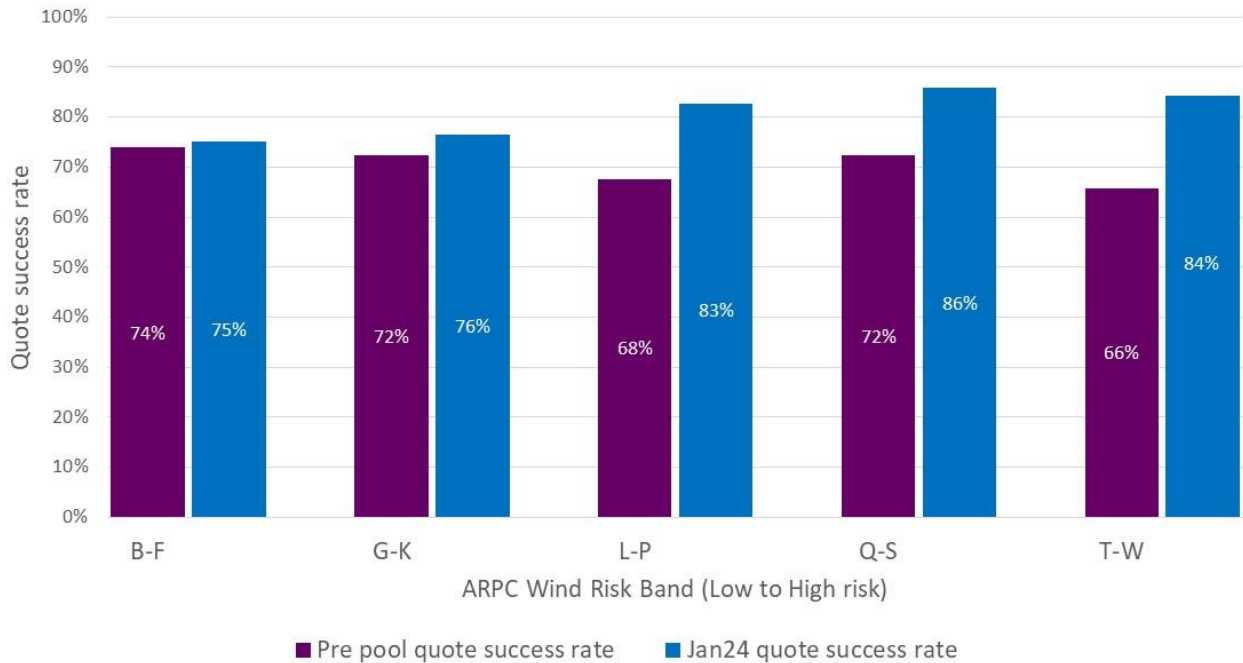
3.2 Insurance availability

An objective of the cyclone pool is to increase insurance availability by encouraging insurer entry and participation in northern Australia. Figure 3 shows the number of successful quotes and the quote success rate, comparing the pre-cyclone pool metric to January 2024.

⁵ The total cumulative premium increase over this period is higher than the premium increase seen in Figure 1, as it includes aggregated rate changes for all insurers since October 2022. Some rate increases may have been applied during the window prior to some insurers joining the cyclone pool, so are not captured in Figure 1.



Figure 3 – Quote success rate by risk band (pre-cyclone pool vs January 2024)



Source: Quote data provided by Finity Consulting

The quote success rate has increased across all risk bands, with meaningful increases in quote success rate for medium and high-risk bands post pool entry. This is a positive sign that cyclone pool premiums are increasing insurance availability and insurer underwriting appetite in high cyclone risk regions.

