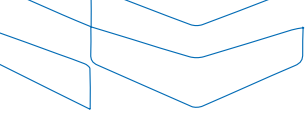
Australian Government

Australian Reinsurance Pool Corporation

Cyclone Reinsurance Pool Financial Outlook Report

as at 30 June 2025



Acknowledgement of Country

The Australian Reinsurance Pool Corporation (ARPC) acknowledges the Traditional Owners and Custodians of country throughout Australia and their continuing connection to land, water, and community. We pay our respects to the people, cultures and the Elders, past and present.

The ARPC offices are located on the land of the Gadigal people of the Eora Nation.

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HIGHLIGHTS

Key financial outcomes

- Claims costs $1.8b due to Tropical Cyclone Alfred
- Negative operating result of $1.2b for 2024-25FY
- Net liabilities $734m

Funding and capital

Despite its current deficit position the cyclone pool:

- is likely to be able to fund claims payments from current assets and future premiums with no calls on terrorism pool or Commonwealth guarantee
- has a 61 per cent chance of returning to a neutral capital position over the next year.

Cyclone premiums

Current premiums have been assessed as being adequate to meet the cyclone pool's legislative objectives.

Outlook

We expect claims experience for the pool to continue to be volatile going forward. At the end of the 2025-26FY there is a:

- 10 per cent chance the cyclone pool will have a net asset position of more than $200m
- 10 per cent chance of a net liability position in excess of $1.6b.

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FROM THE CEO

As CEO of ARPC, I am pleased to present the Board approved Financial Outlook Report (FOR) for the year ended 30 June 2025. The *Terrorism and Cyclone Insurance Act 2003* (TCI Act) requires ARPC to provide a FOR annually for the Cyclone Reinsurance Pool (cyclone pool) to the Minister by 15 October, and publish the report within 10 business days.

The report considers the financial outlook of the cyclone pool, noting that it commenced operations on 1 July 2022, with all eligible insurers joining by 31 December 2024.

The purpose of the FOR is to assess our current and expected future ability to meet the legislative obligations of the cyclone pool. This includes an assessment of the adequacy of premium rates and claims liabilities, observations on capital management practices, and of the broader risks that affect the cyclone pool's financial outlook. There is a considerable level of uncertainty in projecting the financial outcomes of natural catastrophes like cyclone events, and this report illustrates that uncertainty.

The FOR and actions arising from it are informed by actuarial assessment. The TCI Act also requires that the Reviewing Actuary (currently the Australian Government Actuary) reviews the FOR. The letter from the Reviewing Actuary is included in the appendices to this report.

Dr Christopher Wallace
BEc (Hons), PhD (Econ), AMP (INSEAD), ANZIIF (Fellow), CIP, GAICD
Chief Executive

14 October 2025

MANAGEMENT STATEMENT

In our opinion, the attached FOR, for the year ended 30 June 2025, complies with the requirements of the TCI Act and is based on appropriate actuarial assessment. Management has put in place suitable processes and systems to prepare this report and to support its review by the Reviewing Actuary.

Scott Unterrheiner
BCom (Accounting/Finance), GradDip CA
Chief Financial Officer

Pulkit Jain
BCom (Actuarial), BAppFinance FIAA
Head of Actuarial

01 EXECUTIVE SUMMARY

1.1 Summary of key findings

The 2025 assessment of the cyclone pool's financial outlook finds that the pool continues to meet its legislative objectives and that the outlook is consistent with the original design of the pool.

Table 1.1: Summary of key findings

FOR requirement (summary)	Key findings
(a) recent performance	The cyclone pool reported a negative operating result of $1.21 billion for the financial year ended 30 June 2025 and a net liability (negative) accumulated position of $734 million due to a large event, Tropical Cyclone (TC) Alfred. A negative operating result is a possible outcome in any period, as the pool's operating result and accumulated position are expected to vary from year to year driven by the volatility of cyclone events. Excluding the risk margin of $335 million, the net liability is approximately 60 per cent of the annual premium. **A note on risk margins**: ARPC adheres to accounting standards that require a risk margin to be held in our outstanding claims liability to allow for the possibility that events may cost more than the central estimate.[1] The risk margin is included in the negative operating result and net liability calculations for accounting purposes, but does not influence premium rate decision making for the cyclone pool. ▪ Cash flow modelling[2] shows that the cyclone pool can fund claim payments from events occurred to date from assets currently held and future premiums.
(b) broader financial risks	▪ A large cyclone event in the 2025-26 cyclone season could impact the ability of the cyclone pool to fund claim payments without accessing funding from the terrorism pool, and potentially the Commonwealth guarantee. Accessing this funding would be consistent with the design of the cyclone pool and ARPC's Capital Management Policy. The impacts of a large event would be considered in ARPC's annual premium rate review cycle. The review would consider the pool's ability to meet its objective of sufficiency over the long term. ▪ Other risks to the financial outlook of the cyclone pool generally develop over longer periods and require ongoing monitoring. Assessment of these risks found that no significant or immediate action was required.
(c) (i) assessment of premium adequacy	▪ The cyclone pool premium rates continue to meet their legislative objectives. Changes to ARPC's exposure mix over the year and an updated review of the climate science have not materially impacted our assessment of the adequacy of the premium rates. ▪ The premium rates continue to provide discounts for risk mitigation activities and the annual Home premium discount as at 31 March 2025[3] was $7.9 million. From 1 April 2025, mitigation discounts were extended to Strata and from 1 April 2026, will be further extended to Small to Medium-sized Enterprises (SME).
(c) (ii) assessment of liability adequacy	▪ Our assessment of the outstanding claims liability is that the reserves are appropriate given the available information. TC Alfred is the most material loss event for the cyclone pool, and we have only received one claims data submission[4] from insurers relating to this event. Therefore, there is still significant uncertainty in projecting ultimate claims costs for TC Alfred.

[1] The central estimate is our best estimate of the expected claims cost from cyclone events.

[2] Modelling assumed that claim payments from prior events would be consistent with central estimate assumptions as at 30 June 2025.

[3] Insurers submit premium data to ARPC every quarter, including information relating to all reinsured policies. This report uses premium data reported by insurers to 31 March 2025. Premium data to 30 June 2025 was not available at the time of writing.

[4] Insurers submit claims data to ARPC every quarter, including information relating to all eligible claims reported to date. This report used data including all claims reported to insurers as at 31 March 2025; the TC Alfred coverage period ended on 10 March 2025. Claims data to 30 June 2025 was not available at the time of writing.

FOR requirement (summary)	Key findings
(d) observations on capital management	▪ Over the long term, the cyclone pool is as likely to be in a net asset (positive) position as it is to be in a net liability (negative) position, which is consistent with the objective of premiums covering costs over the long term. ▪ The chance that the cyclone pool will be in a net asset position in a year's time[2] is 61 per cent, allowing for the expected variability in claims experience for the 2025-26 cyclone season.
(e) financial projections	▪ Future cyclone claims experience, and therefore the projected operating result are highly variable. Considering variability in claims experience only, for the 2025-26 financial year there is a: – 10 per cent probability of a negative operating result greater than ~$800 million resulting in a net liability position of ~$1.6 billion or more, and a – 10 per cent probability of a positive operating result greater than ~$650 million resulting in a net asset position of ~$200 million or more.

1.2 Recent and forecast financial performance

Operating result

The cyclone pool recorded a negative operating result of $1.21 billion in the 2024-25 financial year, compared to a projected positive operating result of $27 million. This was driven by claims costs[5] being materially higher than the Average Annual Loss (AAL) due to TC Alfred, which had estimated claims costs of $1.86 billion (including risk margin).

Claims projections are based on the mean of the distribution of possible outcomes, but actual experience will deviate from this, and is expected to result in a material positive or negative operating result in any given financial year. Claims are expected to be below the AAL in approximately four out of five years, but significantly above the AAL in one out of five years.

Table 1.2 illustrates the range of projected claims (and associated underwriting, investment income and operating result) outcomes. Baseline figures are shown in **bold**, with the results corresponding to the 10th and 90th percentile projected claims experience shown below the baseline projections in *italics*. Actual results align with the financial statements reported by ARPC and therefore adhere to accounting standards.

Table 1.2: Cyclone pool recent and projected financial performance[6,7,8]

	FY 2024-25 ($m)		FY 2025-26 ($m)	
	Actual	**Budgeted**	**Budgeted**	**Forecast**
Earned premium	**631**	**652**	**661**	**657**
Current year claims costs (central estimate)	**(1,553)**	**(630)**	**(638)**	**(638)**
Claims costs (90th percentile)		*(1,220)*		*(1,467)*
Claims costs (10th percentile)		*(1)*		*(1)*
Current year risk margin	(327)			
Movement in prior years	9			
Other operating expenses	**(18)**	**(18)**	**(18)**	**(18)**
Underwriting result	**(1,261)**	**4**	**5**	**0**
Underwriting result (90th percentile claims experience)		*(586)*		*(828)*
Underwriting result (10th percentile claims experience)		*633*		*638*
Investment income	**48**	**23**	**58**	**26**
Operating result	**(1,213)**	**27**	**63**	**26**
Operating result (90th percentile claims experience)		*(573)*		*(803)*
Operating result (10th percentile claims experience)		*667*		*664*

The FY 2024-25 Actual underwriting and operating results included a negative $4m movement as a result of accounting adjustments (Deferred acquisition cost (DAC) write-down and unexpired risk liability).

[5] Claims costs include eligible claims handling expenses.

[6] Budgeted 2024-25 financial year claims cost (90th percentile) has been restated from the 2024 FOR. The number shown in the 2024 FOR was incorrect due to a data transcription error.

[7] Budgeted costs for the 2025-26 financial year were set prior to the 2024-25 cyclone season. Claims costs were based on the loss ratio from the 2024 Pricing Review, and investment income was projected using the asset position prior to TC Alfred.

[8] The distribution of claims cost has been re-estimated to blend results from multiple models, leading to a higher loss at the 90th percentile for the 2025-26 forecast than previous projections.

A small positive operating result is forecast for the 2025-26 financial year. There is a 10 per cent probability of a positive operating result greater than ~$650 million, and a 10 per cent probability of a negative operating result greater than ~$800 million.

Premium income

Earned premium for the 2024-25 financial year was approximately three per cent lower than projected. This was due to improvements in the accuracy of data reported by insurers (resulting in lower risk ratings), a continued increase in the take up of risk mitigation discounts, a decrease in the number of reinsured risks for Strata and SME, and increases in policyholder excesses.

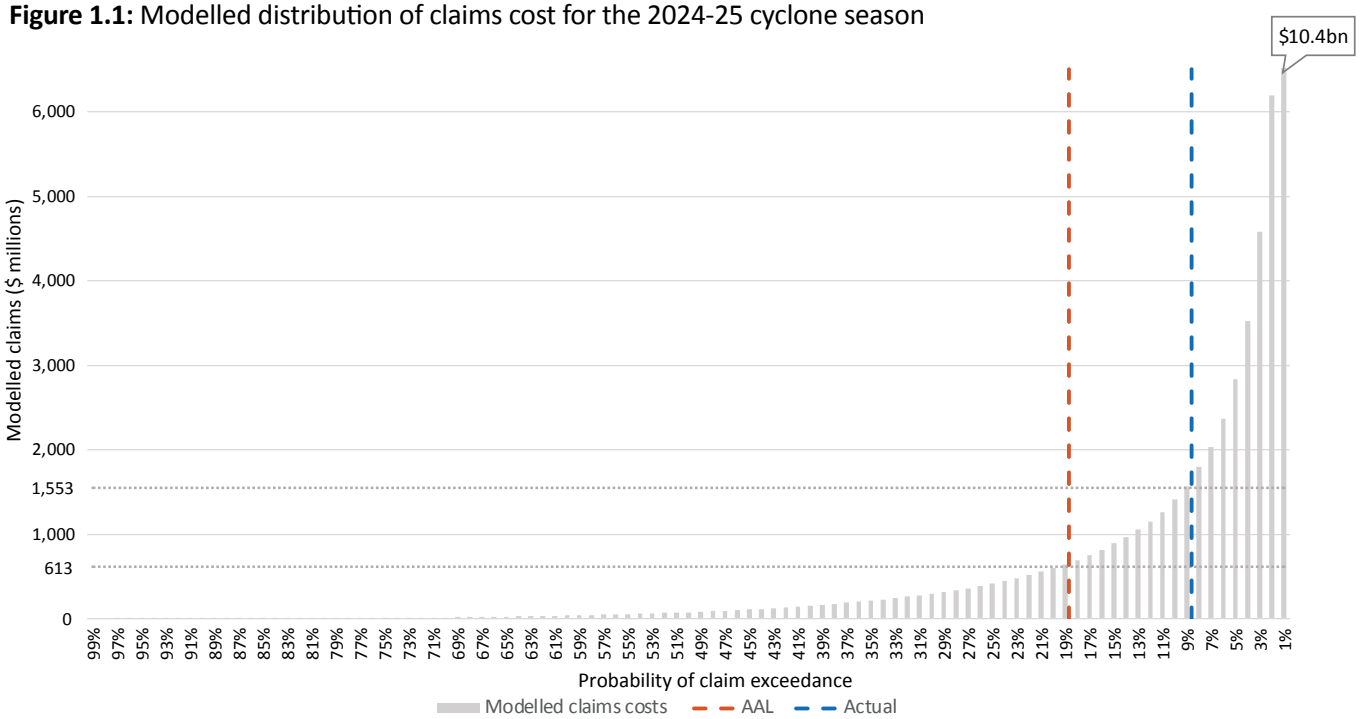
Projected earned premium for the 2025-26 financial year is $657 million, approximately four per cent higher than the 2024-25 financial year's earned premium. The premium is expected to increase in line with sum insured inflation and growth in reinsured properties. This increase is slightly moderated by projected changes to some risk factors, which include a continued increase in mitigation discounts (which leads to a reduction in risk and premiums), and a continued increase in the average policyholder excess (which indicates a shifting of risk from insurer to policyholder and leads to lower cyclone pool premiums).

Claims

There were five Declared Cyclone Events (DCE) in this reporting period (discussed in Section 3), with a total estimated cost of $1.55 billion (based on the central estimate: $1.88 billion including risk margin). The claims experience was mainly driven by TC Alfred which had a central estimate of $1.54 billion as at 30 June 2025. The claims costs for the 2024-25 financial year also included a $9 million release from prior events.

Figure 1.1 shows the modelled claims distribution for the 2024-25 cyclone season, based on pricing assumptions from the 2025 Pricing Review.[9] The distribution of claims cost is skewed, and the annual result will vary depending on whether or not material events occur in a given season. The projected AAL for the 2024-25 cyclone season is $613 million, and claims costs of $1.55 billion or more is expected about once in every 11 years (or with a probability of nine per cent).

