



Australian Government

Australian Reinsurance Pool Corporation

Practice Guide

Small Business Property – SME

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About this guide

Practice guides provide guidance on ARPC's view of sound practice in particular areas. Practice guides discuss legal requirements from legislation, regulations or explanatory memoranda but do not themselves create enforceable requirements.

This practice guide aims to assist insurers in complying with the Terrorism and Cyclone Insurance Act 2003 in relation to small business property and, more generally, to aid determining eligible policies to be ceded to the cyclone and related flood damage reinsurance pool.

This practice guide is designed to be read together with the legislation, regulations and explanatory memorandum and does not address all requirements.

Document history

This guide was issued on 31 March 2025 and is based on legislation and regulations as at the date of issue.

Previous versions:

None

Disclaimer

The Australian Reinsurance Pool Corporation ("ARPC") is established by section 9 of the Terrorism and Cyclone Insurance Act 2003 (Cth) ("the Act"). The functions and powers of the ARPC are set out in sections 10 and 11 of the Act. The ARPC's main functions are to provide insurance cover for eligible terrorism losses and to operate a cyclone and related flood damage reinsurance pool. The ARPC has power to do all things necessary or convenient to be done for or in connection with the performance of its functions. In the performance of its functions, the ARPC may engage in discussions with and provide information to insurers concerning the provision by the ARPC of reinsurance cover for 'eligible terrorism losses' and 'eligible cyclone losses' within the meaning of the Act. The ARPC does not hold itself out as providing legal or other advice to insurers, the public or anyone else in relation to the interpretation, construction or application of the Act or regulations made under the Act or the reinsurance cover provided by the ARPC, and does not do so. The ARPC provides general information only on its website, in its publications and in the course of its discussions and other dealings with insurers and their representatives about the Act, the regulations made pursuant to the Act and ARPC's reinsurance agreements with respect to 'eligible terrorism losses' and 'eligible cyclone losses'. That information does not constitute legal or other advice and should not be relied on as such. Insurers and their representatives dealing with or proposing to deal with the ARPC should obtain their own legal and other professional advice for the purpose of making decisions (including in relation to dealing with the ARPC and in relation to the reinsurance cover provided by the ARPC) and otherwise on any matter in connection with the Act.



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The ARPC cyclone and related flood damage reinsurance pool (the cyclone pool) provides reinsurance coverage to insurers for small business property under section 8B(3)(d) of the Terrorism and Cyclone Act 2003 (the Act) supported by Sections 5B(8) and (10) of the Regulations.

Criteria

When determining if a small business property policy is eligible for the cyclone pool, Section 8B(3)(d) of the Act states the insurance cover must be:

- in respect of a building, contents of a building, or both; **and**
- for which the total of the sums insured does not exceed the amount prescribed by the regulations (the prescribed amount is currently \$5 million under Regulation 5B(10)).

See Section 5B(8) of the Regulations for a detailed definition of Buildings and Contents.

Guidance

For a small business property policy to be a cyclone pool insurance contract, the cover must be for a building, other than a *home building* or *residential strata* (see separate ARPC Practice Guide on Residential Strata), the contents of such a building, or both as defined in Section 5B(8) of the Regulations, that is located on a site specified in the contract.

The \$5 million limit specified in Section 5B(10) of the Regulations applies to the total of the sums insured for the insurance cover in respect of commercial buildings, commercial contents of a building (including stock) and commercial business interruption as detailed in item 1.62 of the Explanatory Memorandum.

When applying the maximum sum insured test, insurers must assess the total sum insured amount for buildings, contents and business interruption for 100% of the policy, not only the insurer's share. The total sum insured must be at the policy level, not at any one location level.

All insured risks and locations on a pool insurance contract must be ceded to the cyclone pool irrespective of whether those locations are in a cyclone-prone area of Australia or not. An insurer may not select some and not other risks or locations when determining the policy level sum insured.

Note that the Act does not differentiate between:

- the type of policy issued to the business such as Business Package, Fire Insurance, Industrial Special Risks; or
- which department or division of an insurer has issued the insurance policy (such as Commercial or Corporate Department).