4: SME insurance

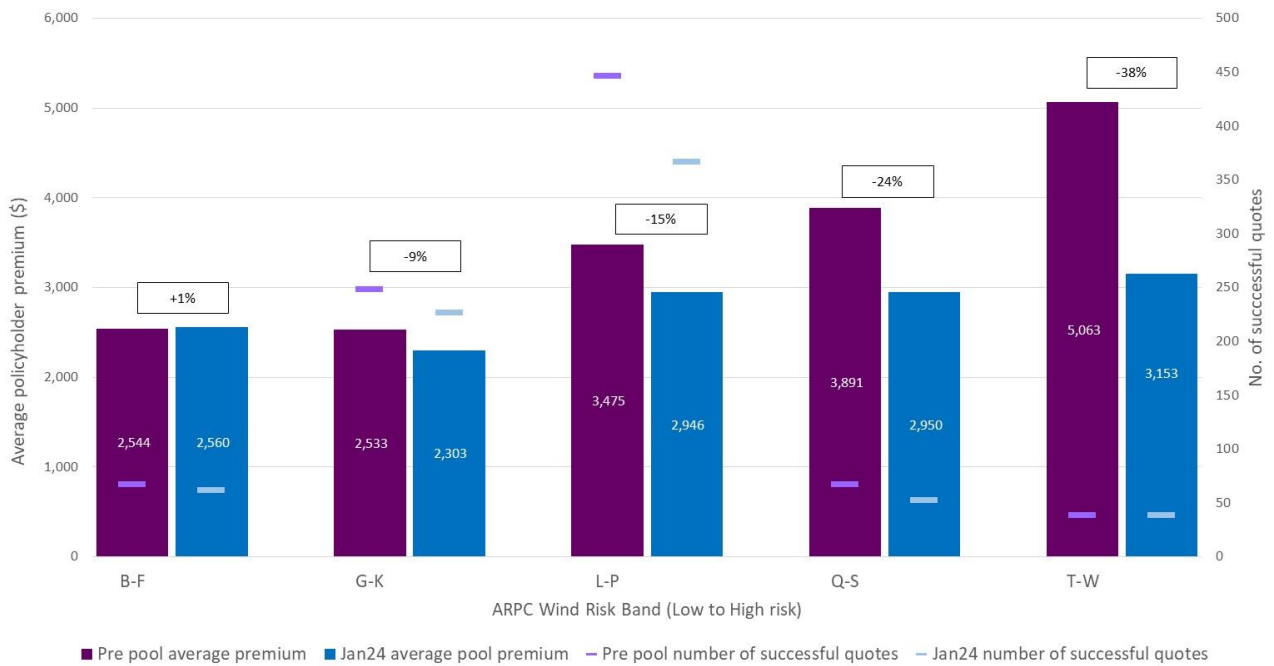
4.1 Policyholder premium impacts

Buildings and Contents

Figure 4 shows the average SME Buildings and Contents policyholder premium by risk bands, comparing premiums prior to cyclone pool entry⁶ with premiums quoted in January 2024.

⁶ Insurers joined the cyclone pool at different dates. ‘Pre-cyclone pool’ metrics are derived from data aggregated across multiple time periods.

Figure 4 – Average SME (Buildings and Contents) policyholder premium by risk band (pre-cyclone pool vs January 2024)



Source: Quote data provided by Finity Consulting

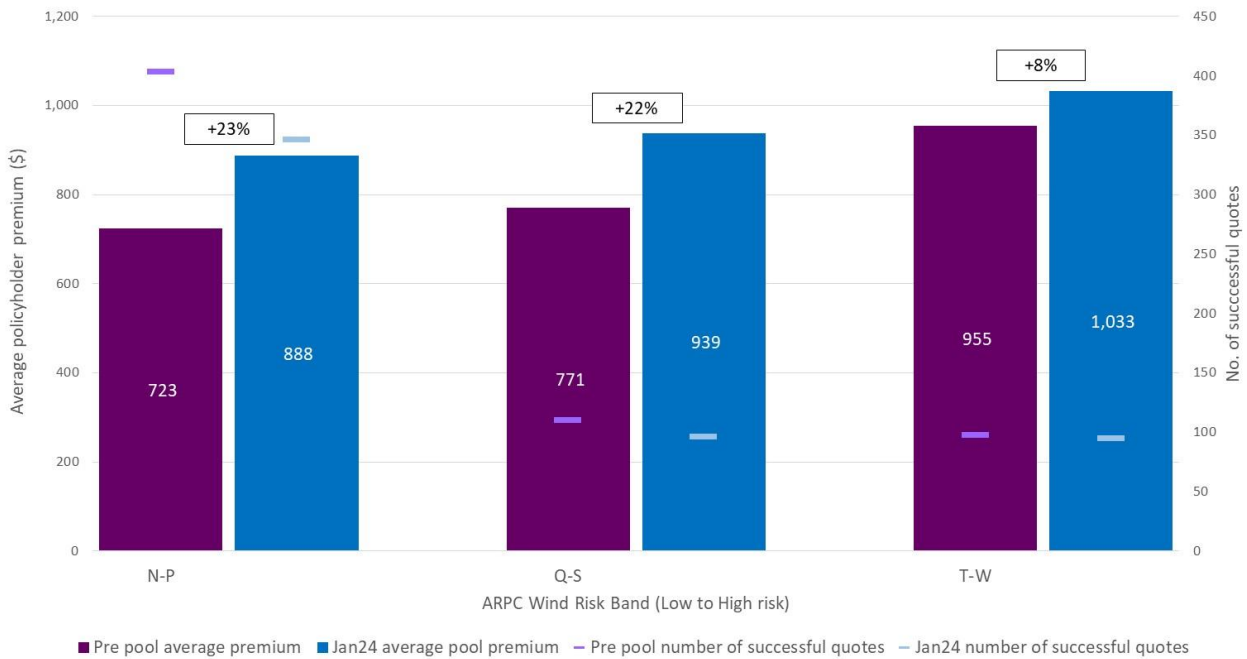
SME Buildings and Contents cover shows a similar distribution of policy premium changes as Home, with significant reductions observed across the highest risk bands following entry into the cyclone pool. The observed outcomes in high-risk areas suggest that the cyclone pool and the current premium rates are achieving their intended objectives for eligible SMEs.