Figure 1.1: Modelled distribution of claims cost for the 2024-25 cyclone season



TC Alfred is the biggest loss event for the cyclone pool to date. As more claims are settled, we will analyse claims and other information from the event to determine what can be learned about cyclone risk, building stock vulnerability, and insurer practices. Insights from this analysis will inform the operation of the cyclone pool and may be shared with external stakeholders **(Action 2025-1, Table 1.6)**.

[9] Premium rates – ARPC

Operating expenses

ARPC incurred $18 million in cyclone pool operating expenses in the 2024-25 financial year. The operating expense ratio[10] is projected to decrease slightly over the 2026-28 financial years, as earned premium is expected to increase at a higher rate than operating expenses.

Investment income

Investment income is projected using estimated invested assets and future interest rates derived from forecasts of the Reserve Bank of Australia (RBA) cash rate. More investment income is expected to be earned over the first half of the financial year, but it will decrease as claim payments are made, reducing the balance of cash and investments.

Accumulated position

As at 30 June 2025, the cyclone pool had net liabilities of $734 million. This position was driven by the material claims cost arising from TC Alfred, and included a $335 million risk margin. The balance of cash and investments as at 30 June 2025 was $1.23 billion, and the cyclone pool is projected to be able to meet claim payments from investable assets and future premiums. The pool can access funds from the terrorism pool and the Commonwealth guarantee to fund liabilities if required. The chance that the cyclone pool will be in a net asset position in a year's time is 61 per cent, with a 10 per cent chance of net liabilities of ~$1.6 billion or more, and a 10 per cent chance of net assets of ~$200 million or more.

1.3 Assessment of premium rates

We have assessed the adequacy of premium rates and concluded that the legislative objectives of the cyclone pool continue to be met overall. These objectives and the premium rate assessment key findings are summarised in Table 1.3.

Table 1.3: Assessment of cyclone pool premium rates against legislative objectives

Category	Summary of legislative objective	Assessment findings
Premium adequacy *TCI Act s8D(a)*	Over the longer-term, premiums are sufficient to cover or offset claims and expenses including any payments funded by the Commonwealth guarantee.	▪ Cyclone pool premiums continue to be adequate with the estimated premium adequacy ratio[11] consistent with the long-term target.
Premium rates for medium to high cyclone risk areas *TCI Act s8D(b)*	In medium to high cyclone risk areas, keep premiums as low as possible.	▪ Premiums provide the greatest discount, compared to modelled cyclone pool costs, for high-risk properties
Premium rates for low cyclone risk areas *TCI Act s8D(c)*	In lower cyclone risk areas, to keep premiums at levels comparable to what would be charged by other reinsurers.	▪ Premiums are consistent with ARPC's view of modelled cost plus an estimated margin (insurer plus reinsurer) for low-risk properties.
Risk mitigation *TCI Act S8D(b)*	Maintaining incentives to reduce and mitigate the risk of eligible cyclone claims.	▪ The total annual discount for property-level mitigation applied to Home premiums as at 31 March 2025 was $7.9 million (31 March 2024: $6.3 million[12]). Mitigation discounts were effective for Strata from 1 April 2025. ▪ Mitigation discounts for SME will be effective from 1 April 2026. ▪ Premium rates also reflect impacts of large-scale mitigation activities, such as flood levees (where the data is available).

There is inherent uncertainty in estimating cyclone claims costs, driven by variability in cyclone events and the uncertainty in the underlying catastrophe models relied upon to set the premium rates. Over the next 12-24 months we intend to reassess the catastrophe models we are using to determine whether they continue to be the most suitable in informing the AAL and its variability **(Action 2025-2, Table 1.6)**.

[10] Total operating expense divided by total gross written premium.

[11] The premium adequacy ratio is the cyclone pool premium divided by the modelled cyclone pool costs (the expected cost of claims, eligible claims handling expenses and cyclone pool operating costs).

[12] The total annual discount as at 31 March 2024 has been restated since the 2024 FOR, from $5.8 million to $6.3 million.

After assessing recent scientific literature, trends in historical data, and observations relating to TC Alfred, we concluded that the premium rates do not need to be adjusted for climate impacts at this stage. Over the next 24-36 months we intend to formalise a methodology for assessing scientific information and a framework to identify triggers for climate-related updates to the cyclone pool premium rates **(Action 2025-3, Table 1.6)**.

Premium rates by cyclone risk level

As intended, cyclone pool premiums provide the greatest discount, compared to modelled cyclone pool costs, for medium and high-risk properties, and are consistent with modelled cyclone pool cost plus a margin for low-risk properties. See Table 1.4.

Table 1.4: Premium adequacy ratio by modelled cyclone pool cost band

Cyclone risk	Modelled cyclone pool cost band	Total sum insured ($b)	Average modelled cyclone pool cost ($)	Average cyclone pool premium ($)	Premium adequacy ratio
Low to high risk	**Under $100**	1,771	45	59	130.1%
	$100 to $500	546	209	233	111.4%
	$500 to $1,000	83	694	633	91.2%
	$1,000 to $2,000	18	1,366	981	71.8%
	$2,000 to $5,000	7	3,453	1,418	41.1%
	More than $5,000	2	7,078	2,418	34.2%
	Total	**$2,429**	**131**	**131**	**100.1%**

Table excludes nil risk properties, i.e. it does not include properties in areas with no cyclone risk.
Cyclone pool premiums and modelled costs have been re-expressed to reflect a standardised $500,000 sum insured.

1.4 Assessment of liability adequacy

Outstanding claims liability

There is significant uncertainty in reserving for catastrophe claims, particularly at times less than 12 months after the catastrophe has occurred.

For the five DCEs that occurred during the 2024-25 cyclone season, $1.83 billion (97 per cent) of the $1.88 billion in ultimate claims cost was still outstanding at 30 June 2025 (see Section 5.1). Given most of the liability has not yet been paid, there is a material risk that the reserves held for claims liabilities from past events could prove inadequate.

For the six DCEs which had resulted in claims prior to the 2024-25 cyclone season, (TC Gabrielle, TC Isla, TC Jasper, TC Kirrily, TC Lincoln and TC Megan), the expected ultimate claims cost decreased by five per cent to $147 million between 30 June 2024 and 30 June 2025. This level of variation is within expectations given the uncertainty in liability estimation and the size of the liabilities involved.

Unearned premium liability

Premiums for the cyclone pool are earned by applying a risk pattern derived using historical cyclone claims data sourced from the Insurance Council of Australia (ICA). All premiums are earned from November to May, which reflects the higher risk of cyclones during the warmer months. The premium liabilities of $245 million are expected to be sufficient to cover the modelled long-term average cost of claims from policies in-force at 30 June 2025.

1.5 Risks to financial outlook

ARPC's approach to risk management is shaped by our Board approved risk appetite, which includes a low-risk appetite for financial and operational risks and a high appetite for understanding and managing reinsurance exposures. Where risks are in our control, they are managed and monitored within our defined appetite settings with the objective of maintaining the sustainability of the pool and aligning with legislated objectives.

Table 1.5 shows the risks which we have assessed as potentially material to the cyclone pool's financial outlook. It is not intended to be an exhaustive description of all of the risks which impact the pool and ARPC. Many of the risks identified are 'slow-moving' in nature and this highlights the importance of ongoing risk monitoring, as well as working with insurers and other stakeholders to appropriately address emerging risks.

Table 1.5: Potential risks to the cyclone pool's financial outlook

Risk	Description	Response to risk
Catastrophic event/s	Cyclone risk is highly volatile, with the potential for low probability, high severity events to occur in any given year. A severe cyclone (or series of cyclones) may require funds to be accessed from the terrorism pool or Commonwealth guarantee and the adequacy of the premium rates may need to be reassessed.	Capital is managed in line with ARPC's Capital Management Policy with governance and processes in place to manage liquidity through transfers of terrorism pool assets or calls on the Commonwealth guarantee if required. In the case of another material event, the premium rates would be reviewed to assess their sufficiency over the long term and whether action is required to manage the likelihood of the cyclone pool returning to a neutral capital position.
Change in mix of reinsured properties	The mix of reinsured properties by cyclone risk level is a key driver of overall premium adequacy. Given that the highest risk areas have the lowest premium adequacy, if the spread of non-insurance rates changes, or building development in high-risk areas (relative to low-risk areas) increases over time, the ability to reallocate margins to medium and high-risk properties within existing premium rate structures will be impacted.	Ongoing monitoring of rates of non-insurance by region and exposure to new property development. There is no evidence to date that there is disproportionate development in high-risk areas.
Climate change	There is limited scientific consensus on the impact of climate change on some key elements of cyclone risk. Analysis of historical data does not suggest clear trends. The extent to which climate change may impact the level and geographical shape of cyclone risk of properties reinsured by the pool in the future is unknown.	Engage with experts in the actuarial, scientific, and engineering communities to maintain awareness of climate risk drivers. **Also see Action 2025-3, Table 1.6.**
Inflation	High levels of building cost inflation from 2021 to 2023 gave rise to a risk of claims costs increasing by more than sums insured. Building cost inflation levels have moderated over the last two years, and sum insured inflation has exceeded building cost inflation, which means that the gap between the two has narrowed and the risk has reduced.	Over the long term, higher costs are expected to be reflected in higher sums insured and therefore not expected to impact premium adequacy.
Insurer claims management	Insurers manage claims costs directly with policyholders, then recover costs from the cyclone pool. Given that the cyclone pool reinsures 100 per cent of eligible claims, there is a risk to the adequacy of premium rates if insurers do not settle cyclone claims cost effectively and in line with policy terms.	Ongoing claims validations and audits. Use of data from TC Alfred to benchmark insurer claims costs **(Action 2025-1, Table 1.6)**.

1.6 Observations on capital management

The primary objective of ARPC's Capital Management Policy is to manage assets so that they are available to meet future financial obligations as they fall due. Cash flow modelling projects that the cyclone pool is likely to meet its current claims liabilities from investable assets and future premiums. If assets are insufficient to meet claim payments, assets can be transferred from the terrorism pool, and the cyclone pool is supported by an annually reinstated Commonwealth guarantee which provides additional funding if required.

Given the volatile nature of cyclone claims experience, the financial outcomes for the cyclone pool over the short and medium term are likely to vary considerably. A number of potential future scenarios are quantified in Section 7. The baseline scenario indicates that after 10 years, there is a 10 per cent chance of net assets of more than $4.65 billion and a 10 per cent chance of net liabilities in excess of $9.30 billion.

The volatility in the cyclone experience to date, and the current net liabilities are within the range of likely modelled outcomes. The cyclone pool is expected to be able to meet its current claims liabilities, and no capital management actions are recommended at this stage.

Over the next 12 months, we intend to review the Capital Management Policy so that it continues to provide an appropriate framework for setting premium rates that consider the cyclone pool's net asset position **(Action 2025-4, Table 1.6)**.

1.7 Actions

Table 1.6 summarises the key actions arising from the 2025 FOR and an update on the actions from previous FORs. Note that these actions focus on specific additional activities we plan to undertake, rather than on those already carried out as a part of normal business operations.

Table 1.6: FOR actions

Year / Number / Category	Action	Planned timeframe	Status
2025-1. TC Alfred	Undertake a comprehensive review of claims and other information from TC Alfred, using lessons learned to inform the operation of the cyclone pool and to share key insights with external stakeholders.	12-24 months (set in 2025)	**New.** Refer to sections 1.2 and 3.4.2.
2025-2. Catastrophe models	Reassess the catastrophe models we are using to determine whether they continue to be the most suitable to inform our AAL and its variability.	12-24 months (set in 2025)	**New.** Refer to sections 1.3 and 4.2.1.
2025-3. Climate change	Formalise a methodology for assessing scientific information and a framework to identify triggers for climate-related updates to cyclone pool premium rates.	24-36 months (set in 2025)	**New.** Refer to sections 1.3 and 6.4.
2025-4. Capital management	Review the Capital Management Policy so that it continues to provide an appropriate framework for setting premium rates that consider the cyclone pool's net asset position.	6-12 months (set in 2025)	**New.** Refer to sections 1.6 and 7.6.1.

Year / Number / Category	Action	Planned timeframe	Status
2024-1. Risk mitigation	Monitor the take up of existing mitigation discounts by region and consider initiatives to improve take up. Consider how mitigation discounts can be extended to SME and included in the SME premium rating structure in the future.	12-24 months (set in 2024)	**Ongoing**. The take up of mitigation discounts is monitored and regular updates provided in the quarterly statistics reports.[13] Annual premium discounts for Home mitigation have increased from $6.3 million to $7.9 million. Mitigation discounts for Strata have been effective since 1 April 2025. Take up of these discounts will be monitored. Mitigation discounts for SME will be effective from 1 April 2026.
2024-2. Under and non-insurance	Use the cyclone pool exposure dataset and property replacement cost estimate data to better understand levels and drivers of under and non-insurance. These insights will be used to inform future pricing reviews.	12-24 months (set in 2024)	**Ongoing**. ARPC is currently updating our analysis of the cyclone pool coverage ratio[14] and insights this may provide into the levels and drivers of under and non-insurance.
2024-3. Product coverage rating	Review the product coverage rating for Home. Assess whether a product coverage rating is required for SME and Strata properties.	12-24 months (set in 2024)	**Planned for the 2025-26 financial year.**
2024-4. Data quality	Consider incentivising insurers to collect complete and accurate data by phasing in premium rate loadings for missing rating variables after insurers have had sufficient time to collect this data.	12-24 months (set in 2024)	**Closed**. Data quality has improved materially across all variables except for location. ARPC does not plan to introduce penalty rates for unknown data at this stage given the improvement in data quality. However, if location data continues to deteriorate, we may consider introducing a penalty for this variable.
2023-3. Climate change	Undertake future climate change scenario testing to better understand the potential quantitative impacts of climate change on the cyclone pool under a range of projected warming scenarios.	12-24 months (set in 2023)	**Closed**. Modelling of ARPC cyclone pool premiums for the Australian Prudential Regulation Authority's (APRA's) Insurance Climate Vulnerability Assessment[15] has been finalised. Outputs from the modelling have been used by insurers to assess insurance affordability under climate change scenarios. Results are expected to be published by APRA in early 2026. Monitoring and quantification of climate risks will be ongoing.

[13] Cyclone Reinsurance Pool Statistics Report June 2025

[14] Calculated as the number of properties reinsured by the cyclone pool divided by ARPC's view of the total number of properties eligible for the cyclone pool.

[15] Insurance Climate Vulnerability Assessment | APRA

02 BACKGROUND

2.1 Introduction to the cyclone pool

ARPC is a public financial corporation established in 2003 to administer the terrorism pool. Since 1 July 2022, ARPC has also administered the cyclone pool. ARPC operates under the TCI Act.

