



Australian Government
Australian Reinsurance Pool Corporation

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Cyclone Reinsurance Pool Premium Rates Consultation Paper – June 2024

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1: Summary of 2024 Cyclone Reinsurance Pool premium rates review & consultation

The Cyclone Reinsurance Pool (cyclone pool) was established by the *Terrorism and Cyclone Insurance Act 2003* (TCI Act) and commenced operations on 1 July 2022, with the first insurers joining on 1 January 2023. The cyclone pool covers cyclone and cyclone-related flood damage to eligible 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.

ARPC is in the process of reviewing the current (2022) cyclone pool premium rates and is considering minor changes which would be applicable from 1 April 2025. As part of this review, ARPC is seeking feedback on the current and proposed cyclone pool pricing. The objective of the 2024 premium rate review is to ensure that cyclone pool premiums continue to meet legislative objectives set out in the TCI Act.

ARPC is also undertaking insurance industry consultation seeking feedback from insurers on the premium rates and proposed changes. Following the consultation period, ARPC intends to release the new premium rates prior to 30 September 2024. An updated [Premium Rate Assessment Report](#) will also be made publicly available.

2: Objectives of 2024 premium rate review

This purpose of this premium rate review is to ensure that cyclone pool premiums continue to meet the legislative objectives as set out in the TCI Act:

- To ensure that, over the longer term, premiums are sufficient to cover or offset claims and expenses including any payments made under the Commonwealth guarantee.
- In medium to high cyclone risk areas, to keep the premiums as low as possible while maintaining incentives to reduce and mitigate risk.
- In lower cyclone risk areas, to keep premiums at levels comparable to what would be charged by other reinsurers.

The analysis completed to date supports that the premium rates (as set in 2022) continue to meet these objectives. As a result, the 2024 changes to cyclone premium rates being considered are generally minor and can be summarised as follows:

2.1 G-NAF and Postcode table update

The current effective premium rates use Geoscape's G-NAF dataset as at February 2022. ARPC intends to update this G-NAF dataset with the February 2024 dataset. Premium rates for new G-NAFs, and those with geo-coding changes, are calculated using the same methodology as used for the current effective premium rates.

2.2 Strata mitigation discounts

ARPC will consider introducing mitigation discounts on Wind premium rates for eligible Strata policies. The discount incentivises mitigation actions against structural damage from high wind loads and losses from water ingress caused by wind driven rain. The proposed discounts have been developed through a research partnership with James Cook University Cyclone Testing Station (JCU CTS) and reflects the estimated risk reduction of the mitigation activities. Discounts will be reviewed over time as claims data becomes available.

The table on **page 3** shows the mitigation activities which are being considered to qualify for a discount.



Risk Mitigation	Details
Roof Mitigation	Roofs that have been retrofitted to comply with current standards. Tile roofs which have been upgraded with sarking. Metal roofs which have been upgraded with fastened flashings.
Window Protection	Glass windows and doors which have shutters or screens installed as permanent protection, up to the current standard.
Timber Doors	All external timber doors of the building have solid cores.
Vehicle Access Doors	Vehicle access doors that are under the same roof as a low-rise strata building, which have been upgraded to be compliant with the current standards (AS4505:2012).
Gutter Overflows	Gutter overflows installed for boxed eaves and boxed gutters.

2.3 SME Flood/Storm sublimit

ARPC is considering updating the premium formula to offer lower reinsurance premiums for SME policies with Flood and Storm cover which have a sublimit. This change will better align with existing insurer pricing practices and reduce the risk of adverse premium impacts. A similar sublimit relativity is already in place for Strata.

2.4 Other changes to premium rate tables

Other minor changes to rating tables being considered are below:

- Construction year information for Contents only policies is not collected by some insurers. It is proposed that the premium formula be updated to remove any loadings where construction year information is not provided for Contents only policies.
- In the Home and SME premium rating algorithms, it is proposed that the formula be updated to recognise the lower level of Flood and Storm risk for Contents only policies with exposure limited to one floor of a multi-storey building.

Consultation

ARPC invites feedback on the current and proposed cyclone pool premium rates. Written submissions on the premium rates should be sent via email, to consultations@arpc.gov.au by the close of business on Friday, 26 July 2024.

Yours sincerely,

Scott Unterrheiner
Chief Financial Officer