Business Interruption

Figure 5 shows the average SME business interruption policyholder premium by risk band, comparing premiums prior to cyclone pool entry with premiums quoted in January 2024.



Figure 5 – Average SME (Business Interruption) policyholder premium by risk band (pre-cyclone pool vs January 2024)⁷



Source: Quote data provided by Finity Consulting

Average Business Interruption premiums in January 2024 are higher than pre-pool premiums across all risk bands, with an 8 per cent increase for the highest risk bands. Impacts for individual insurers are mixed, with some insurers implementing price increases, and some implementing price decreases on joining the cyclone pool.

Further analysis is required to understand the drivers of these results. SME Business Interruption premiums make up a relatively small (0.7 per cent) proportion of the inforce cyclone premium pool.

5: Limitations

The analysis shown in this report uses quote data provided by Finity Consulting. The data is captured, but is not validated, by Finity (although it has been reviewed for general reasonableness and consistency). There are approximately 750 Home quotes collected from each insurer each quarter prior to April 2023 and 1,500 quotes from April 2023 onwards. There are approximately 3,000 quotes collected each quarter for SME. The rating inputs used to generate the quotes for each sample record are consistent for each collection, for a given profile.

The quote samples consist of risk profiles and are designed to represent a broad range of cyclone risk and rating characteristics. The quotes:

- may not provide a comprehensive view of premiums in each ARPC Wind Risk Band
- do not proportionally represent the exposure in each risk band. Exposure decreases as cyclone risk increases, as fewer people live in high cyclone risk areas.

⁷ ARPC Wind Risk Bands have been grouped into three categories (N-P, Q-S and T-W) as Business Interruption quotes were not collected for all risk bands and time periods.

Table 2 – Number and proportion of policies inforce by risk band as at 1 July 2023

ARPC Wind Risk Band	Number of Policies ('000s)	Proportion of Policies
B-F	1,425.2	60.9%
G-K	597.6	25.5%
L-P	217.9	9.3%
Q-S	53.8	2.3%
T-W	47.2	2.0%
Total	2,341.7	100%

Other limitations noted relating to the data and approach include:

- The quote risk profiles were re-designed during the April 2023 quarter. Quotes were collected for both the old and new samples for three quarters from April 2023. The relevant period for this analysis is from October 2022 (before the first insurer joined the cyclone pool) to January 2024. To analyse data across this period, we were required to use old and new samples. Premium data from the old samples have been scaled for comparability with the new samples. This process means that the metrics do not perfectly represent the raw quote data.
- The quotes are consistent over time so that outputs are comparable quarter on quarter; sums insured are not adjusted for inflation over time. Policy sums insured are typically inflation adjusted on renewal, and premium changes year on year will reflect this. The impact of inflation is not captured in this analysis.
- Our analysis compares quotes collected across multiple periods. We are assuming that the quotes are generated using the same inputs and therefore the outputs are directly comparable. This may not always be the case, as the process involves the use of fuzzy matching algorithms.
- This analysis only provides a view on new business premiums. Premium quotes for renewals on existing policies may differ from those quoted online for new business.
- Only some SME policies are sold directly to policyholders, with many policies sold through intermediaries. This analysis only offers information about policies sold directly, which may differ from intermediated premiums.
- Insurers only provide online quotes for a narrow range of SME policies, as they require the customer to contact the insurer to receive a valid premium for policies with certain risk characteristics or coverage. This analysis may not capture premium movements for policies that require contacting the insurer for quote.