The cyclone pool covers cyclone and cyclone-related flood damage to insured Home (residential), Strata, and SME properties. The pool is designed to improve insurance accessibility and/or affordability in areas with medium to high cyclone risk. All general insurers writing business in eligible classes in cyclone prone regions joined the pool by 31 December 2024.[16]

The cyclone pool is funded by reinsurance premiums paid to us by insurers. In the event of a DCE, the insurer recovers all eligible claims costs and claims handling expenses from the cyclone pool.

The cyclone pool delivers reinsurance at a lower cost than the private market by leveraging a $10 billion annually reinstated Commonwealth guarantee, which absorbs volatility and enables the cyclone pool to set premium rates which do not have margins for uncertainty, profit or return on capital.

[16] The cyclone pool is a mandatory scheme with eligibility requirements defined in the TCI Act.

2.2 This report

The FOR assesses the cyclone pool's ability to meet its legislative objectives now and in the future.

Section 40A of the TCI Act requires ARPC to prepare and provide the FOR to the responsible Minister. The first FOR was required after the end of the 2023-24 financial year (as at 30 June 2024), and then annually thereafter.[17] From 2024, the FOR was required to be given to the Minister on or before 15 October and published on our website within the following 10 business days.

Section 5E of the *Terrorism and Cyclone Insurance Regulations 2003* sets out FOR content requirements. Table 2.1 summarises these requirements, with reference to the relevant section of this document.

Table 2.1: Summary of FOR legislative requirements

FOR requirement		Document section
(a)	an overview of the performance of the cyclone reinsurance scheme during the financial year	Section 3
(b)	observations on broader financial risks affecting the scheme's financial outlook	Section 6
(c)(i)	an assessment of the adequacy of the premiums the Corporation is receiving under cyclone reinsurance contracts	Section 4
(c)(ii)	an assessment of the adequacy of the Corporation's reserves that are available to meet claims under those contracts	Section 5
(d)	observations on capital management for the purposes of the scheme	Section 7
(e)	projections for financial outcomes for the scheme, based on estimates of future claims under cyclone reinsurance contracts	Section 3
(f)	any other matters that the Corporation considers material to the current and future financial situation of the scheme	All Sections

This FOR was prepared as at 30 June 2025, and unless otherwise stated, all of the financial results are for the financial year ended 30 June 2025. Appendix A contains a summary of the data used for the 2025 FOR and associated as-at dates.

The Reviewing Actuary (currently the Australian Government Actuary) concurs with the actions set out in the FOR and finds that the FOR addresses the key areas it is required to cover in the regulations. The letter of advice from the Reviewing Actuary is included in Appendix D.

2.3 Uncertainty and reliance

Our analysis of cyclone risk relies on catastrophe model output. As a low frequency, high severity peril, the modelling of cyclone claims is subject to significant model and parameter uncertainty. The most extreme events, which have not been observed in our recorded history, but are known to be in the distribution of potential outcomes, materially impact estimated cyclone claims costs. We do not have material volumes of claims data currently available to calibrate the modelling of these events. As such, any analysis drawn from the outputs from these models is subject to material uncertainty. More information on the uncertainty in modelling cyclone risk is provided in Appendix B.

The analysis underlying the FOR relies on the accuracy, reliability, and completeness of data submitted to us by insurers, and from other external data sources. We have data validation processes that promote data accuracy, but we ultimately rely on insurers and other data providers to provide accurate information. Appendix A provides further information on the data used for this report.

[17] While it was not then a requirement, ARPC published a FOR in 2023 at our discretion for transparency and for the information of stakeholders.

03 FINANCIAL PERFORMANCE

3.1 Measuring financial performance

This section summarises the financial performance of the cyclone pool for the 2024-25 financial year, and projects performance for the next three financial years. The financial performance of the cyclone pool depends on the following components:

- reinsurance premiums received by the pool which are relatively stable and predictable
- claims costs[18,19] which are volatile and depend on the cyclone events occurring in the financial year
- operating expenses
- investment income which depends on the asset position during the period.

The operating result reflects the premiums and investment income earned, less the claims costs and operating expenses incurred. In any one year, the main reason the operating result will vary is the volatility in cyclone claims experience.

3.2 Operating result

3.2.1 Operating result: experience over the year

The cyclone pool recorded a negative operating result of $1.21 billion for the 2024-25 financial year, compared to a projected positive operating result of $27 million. The underwriting result was a $1.26 billion loss, with claims costs being higher than projected due to TC Alfred, which incurred an estimated cost of $1.86 billion (including a risk margin of $322 million).

Table 3.1 illustrates the range of projected claims (and associated underwriting, investment income and operating result) outcomes. Baseline figures are shown in **bold**, with the results corresponding to the 10th and 90th percentile projected claims experience shown below the baseline projections in *italics*. While the projected claims cost for the 2024-25 cyclone season was $630 million, there was a 10 per cent probability of claims cost greater than ~$1.2 billion, as well as a 10 per cent probability of claims cost less than $1 million. The actual claims cost was $1.55 billion; the modelled probability of a claims cost of $1.55 billion or more is nine per cent.

[18] Claims costs include all eligible claims handling expenses.
[19] Actual claims costs include a risk margin that ARPC holds to increase the probability of sufficiency (PoS) of the insurance liabilities in its financial accounts as required by the AASB 1023 accounting standard. This risk margin is not considered when setting cyclone pool premium rates and not accounted for in future claims projections.

Table 3.1: Cyclone pool recent financial performance[20]

	FY 2024-25 ($m)	
	Actual	**Budgeted**
Earned premium	**631**	**652**
Current year claim costs (central estimate)	**(1,553)**	**(630)**
Claims costs (90th percentile)		*(1,220)*
Claims costs (10th percentile)		*(1)*
Current year risk margin	(327)	
Movement in prior years	9	
Other operating expenses	**(18)**	**(18)**
Underwriting result	**(1,261)**	**4**
Underwriting result (90th percentile claims experience)		*(586)*
Underwriting result (10th percentile claims experience)		*633*
Investment income	**48**	**23**
Operating result	**(1,213)**	**27**
Operating result (90th percentile claims experience)		*(573)*
Operating result (10th percentile claims experience)		*667*

The FY 2024-25 Actual underwriting and operating results include a negative $4m movement as a result of accounting adjustments (DAC write-down and unexpired risk liability).

For the 2024-25 financial year, claims costs driven by TC Alfred led to a negative operating result of $1.21 billion. Given the volatile nature of cyclone events, it is expected that financial outcomes will vary considerably from year to year.

3.2.2 Operating result: future projections

Table 3.2 shows the budget for the 2025-26 financial year and the forecast operating results for the 2025-28 financial years. Forecasts assume a ratio of claims cost to earned premium of approximately 97 per cent (derived from the 2025 Pricing Review) for the baseline (or average) outcome, and operating expenses of $18 million in the 2025-26 financial year increasing with inflation, resulting in a small forecast positive operating result for the next three years. The projected positive operating result arises as a result of the projected ultimate premium adequacy ratio being slightly above 100 per cent, as described in Section 4.2, in addition to projected investment income. The baseline claims costs are estimated using the AAL, or long-term average. Actual claims costs and operating results are likely to vary materially from this projection, as shown by the 10th and 90th percentile results.

[20] Budgeted claims cost (90th percentile) has been restated from the published 2024 FOR. The number shown in the 2024 FOR was incorrect as a result of a data transcription error.

Table 3.2: Cyclone pool forecast financial performance for the 2025-28 financial years[21]

	FY 2025-26		FY 2026-27	FY 2027-28
	Budgeted	**Forecast**	**Forecast**	**Forecast**
Earned premium	**661**	**657**	**693**	**721**
Claims costs (central estimate)	**(638)**	**(638)**	**(673)**	**(701)**
Claims costs (90th percentile)		*(1,467)*	*(1,547)*	*(1,610)*
Claims costs (10th percentile)		*(1)*	*(1)*	*(1)*
Other operating expenses	**(18)**	**(18)**	**(19)**	**(19)**
Underwriting result	**5**	**0**	**1**	**1**
Underwriting result (90th percentile claims experience)		*(828)*	*(873)*	*(909)*
Underwriting result (10th percentile claims experience)		*638*	*673*	*701*
Investment income	**58**	**26**	**16**	**17**
Investment income (90th percentile claims experience)		*25*	*3*	*0*
Investment income (10th percentile claims experience)		*26*	*28*	*50*
Operating result	**63**	**26**	**17**	**18**
Operating result (90th percentile claims experience)		*(803)*	*(870)*	*(909)*
Operating result (10th percentile claims experience)		*664*	*701*	*751*

10th and 90th percentile investment income calculated for each individual year based on estimated invested assets.

The variability in future claims experience, and therefore the projected operating result, is significant. For the 2025-26 financial year there is a 10 per cent probability of a negative operating result greater than ~$800 million, and a 10 per cent probability of a positive operating result greater than ~$650 million.

3.3 Premium

As shown in Table 3.1, the actual earned premium for the 2024-25 financial year was $631 million compared to the $652 million budgeted.

The premium was lower than forecast for several reasons:

- **Insurers improved data quality over the course of the year**: The proportion of data reported as 'unknown' decreased materially over the year, especially for Strata. This resulted in a decrease in the average estimated risk of reinsured properties, and therefore a decrease in premium.
- **Increase in mitigation discounts applied**: The annual risk mitigation discounts applied increased from $6.3 million to $7.9 million. This is a sign that mitigation uptake and reporting has increased, which resulted in a decrease in modelled risk and premium.
- **Average policyholder excesses increased**: Policyholders have the option to increase their excess in response to inflationary pressures and increasing insurance premiums. When this option is exercised, risk is transferred from the insurer to the policyholder, and there is a decrease in the cyclone pool premium charged. Excesses for Building policies increased by 13 per cent for Home, 17 per cent for Strata and 39 per cent for SME between 31 March 2024 and 31 March 2025.[22]
- **Lower numbers of SME policies than expected**: The number of SME policies that joined the cyclone pool over 2024 was lower than previously estimated; the total number of reinsured policies as at 31 March 2025 was nine per cent less than projected.
- **Lower number of Strata policies than expected**: The number of reinsured properties for Strata decreased by three per cent between 31 March 2024 and 31 March 2025.[22]

[21] Budgeted costs for the 2025-26 financial year were set prior to the 2024-25 cyclone season. Claims costs were based on the loss ratio estimated during the 2024 Pricing Review, and investment income was projected using the cyclone pool's accumulated position prior to TC Alfred.

[22] This metric considers exposure records with cyclone pool premium greater than zero only.

The decrease in earned premium was slightly offset by an increase in Surge coverage for Home policies. The proportion of Home Building policies with Surge coverage increased by seven per cent between 31 March 2024 and 31 March 2025.[22]

All participating insurers joined the pool by 31 December 2024. Premium income is expected to increase in line with sum insured inflation and growth in reinsured properties, slightly offset by projected changes in risk factors leading to reduced claims cost and lower premiums. These changes include an increase in risk mitigation discounts, and an increase in the average policyholder excess.

Actual earned premium for the 2024-25 financial year was slightly lower than projected, driven by an increase in risk mitigation discounts, improvements in data quality, increases in policyholder excesses and a lower-than-expected number of Strata and SME policies.

3.4 Claims

3.4.1 Claims: total experience over the year

There were five DCEs in the 2024-25 cyclone season (discussed further in Section 3.4.2). The total central estimate claims cost was $1.55 billion, of which $1.54 billion was due to TC Alfred. A $327 million risk margin was raised for the events of the 2024-25 cyclone season, and there was a $9 million (five per cent) reduction in the total provisions for prior events, leading to a total claims cost for the 2024-25 financial year of $1.87 billion.

Table 3.3 shows the actual versus projected claims costs for the 2024-25 financial year, with the actual claims costs materially exceeding the projected mean claims costs of $630 million.

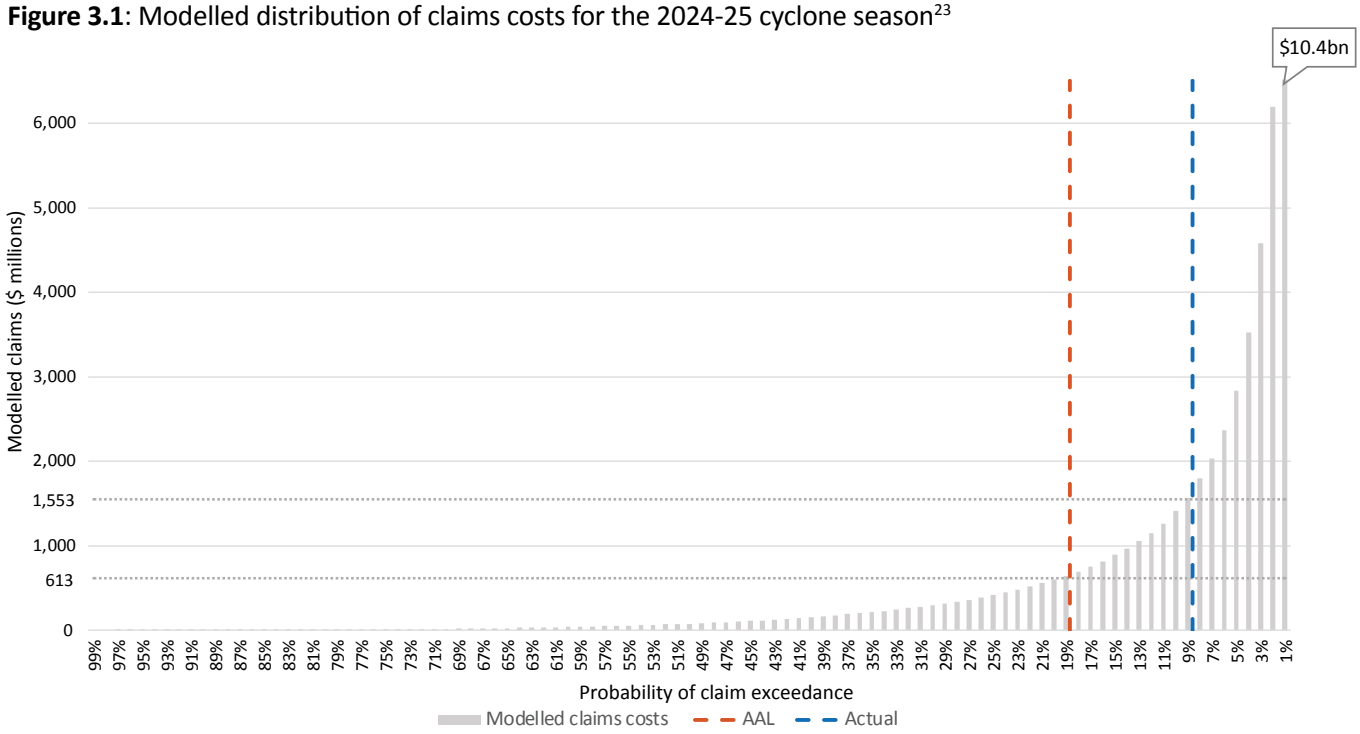
Table 3.3: Actual versus expected claims costs for the 2024-25 financial year

	FY 2024-25 ($m)	
	Actual	**Budgeted**
Central estimate of claims costs for current year	**(1,553)**	**(630)**
Claims costs (90th percentile)		(1,220)
Claims costs (10th percentile)		(1)
Risk margin on current year events	(327)	
Movement in prior year events	9	
Total claims expense	**(1,871)**	**(630)**

It should always be expected that a comparison of actual versus projected claims costs will yield large differences. The modelled claims costs of $630 million for the 2024-25 financial year represents the cyclone AAL, which is the mean of the distribution of potential claims. ARPC financial projections are based on the annual average of a range of projected outcomes over the long term. The significant difference between observed experience and modelled AAL is not unexpected over a one-year period as cyclone claims are volatile, and observed claims will not match the modelled mean over the short term. The premiums for the cyclone pool are expected to cover or offset claims costs to the cyclone pool only over the long term.

Figure 3.1 illustrates the skew in the distribution of modelled claims for the 2024-25 cyclone season. The modelled probability of total claims cost exceeding $1.55 billion is approximately nine per cent.

Figure 3.1: Modelled distribution of claims costs for the 2024-25 cyclone season[23]



Note that the modelled AAL in Figure 3.1 is $613 million compared to the $630 million projected in the 2024 FOR. The updated modelled AAL reflects the lower than projected earned premium (and exposure) for the 2024-25 financial year.

3.4.2 Claims costs: summary of events over the year

The cyclone pool provides cover for eligible cyclone claims within the event period defined in the TCI Act. The period commences when ARPC declares a DCE, based on notification from the Bureau of Meteorology (the Bureau) of an eligible cyclone event. The coverage window extends to the time that ARPC declares the end of the cyclone, plus 48 hours.

During the 2024-25 cyclone season, we declared five cyclones, with TC Alfred being the main driver of claims to the pool, as shown in Table 3.4.

Table 3.4: Summary of DCEs for the 2024-25 cyclone season with insurer data to 31 March 2025[24]

	TC Sean	TC Zelia	TC Alfred	TC Dianne	TC Errol	Total
Crossing point	Did not cross	Northern WA	South East QLD	Northern WA	Northern WA	
Event start date	19 Jan 25	12 Feb 25	28 Feb 25	28 Mar 25	16 Apr 25	
Claims						
Number of claims reported	83	54	69,096	72	0	69,305
Average reported claim size ($000s)	16	24	8	5	0	8
Costs						
Claims paid ($000s)	236	110	53,757	0	0	54,103
Insurer case estimates ($000s)	1,126	1,165	484,432	375	0	487,097
IBNR[(a)] ($000s)	4,160	4,407	1,025,565	2,414	30	1,036,577
Risk margin, expenses, discounting ($000s)	1,336	2,190	297,095	891	37	301,549
Total outstanding liability ($000s)	6,622	7,763	1,807,091	3,680	67	1,825,223
Total incurred cost ($000s)	**6,858**	**7,873**	**1,860,849**	**3,680**	**67**	**1,879,326**

(a) Incurred but not reported.

[23] Modelled distribution was based on actual earned premium for the 2024-25 financial year, assumptions related to pricing as at 31 March 2025 and the claims cost distribution as at 31 December 2024.

[24] Insurer claims data as at 30 June 2025 had not yet been submitted to ARPC at the time of writing.

The remainder of this section summarises the events impacting exposed cyclone pool properties, with a more detailed description of TC Alfred.

TC Alfred

TC Alfred was the largest cyclone event for the cyclone pool to date. It was declared on 28 February 2025. While initially the system was expected to remain offshore, TC Alfred changed direction and approached the coast of South East Queensland, eventually making landfall on 7 March 2025 on Moreton Island, east of Brisbane. During the days leading up to landfall it was at times forecast to make landfall as a low category 3 system, but was downgraded just prior and was a tropical low by the time it reached the mainland. Losses from a category 3 system making landfall in the Brisbane area would be far more material than the losses from TC Alfred were.

The structural damage from wind gusts was less than feared due to lower wind speeds than forecast; maximum wind gusts recorded at weather stations were 100 kilometres per hour on the Gold Coast and 104 kilometres per hour in Redcliffe. There were instances of minor structural damage, fallen trees, and water ingress due to wind and heavy rainfall. There was significant rainfall recorded during the event, leading to riverine and flash flooding. However, most catchments remained below major flood levels. Landfall did not coincide with high tide, but there was extensive coastal erosion to the coastline from Coffs Harbour to the Sunshine Coast in the days leading up to landfall. The damage from wave impacts was mainly limited to erosion of beaches, and property damage was minor.

Queensland experienced its worst ever power outage from a weather event. Over 450,000 homes in Queensland[25] and 84,000 properties in New South Wales[26] lost power during the event, which lead to a high number of claims related to food spoilage.

While wind speeds experienced during the event were not sufficient to cause material structural damage, TC Alfred is still expected to lead to material claims cost to the cyclone pool due to the size of the exposure impacted by the event. As at 30 June 2025, the estimated incurred cost (including risk margin) for TC Alfred was $1.86 billion, with a reported average claim size of $8,000. The average claim size is likely to increase materially given that many cost assessments have not been completed.

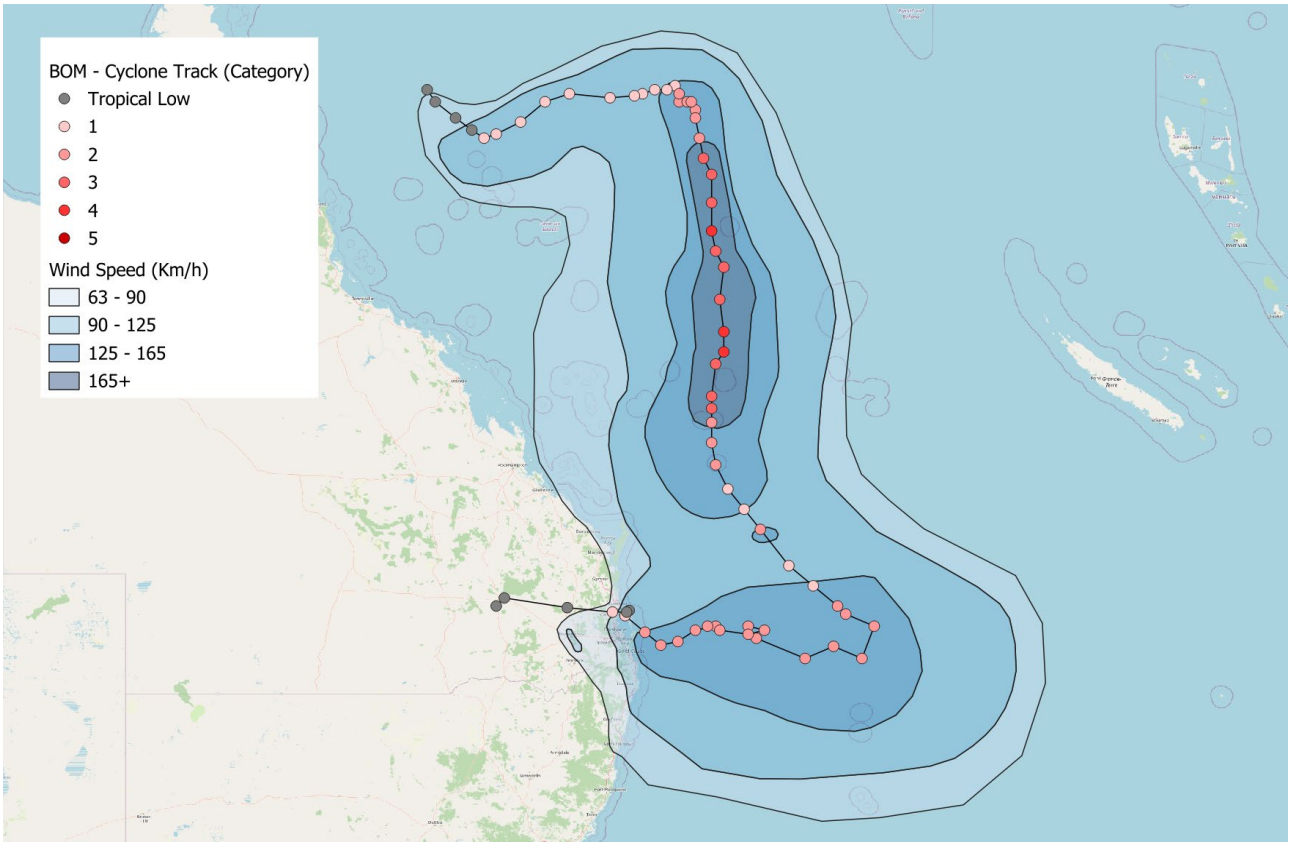
TC Alfred will generate a large volume of claims data owing to the size of the event. Over the next two years, we will analyse claims data and other information from the event to determine what can be learned about cyclone risk, building stock vulnerability and insurer practices, to develop insights that may be used by ARPC to support the operation of the cyclone pool and by external stakeholders.

ACTION 1:	Undertake a comprehensive review of claims and other information from TC Alfred, using lessons learned to inform the operation of the cyclone pool and to share key insights with external stakeholders.

[25] SBS news article – 118,000 without power, but rivers receding and emergency alerts cancelled in Queensland

[26] Ministerial media release – Minns Government seeks energy bill relief for cyclone region

Figure 3.2: TC Alfred track



Source: Cyclone track information from Early Warning Network and the Bureau

Other events during 2024-25 cyclone season

There were four other DCEs during the 2024-25 tropical cyclone season. The total estimated incurred claims cost from these events was $18 million.

Figure 3.3: Cyclone tracks from the 2024-25 cyclone season (excluding TC Alfred)

Source: Cyclone track information from Early Warning Network and the Bureau

- **TC Sean** did not cross the coast of the Australian mainland, but tracked alongside the coast of Western Australia. It was declared on 19 January 2025, tracking past Karratha as a category 1 system and Exmouth as a category 3 system, causing damage from wind and rain. The system then moved out to sea and was downgraded.
- **TC Zelia** crossed the coast northeast of Port Hedland as a category 4 cyclone on 14 February 2025. The cyclone did not directly track over Port Hedland, but still caused some damage to properties in the town and surrounds.
- **TC Dianne** crossed the Kimberley coast near Koolan Island as a category 2 system on 29 March 2025, after which it quickly weakened. The cyclone pool's exposure in this area and expected total claims cost were relatively small.
- **TC Errol** developed into a category 5 system, but then weakened before crossing the Kimberly coast south of Kuri Bay as a low-pressure system on 18 April 2025. No claims have been reported to date.

For the 2024-25 financial year the total claims costs of $1.87 billion across five DCEs (less small releases on prior events) were materially higher than the forecast (based on the AAL) of $630 million. Cyclone pool costs are expected to vary materially from year to year.

3.4.3 Claims costs: future projections

The expected claims cost for the 2025-26 financial year is $638 million. This claims costs estimate represents the mean of the distribution of possible outcomes. Given the volatile nature of cyclone claims experience, claims are highly variable with a large range of potential outcomes. Table 3.5 shows the distribution of claims for the 2025-26 financial year. There is an 80 per cent modelled probability of claims less than $623 million and a one per cent modelled probability of claims greater than $10.86 billion.

Table 3.5: Projected modelled claims for the 2025-26 financial year[27]

Cyclone pool claims distribution		
Average annual loss ($m)		**638**
Return period	**Probability of exceedance**	**Claims ($m)**
1 in 5 year	20.0%	623
1 in 10 year	10.0%	1,467
1 in 20 year	5.0%	2,956
1 in 50 year	2.0%	6,450
1 in 100 year	1.0%	10,861
1 in 200 year	0.5%	13,345

3.5 Operating expenses

3.5.1 Expenses: experience over the year

ARPC incurred $18 million in operating expenses relating to the cyclone pool in the 2024-25 financial year, which was in line with the budget (see Table 3.1). These operating expenses reflect the costs involved with the day-to-day operations of the cyclone pool.

3.5.2 Expenses: future projections

As shown in Table 3.2, operating expenses for the 2025-26 financial year are projected to remain consistent with the 2024-25 financial year, at $18 million. TC Alfred is not expected to result in additional operating expenses for ARPC.

Table 3.6 shows the cyclone pool's projected operating expense ratio[28] for the 2025-28 financial years. This ratio is projected to decrease slightly over time, which shows that the cyclone pool premiums are projected to increase at a slightly higher rate than the increase in operating expenses.

[27] Modelled events are capped at $15 billion to calculate the cyclone pool's AAL and claims distribution. Events larger than $15 billion are included in the cyclone pool AAL, but capped at $15 billion. This represents the plausible large loss for the cyclone pool.

[28] Total operating expense divided by the total gross written premium.

Table 3.6: Actual and Budgeted operating expense ratio for the 2025-28 financial years

	FY 2025-26 Actual	FY 2025-26 Budgeted	FY 2026-27 Budgeted	FY 2027-28 Budgeted
Operating expense ratio	2.77%	2.66%	2.64%	2.61%

3.6 Investment income

3.6.1 Investment income: experience over the financial year

As shown in Table 3.7, the actual investment income for the 2024-25 financial year was higher than budgeted, driven by previous budget projections understating assets available for investment. Any investment income on assets is available to meet claims costs in following years.

Table 3.7: Actual versus projected investment income for the 2024-25 financial year

	FY 2024-25 ($m)	
	Actual	Budgeted
Investment income	48	23

3.6.2 Investment income: future projections

Investment income is projected using estimated invested assets[29] and future interest rates derived from forecasts of the RBA cash rate. Volatility in the actual investment income earned may result from variations in the rate of investment return and the claims experience. Future investment income projections and their variability due to claims experience volatility are shown in Table 3.8.