Appendix A: Exposure by Wind Band and CRESTA

Table 3 – Home Buildings policies in each Wind Band by CRESTA zones

		In-force Home Buildings policies by CRESTA and Wind Band				
CRESTA	CRESTA Name	B-F	G-K	L-P	Q-S	T-W
1	Gold Coast	Yellow	Yellow			
2	Brisbane	Yellow				
3	Sunshine Coast	Yellow				
4	Wide Bay	Yellow		Yellow		
5	Rockhampton		Yellow			
6	Marlborough		Yellow			
7	Mackay		Yellow		Yellow	Yellow
8	Proserpine and Offshore Islands		Yellow		Yellow	Yellow
9	Townsville		Yellow		Yellow	Yellow
10	Ingham		Yellow		Yellow	Yellow
11	Cairns		Yellow		Yellow	Yellow
12	Cape York	Yellow			Yellow	
13	Fair Cape		Yellow		Yellow	
14	Gulf		Yellow		Yellow	
15	Inland QLD	Yellow				
16	North NT	Yellow	Yellow			
17	Darwin			Yellow		
18	Remainder NT					
19	Kununurra-Broome	Yellow		Yellow		Yellow
20	Pilbara					Yellow
21	Geraldton Central Coast	Yellow	Yellow	Yellow		
22	Perth	Yellow	Yellow			
23	Albany-Bunbury	Yellow	Yellow			
24	Remainder WA	Yellow				
47	Northern Slopes					
48	Mid-North coast	Yellow	Yellow			
49	Far North coast	Yellow	Yellow			

Yellow cells indicate that more than 5% of the inforce policies in the CRESTA fall into the Wind Band.



Appendix B: Glossary

Term	Definition
ARPC Wind Risk Band	The risk band is a premium rating factor developed by ARPC for the calculation of cyclone pool premiums, with bands running from A (nil cyclone premium) to W (highest risk). The risk bands give some indication to the relative level of risk but are not a pure risk measure.
Average policyholder premium	The average quoted premium returned for successful quotes (including taxes and government charges).
Average quote success rate	The number of successful quotes as a percentage of the total quotes attempted.
CRESTA	CRESTA (Catastrophe Risk Evaluating and Standardising Target Accumulations) zones are part of an international geographic zoning system which helps brokers and reinsurers manage natural hazard risk.
Cyclone related flooding	Cyclone related flooding can be split into two broad categories: <ul style="list-style-type: none"> • Pluvial flooding (incorporating surface flooding and flash flooding) which can occur anywhere high rainfall occurs, such as the path of a cyclone. • Fluvial flooding (riverine) occurs when water in a river, lake or other water body overflows onto the surrounding banks and land.
Home	A standalone residential property that is not a Strata policy.
Inforce	An insurance policy that is active and paid up.
Large insurers	Large insurers have more than \$10 million of premium income eligible for the cyclone pool. These insurers were required to join the cyclone pool prior to 31 December 2023.
New business	A new business policy is one that is incepting for the first time. Insurers may provide quotes for new business policies on their websites, generated using data entered by prospective policyholders.
Rating characteristics	Attributes of a risk or policy that may impact the premium, e.g. sum insured, construction type, year of construction.
Renewal	A renewal policy is one that is renewing using the same (or similar) conditions as the previous policy year. Insurers may reach out to their customers directly to provide quotes for renewal policies.
Residential	Refers to a policy where the property is used wholly or mainly for residential purposes.
Risk profiles	A set of defined risk characteristics used to generate an insurance premium.
SME	Refers to a policy where the property is used mainly for commercial purposes and is not classified as Strata.
Strata	Refer to the definitions set out in items 4A (1) and (2), (3), or (4) of the Terrorism Insurance Amendment Regulations.
Sum insured	The insured value of a property defined by the policyholder or insurer, typically an input to determine premium.