Table 3.8: Projected investment income for the 2025-28 financial years

$m	FY 2025-26	FY 2026-27	FY 2027-28
Investment income	**26**	**16**	**17**
Average cash and investments over the period	**702**	**484**	**529**
Average investment rate of return	**3.66%**	**3.25%**	**3.27%**
Investment income (90th percentile claims experience)	*25*	*3*	*0*
Average cash and investments over the period (90th percentile claims experience)	*692*	*97*	*0*
Average investment rate of return (90th percentile claims experience)	*3.63%*	*2.99%*	*0.00%*
Investment income (10th percentile claims experience)	*26*	*28*	*50*
Average cash and investments over the period (10th percentile claims experience)	*710*	*802*	*1,417*
Average investment rate of return (10th percentile claims experience)	*3.70%*	*3.51%*	*3.56%*

3.7 Accumulated position

As at 30 June 2025, the cyclone pool had a net liability position of $734 million. This position was due to higher-than-average cyclone claims during the 2024-25 cyclone season, driven by TC Alfred, and included $335 million of risk margin. Cash flow modelling[30] projects that the cyclone pool is likely to be able to fund its claim payments from investable assets and future premiums, assuming median claims experience for the next cyclone season. There is a 61 per cent probability that the cyclone pool will return to a neutral accumulated position in the 2025-26 financial year.

Figure 3.4 shows the movement in the accumulated position since 30 June 2022. The cyclone pool accumulated net assets during the first two years of its operations, which will be used to partially fund the claims cost expense for the 2024-25 financial year.

[29] Projected investment income for future financial years has been re-projected since the original budget to allow for the updated asset position after the 2024-25 cyclone season.
[30] Modelling assumed that claim payments from prior events will be consistent with the central estimate assumptions as at 30 June 2025.

Figure 3.4: Movement in accumulated position since 30 June 2022

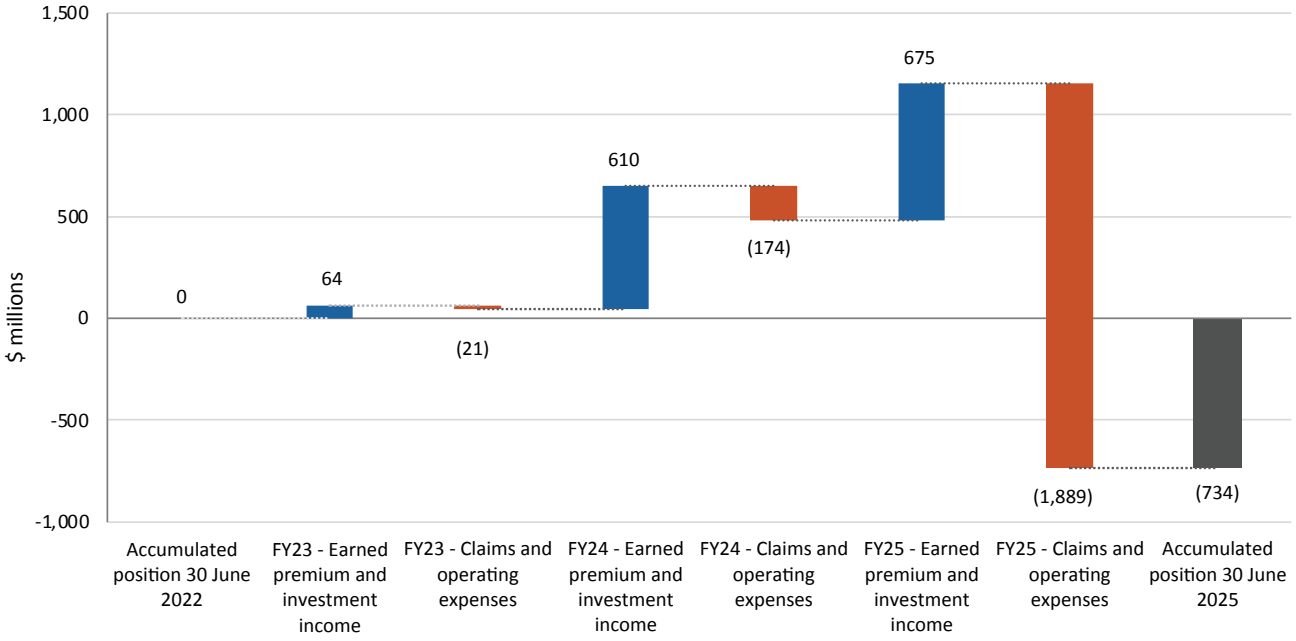


Table 3.9: Summary of financial position as at 30 June 2025

As at 30 June 2025	
Assets	**$m**
Cash and cash equivalents	687
Trade and other receivables	169
Investments	540
Deferred insurance assets	0
Non-financial assets	6
Total assets	**1,402**
Liabilities	
Unearned premium	244
Outstanding claims	1,879
Unexpired risk liability	2
Payables and other liabilities	12
Total liabilities	**2,136**
Accumulated position	**(734)**

The cyclone pool had premium liabilities of $245 million ($244 million of unearned premium and $2 million of unexpired risk liability) as at 30 June 2025. In addition, there was a liability for outstanding claims of $1.88 billion.

Anticipating large TC Alfred claims due in July, the cyclone pool held $687 million in cash and, for future claim payments, held $540 million in term deposits. The trade and other receivables of $169 million was mainly estimated (accrued) premiums for the quarter ended 30 June 2025 (given that insurers pay premiums one month after the end of the quarter).

The negative operating result led to net liabilities of $734 million as at 30 June 2025. The cyclone pool is projected to meet its liability cash flows from investable assets and future premiums. The probability that the pool will return to a neutral accumulated position in the 2025-26 financial year is 61 per cent.

04 ASSESSMENT OF PREMIUM RATES

4.1 Legislative objectives and defined targets

ARPC has defined targets for meeting the legislative objectives of the TCI Act. This section considers how the cyclone pool premiums are currently meeting these targets. A summary of these targets, and the current assessment is shown in Table 4.1.

Table 4.1: Assessment of premium rates against legislative objectives and defined targets

Category	Summary of legislative objective	Defined target	Assessment
Premium adequacy *TCI Act s8D(a)*	Over the longer term, premiums are sufficient to cover or offset claims and expenses including any payments funded by the Commonwealth guarantee.	Overall premium adequacy ratio of approximately 100 per cent.	Premium adequacy ratio[31] estimated to be 100.1 per cent for current exposure (all participating insurers have now joined the cyclone pool). **In line with target.**
Premium rates for medium to high cyclone risk *TCI Act s8D(b)*	In medium to high cyclone risk areas, to keep the premiums as low as possible.	All margins collected from lower cyclone risk areas are reallocated to properties with the highest modelled cost resulting in a premium adequacy ratio < 100 per cent for medium and high-risk properties.	Premium adequacy ratio reduces as modelled cost increases and is below 40 per cent for the highest risk properties. **In line with target.**
Premium rates for low cyclone risk *TCI Act s8D(c)*	In lower cyclone risk areas, to keep premiums at levels comparable to what would be charged by other reinsurers.	Premiums are set in line with ARPC's view of private (re) insurance market premiums including margins resulting in premium adequacy ratio > 100 per cent for low-risk properties.	Premiums are consistent with ARPC's view of modelled cost plus an estimated (re)insurance market margin. **In line with target.**
Risk mitigation *TCI Act S8D(b)*	Maintaining incentives to reduce and mitigate the risk of eligible cyclone claims.	Offer premium discounts for properties that have undertaken risk mitigation.	Risk mitigation discounts are in place for Home and Strata. SME mitigation discounts will be effective from 1 April 2026. **Working towards target.**

ARPC has recently completed a review of the current cyclone pool premium rates (2025 Pricing Review), which assessed that the premium rates continue to meet the legislative objectives of the cyclone pool. Updated premium rates were published on 30 September 2025 and will be effective from 1 April 2026. Changes include the introduction of risk mitigation discounts for SME.

[31] The premium adequacy ratio is the ARPC cyclone pool premium divided by the modelled cyclone pool costs (the expected cost of claims, eligible claims handling expenses and cyclone pool operating costs).

4.2 Premium adequacy

4.2.1 Overall premium adequacy ratio

Our assessment of the ongoing adequacy of premiums to cover or offset the cost of claims over the long term includes analysis of the premium adequacy ratio. The premium adequacy is calculated as the ratio between:

- **Annual cyclone pool premiums**: Premium rates, and therefore annual premiums, have remained largely unchanged since the Initial Pricing Review in 2022. Analysis for the 2025 Pricing Review considered annual premiums as at 31 March 2025, and
- **The expected AAL plus operating expenses**: Shifts in exposure since the Initial Pricing Review and updates to risk modelling have led to changes in the estimated AAL. We estimated the AAL during the 2025 Pricing Review, reflecting our latest exposure and updated catastrophe model runs.

The analysis concluded that the current premium adequacy ratio is consistent with the target of approximately 100 per cent, noting that there is material uncertainty in estimating claims costs using catastrophe models, and that a ratio higher or lower than 100 per cent may still be considered 'adequate'. Table 4.2 shows how the premium adequacy ratio has been derived.

Table 4.2: Premium adequacy ratio

Premium adequacy as at 31 March 2025	
Total premiums ($m)	636.6
Total estimated AAL ($m)	636.0
Current estimated adequacy ratio	**100.1%**

Movements in the exposure over the past financial year have led to a small variation in the premium adequacy ratio down from 100.4 per cent. The movements in exposure led to changes in both expected AAL and premium, with the net impact to premium adequacy being relatively minor. These movements are discussed below.

The following exposure movements led to marginal decreases in premium adequacy:

- a slight increase in the average Wind risk[32]
- an increase in the proportion of policies with Surge coverage.

The following exposure movements led to marginal increases in premium adequacy:

- improvements in the quality of the data provided by insurers leading to an overall decrease in average risk
- increased take up of risk mitigation discounts
- a decrease in the number of reinsured properties for Strata and SME, and
- a slight decrease in the average cyclone-related Flood risk.[33]

Considering the volatility in modelled cyclone costs, the overall premium adequacy of approximately 100 per cent is consistent with the cyclone pool's target, and meets the objective of covering costs over the long term.

[32] Average Wind risk is calculated using the ARPC Wind premium base rate, which is determined using catastrophe models licensed by ARPC and includes adjustments to reduce premiums for high-risk areas.

[33] Average cyclone-related Flood risk is calculated using the ARPC Flood premium base rate, which is determined using catastrophe models licensed by ARPC and includes adjustments to reduce premiums for high-risk areas.

Maintaining premium adequacy over time

ARPC's view of cyclone risk may evolve as claims experience develops and models are updated. Premium rates are set with consideration of our best view of current risk. We rely on the quality of data received from insurers, catastrophe models, the current understanding of the impacts of climate change, and observed cyclone claims experience.

ARPC intends to leverage research and vulnerability studies to further improve our understanding and pricing of cyclone risk.

Specific areas of uncertainty in the catastrophe models, and identified areas of future research are outlined in Appendix B. As part of managing this uncertainty, we intend to reassess our models over the next 12-24 months.

ACTION 2: Reassess the catastrophe models we are using to determine whether they continue to be the most suitable to inform our AAL and its variability.

4.2.2 Comparison of modelled and historical AALs

Tropical cyclones in Australia are infrequent events that are influenced by long-term weather patterns, and historical loss data does not capture the full distribution of potential loss events that the cyclone pool is exposed to. Therefore, it is considered best practice in the (re)insurance industry to estimate cyclone losses using catastrophe models that simulate thousands of synthetic events to supplement the limited observational records. ARPC uses a panel of catastrophe models to estimate the expected losses from cyclone events covered by the cyclone pool.

Figure 4.1 compares the modelled AAL,[34] which informs our pricing, with historical claims to provide insight into the adequacy of the premium rates.

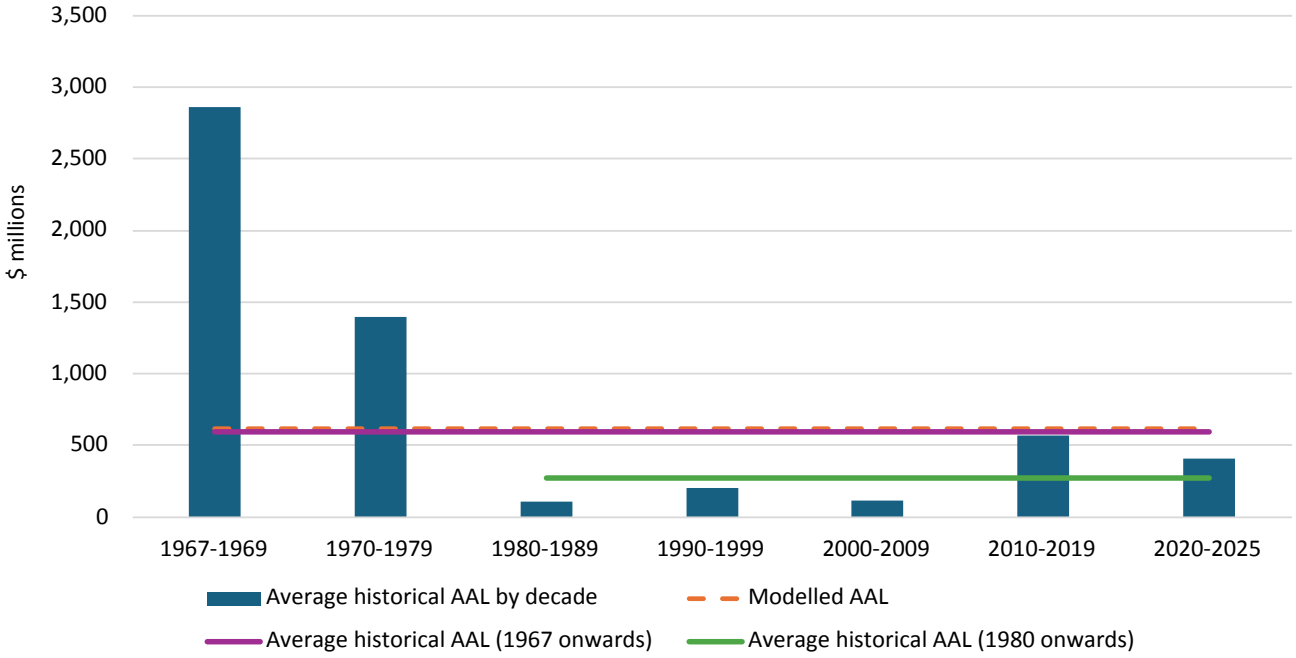
We have estimated the historical AAL using data published by the ICA providing insurance costs from historical catastrophic events (data available from 1967 onwards). The losses have been normalised to current exposure[35] and adjusted to allow for cyclone pool coverage.[36] The estimated historical AAL is uncertain due to these assumptions; the impact of the loss normalisation is material for events that occurred in the 1960s and 1970s. We have used our own view of ultimate claims cost for recent events, including TC Alfred.

[34] The modelled AAL is equal to the $618 million, which is the $636 million shown in Table 4.2 less the $18 million allowance for ARPC operating expenses.

[35] The normalisation approach was developed by Risk Frontiers and accounts for changes in the number, value, and size of dwellings, and changes to building codes.

[36] To adjust losses to allow for cyclone pool coverage, we removed estimated losses from ineligible classes of business (i.e. Motor, Industrial Special Risks and Crop) and estimated flood losses outside the coverage period.

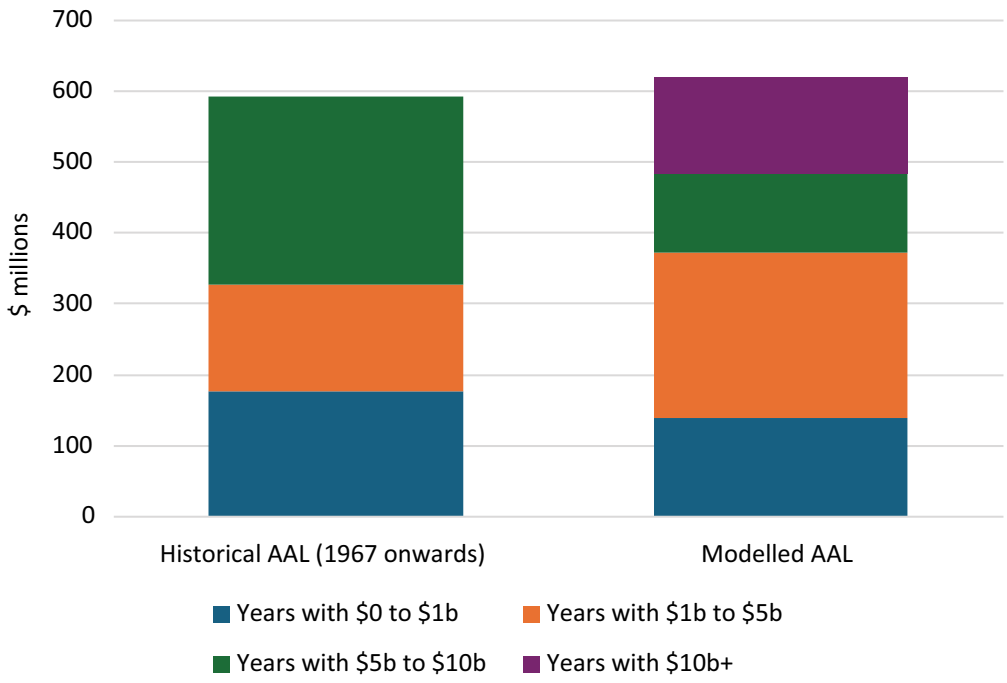
Figure 4.1: Modelled AAL versus historical AAL by decade since 1967 as at 31 March 2025



The modelled AAL is four per cent higher than the historical AAL from 1967 to 2025. The modelled AAL includes allowances for very large events to occur that have not been seen in historical experience (for example, the modelling shows a one per cent probability of losses in excess of $10.86 billion). However, the relatively small difference suggests that the long-term modelling expectations that inform the premium rates are materially consistent with normalised cyclone claims costs over the past 59 years.

Figure 4.2 shows how years with different levels of cost contribute to the modelled and historical AALs.

Figure 4.2: Comparison of historical and modelled AAL



For the historical and modelled AALs, the average annual cost of years with costs below $5 billion is around $330 to $370 million (approximately 60 per cent of the overall AAL). Years with lower cost are more frequent and the historical experience is considered a more reliable representation of the long-term average. This comparison provides evidence that the modelled allowance for years with lower costs is appropriate.

There have been two years with cost greater than $5 billion in the 59-year period captured by the historical data. This frequency is in line with the modelled frequency; the catastrophe models simulate the cost to be greater than $5 billion in three per cent of years, or approximately once every 38 years. The models simulate costs greater than $10 billion approximately once every 98 years. There have been no years with costs greater than $10 billion in our historical data period.

This comparison suggests that the observed 59-year history has seen an over-representation of events with a normalised cost between $5 billion and $10 billion and an under-representation of events with a normalised cost greater than $10 billion compared to long-term expectations in the modelling.

The modelled probability of events informing the premium rates is consistent with historical data. The modelled AAL is slightly higher than historical experience from 1967 to 2025, as it reflects the full modelled distribution of plausible events.

4.3 Premium rates by cyclone risk level

Cyclone pool premiums are designed to keep premiums as low as possible for medium and high-risk properties, while keeping premiums for low-risk properties at a level comparable to what would be charged in the private market. Table 4.3 shows the premium adequacy ratio by modelled cyclone pool cost band.

Table 4.3: Premium adequacy ratio by modelled cyclone pool cost band

Cyclone risk	Modelled cyclone pool cost band	Total sum insured ($b)	Average modelled cyclone pool cost ($)	Average cyclone pool premium ($)	Premium adequacy ratio
Low to high risk	**Under $100**	1,771	45	59	130.1%
	$100 to $500	546	209	233	111.4%
	$500 to $1,000	83	694	633	91.2%
	$1,000 to $2,000	18	1,366	981	71.8%
	$2,000 to $5,000	7	3,453	1,418	41.1%
	More than $5,000	2	7,078	2,418	34.2%
	Total	**2,429**	**131**	**131**	**100.1%**

Table excludes nil risk properties, i.e. it does not include properties in areas with no cyclone risk.
Cyclone pool premiums and modelled costs have been re-expressed to reflect a standardised $500,000 sum insured.

The average cyclone pool premium for low-risk policyholders exceeds the average modelled cyclone pool cost by a small amount. This represents the allowance for insurer and reinsurer margins, and is used to significantly reduce the average premiums for high-risk policyholders. As there are a large number of low-risk policyholders, and a small number of high-risk policyholders, this leads to modelled costs being approximately equal to premiums in aggregate.

As intended, cyclone pool premiums provide the greatest discount, compared to modelled costs for high-risk properties and are consistent with the modelled cost plus a margin for low-risk properties.

We have analysed online quote data to assess the impact of the cyclone pool on policyholder premiums. The latest analysis is shown in the 2025 Cyclone Pool Premium Assessment Report.[37] 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, with further reductions observed throughout 2024. These observed premium movements are consistent with the legislative objectives of the pool.

[37] Cyclone Reinsurance Pool Premium Assessment as at January 2025 (arpc.gov.au)

4.4 Risk mitigation

Improving the resilience of insured assets to cyclone events through risk mitigation reduces claims costs to the cyclone pool, while improving the built environment. As set out in the TCI Act, cyclone pool premiums are designed to maintain incentives to reduce and mitigate the risk of property damage.

The premium structure allows for the impact of large-scale mitigations, such as flood levees, in the base rates. The year of construction, construction type and roof type of a property are rated in line with their resilience to wind damage. Risk mitigation discounts can be applied for Home and Strata policies currently, and can be applied for SME policies from 1 April 2026.

4.4.1 Home mitigation discounts

The premium structure for Home policies provides premium discounts for specific mitigation activities, which are applied when homeowners retrofit a home to improve its resilience. The mitigation rating factors, and their associated discounts, are shown in Table 4.4.

Table 4.4: Risk mitigation rating factors and discounts (Home Building and Contents)

Mitigation activity	Wind premium discount
Roller door bracing upgrade or retrofit replacement of roller door (compliant with AS 4505:2012) – on homes built pre-2012	8%
Window protection to all windows (e.g. cyclone shutters)	10%
Roof structure tie-down upgrades (e.g. over-batten roof system) – on homes built pre 1982	20%
Complete roof replacement and structure tie-down upgrades to current standards – on homes built pre 1982	30%

Mitigation discounts on roller doors and roof upgrades are only applicable to properties built prior to 2012 and 1982 respectively. Properties built after this are not eligible for additional mitigation discounts as risk reduction through building code enhancements is accounted for in the year of construction rating factor.

Based on data captured by insurers and reported to ARPC, the total annual discount for mitigation applied to Home premiums as at 31 March 2025 was $7.9 million (31 March 2024: $6.3 million). Over time, we expect this figure to gradually increase as insurers adjust their underwriting processes, and as cyclone pool premiums provide policyholders with incentives to implement mitigation measures. Table 4.5 provides the breakdown of premium discounts applied by region, and compares the proportion of policies with any mitigation discounts as at 31 March 2025 with last year's report. The proportion of policies with discounts has increased from 1.8[38] per cent to 2.9 per cent. Further breakdowns of these statistics are available in Section 3 of the Cyclone Reinsurance Pool Statistics as at 31 March 2025.[39]

Table 4.5: Breakdown of mitigation discount by region

Region	Number of properties (000s)	Total cyclone pool premium discount ($000s)	Proportion of policies with any mitigation discounts as at 31 Mar 25	Proportion of policies with any mitigation discounts as at 31 Mar 24
South East and Mid Coast QLD	40.1	2,983	3.5%	2.0%
Far North QLD	27.2	4,090	17.2%	17.3%
Inland QLD	3.6	74	1.9%	1.1%
NT	1.2	107	3.7%	1.6%
Northern WA	2.2	667	5.5%	2.7%
Southern WA	0.4	7	0.1%	0.0%
Northern NSW	0.2	6	0.1%	0.0%
Total	**75.0**	**7,934**	**2.9%**	**1.8%**

[38] The proportion of properties with mitigation discounts as at 31 March 2024 has been restated since the 2024 FOR, from 1.9 per cent to 1.8 per cent.

[39] Cyclone Reinsurance Pool Statistics as at 31 March 2025 (arpc.gov.au)

A higher proportion of policies with discounts is expected for higher wind risk regions as the relative benefit of risk reduction is greater. The proportion of policies with a mitigation discount is notably high for Far North Queensland, which may reflect government initiatives such as the Queensland Household Resilience Program, which offers up to $15,000 in funding for qualifying mitigation.[40] Take up rates of mitigation discounts in other high-risk areas are materially lower when compared to Far North Queensland, and could also be influenced by differing property profiles in these regions.

4.4.2 Strata and SME mitigation discounts

ARPC Wind premium mitigation discounts for eligible Strata policies have been in effect since 1 April 2025, and will be effective for eligible SME policies from 1 April 2026. The discounts have been developed in partnership with James Cook University Cyclone Testing Station and reflect the estimated risk reduction of the mitigation activities. We will monitor the take up of the Strata and SME mitigation discounts as insurers provide data.

Table 4.6 shows the mitigation activities which currently qualify for a discount for Strata, and will qualify for a discount for SME from 1 April 2026.

Table 4.6: Risk mitigation factors and discounts (Strata and SME)

Risk mitigation	Details	Maximum Wind premium discount
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.	10%
Window protection	Glass windows which have external debris-rated impact screens or wind-rated shutters installed as permanent protection.	3%
External doors	All external doors of the building are either metal, timber with solid cores, or glass doors with debris-rated impact screens or wind-rated shutters.	3%
Vehicle access doors	Vehicle access doors that are under the same roof as a low-rise building, which have been upgraded to be compliant with the current standards (AS4505:2012).	3%
Gutter overflows	Gutter overflows for all perimeter gutters on boxed eaves and/or all box gutters (at each end) or all eaves have no eave lining.	3%

Discounts will be reviewed over time as claims data becomes available and additional discount factors may be added to reflect new research relating to mitigation or developments in market practice. ARPC is also working with insurers to consider how it can best encourage uptake of risk mitigation discounts.

The total annual discount for mitigation applied to Home premiums as at 31 March 2025 was $7.9 million. Over time, ARPC expects total mitigation discounts to increase as insurers adjust their underwriting processes to include the Strata and SME mitigation discounts for cyclone pool premiums which will provide policyholders with incentives to implement mitigation measures.

4.4.3 Other risk mitigation initiatives

In addition to direct reductions in cyclone pool premium rates for large-scale mitigation and individual property mitigation, we support risk mitigation through:

- **Thought leadership**: we partnered with the Cyclone Testing Station (CTS) at James Cook University (JCU) to provide research relating to mitigation activities for Strata and SME properties, and to research strategies to increase the resilience of large strata buildings impacted by damage from wind-driven rain. The CTS is part of the Engineering School at JCU and specialises in engineering research into property damage from cyclonic winds.
- **Data sharing across government**: the Hazards Insurance Partnership is a government initiative managed by the National Emergency Management Agency (NEMA) to help communities better prepare for disasters. We have engaged with NEMA and the Australian Climate Service to identify areas where our data assets could be used to help target mitigation investment.

[40] About the Household Resilience Program (qld.gov.au)

05 ASSESSMENT OF LIABILITY ADEQUACY

5.1 Outstanding claims liability

Table 5.1 shows the outstanding claims liability (OCL) estimate at the central estimate and the 75 per cent probability of sufficiency (PoS) levels for the cyclone pool.

Table 5.1: Outstanding claims liability estimates for the cyclone pool as at 30 June 2025 (using insurer claims data as at 31 March 2025)

DCE	Paid to date ($000s)	Case estimate ($000s)	IBNR[(a)] ($000s)	OCL central estimate ($000s)	Risk margin (%)	75% PoS ($000s)	Total incurred claims expense ($000s)	Quarters since event
2022-23 cyclone season								
Gabrielle	50	0	0	0	0%	0	50	9
Ilsa	8	1	0	1	24%	1	9	8
2023-24 cyclone season								
Jasper	59,158	24,320	11,996	36,316	16%	42,086	101,243	6
Kirrily	32,235	5,821	1,800	7,621	24%	9,448	41,683	5
Lincoln	0	370	3	373	24%	462	462	5
Megan	1,595	887	327	1,215	24%	1,506	3,101	5
2024-25 cyclone season								
Sean	236	1,109	4,111	5,220	27%	6,622	6,858	1
Zelia	110	1,146	4,349	5,495	41%	7,763	7,873	1
Alfred	53,757	475,115	1,009,945	1,485,060	22%	1,807,091	1,860,849	1
Dianne	0	369	2,384	2,752	34%	3,680	3,680	1
Errol	0	0	30	30	125%	67	67	0
Total	**147,148**	**509,137**	**1,034,946**	**1,544,083**	**22%**	**1,878,727**	**2,025,875**	

(a) Includes insurer event-related claims management expenses and ARPC claims handling expenses.

The outstanding claims liability was calculated using a credibility-weighted average between actuarial projections of ultimate costs based on reported claims and catastrophe model estimates.[41]

When a DCE initially occurs, there is little information available on actual claims costs. Therefore, a higher weighting is initially placed on catastrophe models to estimate both the central estimate and the risk margin. As time passes, and insurers report more accurate information on the incurred costs to ARPC, a higher credibility weighting is placed on actual experience. Events that are more recent and relatively small tend to have a higher risk margin placed on them, due to the high level of uncertainty, as seen in TC Sean, TC Zelia, TC Dianne and TC Errol.

The most significant DCE from the latest accident year, TC Alfred, had a total claims expense of $1.86 billion. There were a range of estimates for TC Alfred which highlight the uncertainty of the loss estimate given the relatively small amount paid to date.

The projected reporting pattern and development of costs for TC Alfred was estimated based on a blend of external benchmarks from tropical cyclones of a similar scale, and the cyclone pool's observed patterns from the larger DCEs (i.e. TC Jasper and TC Kirrily). However, each cyclone will have a unique claims cost development pattern that depends on the characteristics of the event and the insurers' approaches to assessing claims, therefore variation to actuarial estimates is to be expected.

Once claims information from the event is fully developed, actual event costs can be compared with information used to set the catastrophe model estimate. Catastrophe models typically have limited access to data to inform their vulnerability assumptions in low cyclone frequency areas like South East Queensland, and the TC Alfred experience could differ materially from the modelled estimates.

Our assessment of the outstanding claims liability is that the reserve is appropriate considering the data available and the high level of uncertainty in estimating catastrophe claims.

5.2 Comparison of estimated ultimate claims costs to previous valuation

Table 5.2 shows the comparison between the current and the previous estimates of ultimate claims cost for DCEs that occurred during the 2022-24 cyclone seasons.

Table 5.2: Comparison between current and previous ultimate claims cost

		Central estimate of ultimate claim cost[(a)] ($000s)	
DCE	**Cyclone season**	**As at 30 June 2024**	**As at 30 June 2025**
TC Gabrielle	2022-23	50	50
TC Ilsa	2022-23	8	9
TC Jasper	2023-24	79,834	96,077
TC Kirrily	2023-24	52,968	39,937
TC Lincoln	2023-24	16	376
TC Megan	2023-24	646	2,818
Total central estimate of claims		**133,522**	**139,265**
Risk margin ($000s)		25,471	8,095
Discounting ($000s)		(3,941)	(812)
Total incl. risk margin ($000s)		**155,052**	**146,548**

(a) Inflated

[41] Loss estimates are produced from multiple catastrophe models and estimated separately for each DCE.

undiscounted.

During the 2022-24 cyclone seasons, there were six DCEs which incurred losses.[42] Four of these events had an allowance for further development in the outstanding claims reserve as at 30 June 2024, the two largest being TC Kirrily and TC Jasper. Since 30 June 2024:

- TC Gabrielle, as expected, had no further development.
- TC Ilsa had minor development, due to delayed claims reporting from an insurer. No further development is expected.
- TC Jasper's central estimate of the ultimate cost increased by 20 per cent, while TC Kirrily's central estimate of the ultimate cost decreased by 25 per cent, which reflects variations in claims experience over the past year.
- Both TC Lincoln and TC Megan had increases in their central estimates of the ultimate cost. These events are relatively small, so the increases are considered immaterial to the cyclone pool's overall liability. The increases are reflective of the higher levels of uncertainty related to smaller events, due to:
  - highly uncertain catastrophe model outputs
  - reliance on benchmark development factors due to limited experience within the cyclone pool (these benchmarks may be less representative of smaller events).

Differences in estimates between periods are to be expected, particularly soon after events occur. The movement of $6 million over the year was relatively small, considering the risk margin held at 30 June 2024 of $25 million.

5.3 Premium liability

Premiums for the cyclone pool are earned by applying a risk pattern derived using historical cyclone claims data sourced from the ICA. All premiums are earned over November to May, which reflects the higher risk of cyclones during the warmer months.

As at 30 June 2025, there was $244 million of premium that had been written but not yet earned. On a central estimate basis, we expect the unearned premium reserve of $244 million to be sufficient to cover the expected claims costs and expenses from this unearned premium. However, to meet accounting standards, ARPC adds a 3.5 per cent risk margin to the expected claims costs (providing a 65 per cent PoS) and this resulted in a $2 million write down of the DAC plus an unexpired risk liability of $2 million as shown in Table 5.3.

Table 5.3: Premium liability as at 30 June 2025 for the cyclone pool

	($000s)
Premium liability[(a)]	236,874
Risk margin[(b)]	8,370
Premium liability at 65 per cent PoS	**245,244**
Unearned premium	243,594
DAC	0
Unexpired risk liability	1,650
Total balance sheet items	**245,244**

(a) Central estimate of claims cost related to unexpired risks, inflated, and discounted.
(b) Calculated at 65 per cent PoS.

[42] ARPC has declared three cyclone events that have had zero losses, two in the 2022-23 cyclone season and one in the 2023-24 cyclone season.

5.4 Uncertainty in estimation of insurance liabilities

Uncertainty in the outstanding claims liability is high due to the factors detailed below.

- **Data limitations**: ARPC operates the cyclone pool as a reinsurer. Typically, there is a time lag between when information is received by the insurer and when it is passed onto us.
- **Benchmarks**: Due to the cyclone pool having very limited claims information to date, claim development patterns are based primarily on industry benchmarks from historical cyclone events, with reference to insurer estimates of ultimate costs.
- **Catastrophe model estimates**: The estimated ultimate cost for each DCE is based partially on catastrophe model estimates. There is inherent uncertainty in these estimates, particularly if the cyclone path, wind field and rainfall are not well known at the point the estimates are derived. The adequacy of the outstanding claims liability is therefore subject to the same risks and uncertainties as the catastrophe model estimates.

The inherent uncertainty in reserving for catastrophe events means there is a risk that reserves held for claims liabilities from past events prove inadequate. Despite the uncertainty, our assessment of the outstanding claims liability is that it is appropriate given the information available.

06 RISKS TO FINANCIAL OUTLOOK

6.1 Approach to risk management

ARPC's approach to risk management is shaped by our Board approved risk appetite, which includes a low risk appetite for financial and operational risks and a high appetite for understanding and managing reinsurance exposures. Where risks are in our control, they are managed and monitored within our defined appetite settings with the objective of maintaining the sustainability of the pool and aligning with legislated objectives.

This section discusses potential risks facing the cyclone pool in continuing to meet legislative objectives or more broadly, impacting the financial outlook of the pool. It only considers risks which have been assessed as potentially material to the pool, and is not intended to be an exhaustive description of all risks. Many of the risks identified are 'slow-moving' in nature, which highlights the importance of ongoing risk monitoring, as well as working with insurers to appropriately address any emerging risks.

6.2 Catastrophic event(s)

Cyclone risk is highly volatile, with the potential for low probability, high severity events to occur in any given year, as demonstrated by TC Alfred's much higher potential severity; at one point TC Alfred was forecast to make landfall in Brisbane as a category 3 tropical cyclone. The material claims cost for the 2024-25 cyclone season led to a net liability position for the cyclone pool. Despite this position, cash flow projections show that the cyclone pool is likely to be able to meet claim payments for past events from future premiums.

ARPC manages capital in line with our Capital Management Policy. The risk that premiums will be insufficient to meet claim payments can be addressed through the transfer of assets from the terrorism pool to the cyclone pool, and the annually reinstated Commonwealth guarantee, which provides additional funding support when required. For example, if an event occurs which exceeds $900 million in the next cyclone season, the cyclone pool would then need to call on the terrorism pool's assets to meet claim payments. If an event occurs which exceeds $3.5 billion, we would then need to call on the Commonwealth guarantee to pay the resulting claims.[43]

If a catastrophic event were to occur that resulted in a call on the Commonwealth guarantee and a material net liability position for the cyclone pool, management action may be required. This action would depend on the individual characteristics of the event (or events) and the timing or requirement to repay any calls on the Commonwealth guarantee.

Management action would need to consider the accumulated position of the cyclone pool and balance the objective of premiums being sufficient over the long term, with the objective of minimising premiums in medium and high-risk regions. If material premium increases were required, this would impact the ability of the pool to improve insurance affordability in medium and high-risk regions.

[43] Modelling assumed that claim payments from prior events will be consistent with central estimate assumptions as at 30 June 2025, that the event occurs in the middle of the cyclone season, and that there are no claims on the terrorism pool.

6.3 Changes in mix of reinsured properties

As discussed in Section 4.3, premium rates are designed so that premium adequacy ratios are lowest for high-risk areas. Improving insurance take up would be consistent with the objectives of the cyclone pool, but an increase in the proportion of medium to high-risk properties (relative to low-risk properties) reinsured by the cyclone pool would impact overall premium adequacy. An increase in the proportion of medium to high-risk properties could be the result of:

- the pool achieving its objective of increased insurance take up in medium to high-risk regions, and/or
- an increase in the overall number of properties insured in medium and high-risk areas (relative to low-risk areas).

Changes in cyclone pool exposure mix over the year by risk level

Figure 6.1 shows the rate of growth in the number of reinsured Home Building policies by ARPC Wind risk band between 31 March 2024 and 31 March 2025. Higher Wind risk bands experienced a higher growth rate. This is partially the result of new insurers that joined the pool during the period having a higher proportion of high-risk policies, however, the trend can still be observed with new insurers excluded from the analysis. We did not observe any increase in the rate of estimated residential building completions in high-risk areas over the same period (as shown in Figure 6.3). Therefore, this trend is likely a result of improvements to insurance accessibility and/or affordability in these areas.

Figure 6.1: Growth in Home Building policies by ARPC Wind risk band between 31 March 2024 and 31 March 2025

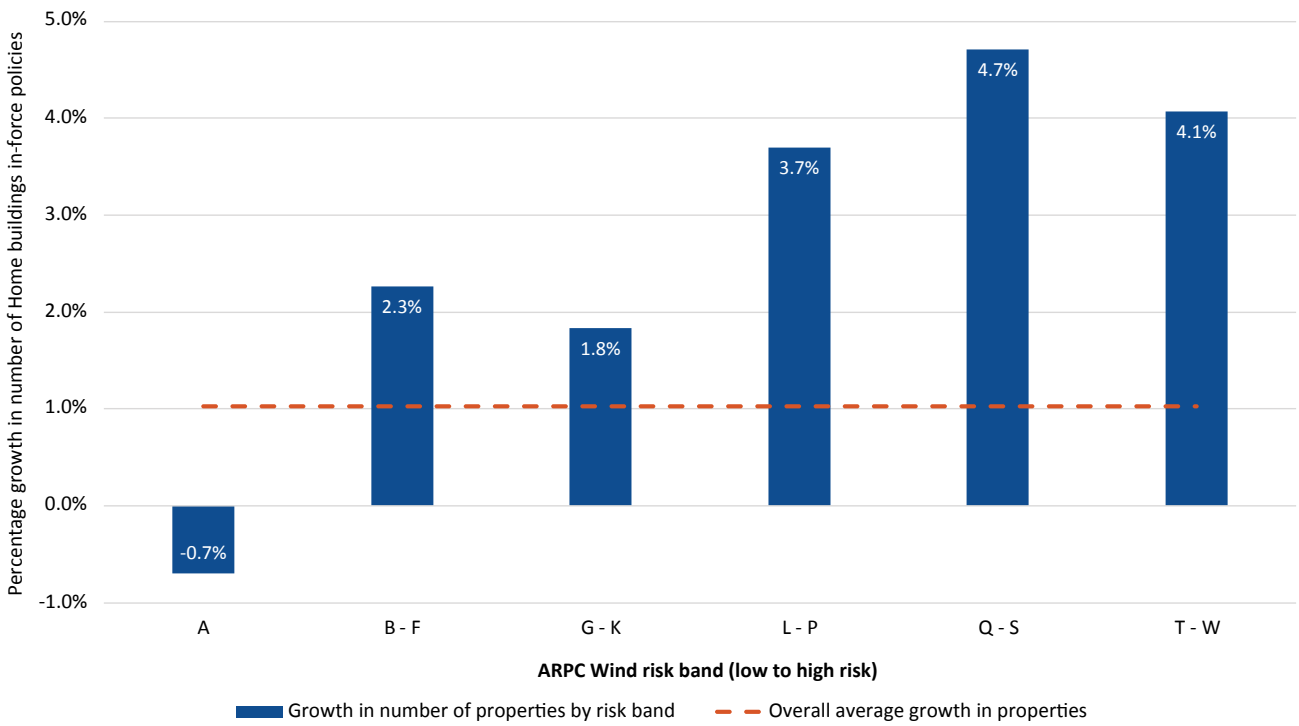
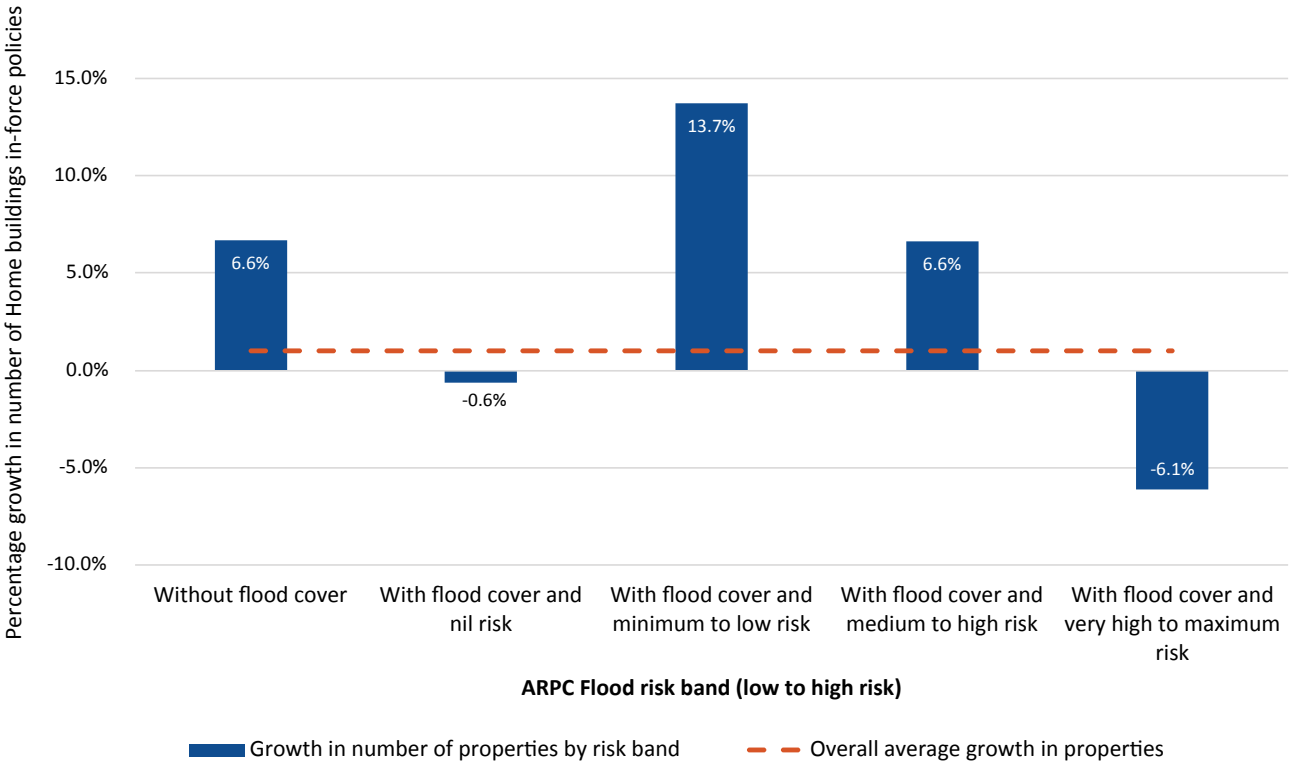


Figure 6.2 shows the rate of growth in the number of reinsured Home Building policies by ARPC Flood risk band between 31 March 2024 and 31 March 2025. There has been an increase in the number of properties without flood cover, and a decrease in the number of properties exposed to high levels of cyclone-related flood risk. The distribution of flood risk is extremely skewed; 91 per cent of the residential properties reinsured by the cyclone pool are not exposed to cyclone-related flood risk. The reduction in high flood risk properties does not have a significant impact on overall premium adequacy as the number of properties is relatively small. However, it could be an indication that the insurance rate is dropping among consumers exposed to higher levels of flood risk (both cyclone-related and non-cyclone-related).

Figure 6.2: Growth in Home Building policies by flood cover and ARPC Flood risk band between 31 March 2024 and 31 March 2025



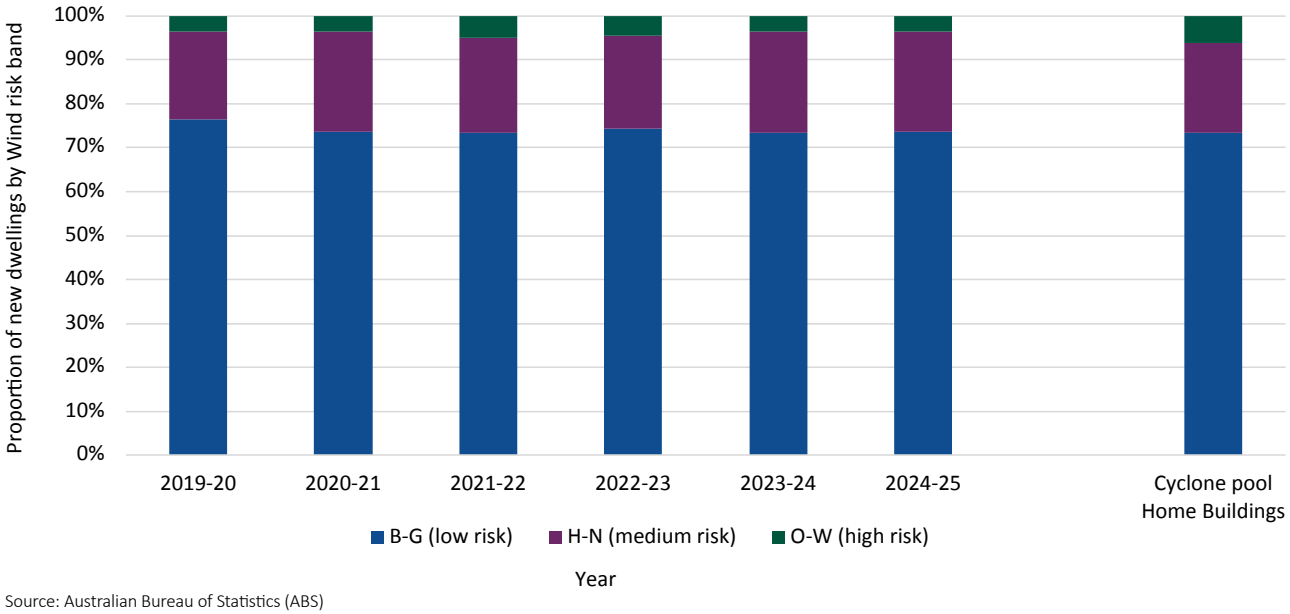
The mix of reinsured properties has remained broadly stable over the year, although there is some evidence of an increase in reinsured properties with higher levels of wind risk, and a decrease in reinsured properties with higher levels of cyclone-related flood risk. The impacts of these changes are not material to overall pool adequacy. We assess changes in mix as part of pricing reviews, for budgeting and business planning and for the FOR. This analysis allows the cyclone pool to react to any significant changes in the mix of exposure.

Exposure profile of new buildings

The risk profile of the cyclone pool will change as the number of properties in Australia grows, and as building stock is modernised. Given the risk pooling between low and high-risk properties, the ongoing premium adequacy of the cyclone pool is impacted by the mix of exposure between segments. Disproportionate growth in higher risk areas may require adjustments to the pricing methodology to maintain long-term premium sufficiency.

Figure 6.3 shows the mix of estimated residential building completions for the 2019-25 financial years, compared with the current Home Building exposure of the cyclone pool. This is grouped by ARPC Wind risk Band. Band 'B' has low cyclone risk, and band 'W' is the highest risk band. The mix of building completions has remained stable over time and is similar to the mix of the pool, with no observable trend after the cyclone pool was established in 2022.

Figure 6.3: Proportion of estimated residential building completions by ARPC Wind risk band for the 2019-25 financial years



Source: Australian Bureau of Statistics (ABS)

There is a risk that providing significantly lower premiums to medium and high cyclone risk properties could provide disproportionate incentives for growth in these areas which would otherwise not have occurred. This would be an unintended consequence of the cyclone pool design and negatively impact the adequacy of the premium rates. This will continue to be monitored.

Premium adequacy of uninsured properties

As described above, the mix of reinsured properties by cyclone risk level is a key driver of overall premium adequacy. As Table 6.1 shows, the premium adequacy ratio for properties not covered by the cyclone pool is 77.4 per cent; these properties have higher risk, and therefore lower premium adequacy. This reflects the fact that consumers with higher levels of cyclone risk are less likely to purchase insurance.

We assessed premium adequacy for a scenario where 50 per cent of policies that are not currently covered enter the cyclone pool. We found that under this scenario, the premium adequacy ratio would reduce to 96.5 per cent. In such a situation, we would consider the actions required in response as part of future pricing reviews. While this scenario is unlikely to occur in the short term, it shows the importance of ongoing monitoring of changes in the mix of properties reinsured by the cyclone pool.

Table 6.1: Impact of higher insurance take up scenario on premium adequacy ratio

Premium adequacy ratio	
Current estimated adequacy ratio (2025 Pricing Review)	100.1%
Eligible properties not covered by the cyclone pool	77.4%
Higher take up rate scenario	96.5%

The mix of reinsured properties by cyclone risk level is a key driver of overall premium adequacy. Given that highest risk areas have the lowest premium adequacy, if insurance take up rates or building development in high-risk areas (relative to low-risk areas) increase over time, the ability to reallocate margins within the existing premium rate structures will be impacted.

6.4 Climate change

6.4.1 Summary of the science relevant to Australia's cyclone risk

Factors influencing tropical cyclones include ocean temperature, stability and moisture content of mid-troposphere, humidity, sea surface temperature (SST), structure of atmospheric temperature changes, and wind gradient.[44] All of these factors may be affected by climate change.

Some climate effects enhance the likelihood of cyclone-related damage. Warmer SST intensifies wind speed and brings more precipitation. Warmer seas are extending poleward, providing energy to maintain tropical cyclone intensity at higher latitudes (southward in Australia). Sea level rise exacerbates the impacts of coastal storms and increases the risk of coastal flooding. Changes in the atmosphere can contribute to slower-moving cyclones that bring prolonged periods of heavy rainfall, strong winds, and storm surge.

However, not all climate effects lead to increased risk. Warming SSTs do not necessarily translate to increased cyclone genesis. Increases in vertical wind shear can lead to a decrease in cyclone genesis. Studies have found that higher SSTs are coupled with increasing wind shear, which leads to uncertainty in projections of cyclone frequency. There is evidence of poleward migration in global studies, but regional studies have found no robust evidence to support this. Regional tropical cyclone behaviour remains highly uncertain[45] and dependent on model selection.

Table 6.2 summarises key drivers of tropical cyclone activity as described in recent scientific studies, including the Intergovernmental Panel on Climate Change (IPCC) 6th Assessment Report.[46] These studies describe complex atmospheric processes which are challenging to model and project into the future. Any projections of how tropical cyclone activity could change in coming decades are subject to varying levels of confidence.

Several factors may have significant impacts on potential losses, three of which are noteworthy:

- **Poleward migration**: This describes a movement in storm tracks towards the poles, which in Australia is south. This may occur in response to the warming of oceans, a key factor in maintaining the intensity of tropical cyclones. While there is significant scientific uncertainty about this in Australia[45], and low to medium confidence that it could occur, if it does, there is likely to be a significant impact on the cyclone pool. This is due to the large concentrations of risk exposure on the southern east and west coasts, which are not currently subject to the strongest cyclone building standards.
- **Lower frequency but a higher proportion of severe storms:** The interaction of frequency and severity in regard to storms is complicated. For cyclone pool expected losses, most damage arises from severe events. The changes to frequency and severity detailed in Table 6.2 are likely to increase the volatility of experience, while overall loss levels may gradually increase.
- **Rising sea levels and coastal inundation**: There is broad consensus that higher sea levels, thermal expansion of warmer waters, and stronger storms will increase storm surge risk. Coverage for this peril has not been universal in the past. If insurers were to offer more generous coverage, or if the community built more structures on the coast, the cyclone pool's exposure to loss may increase. This peril has lower quality modelling and a wider range of indications for required funding levels.

[44] Patricola, C.M., Wehner M. Anthropogenic influences on major tropical cyclone events. Nature (2018), 563, 339-346.

[45] Gibson, P. B., Lewis, H., Campbell, I., Rampal, N., Fauchereau, N. C., and Harrington, L. J. Downscaled climate projections of tropical and ex-tropical cyclones over the southwest Pacific. Authorea Preprints (2025).

[46] IPCC – Climate Change 2021: The Physical Science Basis

Table 6.2: Summary of climate drivers affecting tropical cyclones in the Australian region

Driver	Impact	Confidence level	Possible consequence for the cyclone pool
Changes in the expected frequency and severity of events	Overall frequency is expected to decline,[45] however variability remains high. Data from the Bureau shows a downwards trend in the annual number of cyclones over the past 50 years.	Medium[47]	Fewer events and higher volatility of results may partially offset factors leading to higher losses.
	The proportion of storms with high intensity is expected to increase. The overall number of high intensity storms is expected to stay stable or slightly increase.	Low to Medium[46]	Lower to similar overall wind damage due to decreasing storm frequency despite higher intensity storms.
Climate cycles	Strong ENSO[48] events may occur more often.	Medium[49]	Increased volatility of results.
Changes in the characteristics of events	Cyclone winds are projected to become more intense.	Medium[50]	Increased severity of losses.
	Extreme rainfall is expected to increase.[45,51]	Medium[47] to High[52]	Increased severity of flood losses.
	The forward speed of events may decrease,[53] which could mean that wind or rain remain over an area for longer periods.	Medium[54]	Increased duration of rain events at any given location, which could impact both pluvial (flash) and fluvial (riverine) flooding.
Changes in exposure to storm surge	Sea levels are rising.[55,56]	High[57]	Increased exposure to storm surge and coastal inundation.
	Enhanced warming of the ocean around Australia's coast.[56]	High[57]	Increased exposure to storm surge and coastal inundation.
	Higher intensity events.	High[57]	Increased exposure to storm surge and coastal inundation.
Changes in the location of events	There are indications in the global scientific literature that tropical cyclones are moving poleward (south in Australia), though there is significant uncertainty around this point.	Low to medium[45,58,59]	Potential for impact on the cyclone pool due to large concentration of exposure in areas south of the current high-risk areas. These areas do not currently have the strongest wind building standards.
	The size of storms may increase.	Low to medium[60]	Larger areas affected in an event.

We have engaged with government climate experts to increase our understanding of these complex climate drivers. These experts note that there are significant uncertainties surrounding some of the key climate drivers which could affect the cyclone pool, such as if and when poleward migration will occur. There are also technical limitations, such as a lack of very high-resolution climate modelling at the convective scale, which scientists are working to improve.

[47] IPCC (2023). Regional fact sheet – Australia. Working Group I – The Physical Science Basis. Sixth Assessment Report.

[48] Refers to the El Niño Southern Oscillation (ENSO), which is the oscillation between El Niño and La Niña conditions. El Niño conditions result from the extensive warming of the Pacific Ocean leading to a major shift in weather patterns.

[49] Cai, W. et al. Anthropogenic impacts on twentieth-century ENSO variability changes. Nature Reviews Earth and Environment 4 (2023), 407-418.

[50] Australian Climate Service (2023). Tropical Cyclones.

[51] Wasko, C. et al.: A systematic review of climate change science relevant to Australian design flood estimation, Hydrol. Earth Syst. Sci. (2024), 28, 1251-1285.

[52] IPCC (2023). Synthesis Report of the IPCC Sixth Assessment Report (AR6). Longer Report.

[53] Fu, K. J., Guo, Y. P., & Tan, Z. M. Long-term trend of the tropical cyclone translation speed over the western North Pacific with track change. Climate Dynamics (2025), 63(1), 45.

[54] Kossin, J.P. A global slowdown of tropical-cyclone translation speed. Nature (2018), 558.

[55] Merchant, C. J., Allan, R. P., and Embury, O. Quantifying the acceleration of multidecadal global sea surface warming driven by Earth's energy imbalance. Environmental Research Letters (2025), 20(2), 024037.

[56] Henley, B. J., McGregor, H. V., King, A. D., Hoegh-Guldberg, O., Arzey, A. K., Karoly, D. J., Lough, J. M., DeCarlo, T. M., & Linsley, B. K. Highest ocean heat in four centuries places Great Barrier Reef in danger. Nature (2024), 632 (320-326).

[57] Bruyere, C.L. et al. Using large climate model ensembles to assess historical and future tropical cyclone activity along the Australian east coast. Weather and Climate Extremes (2022), 38.

[58] Lin, Y., Zhao, M., Zhang, M. Tropical cyclone rainfall area controlled by relative sea surface temperature. Nature Communications (2015), 6 (1): 6591. Bibcode:2015NatCo6.6591L. doi:10.1038/ncomms7591. PMC 4382685. PMID 25761457.

[59] Pillay, Micheal T., and Jennifer M. Fitchett. Tropical cyclone landfalls south of the Tropic of Capricorn, southwest Indian Ocean. Climate Research, Vol. 79, No. 1, (2019), 23-37. JSTOR. Accessed 7 May 2025.

[60] Sun, Y., Zhong, Z., Li, T. et al. Impact of Ocean Warming on Tropical Cyclone Size and Its Destructiveness. Nature. Scientific Reports 7 (2017), No. 8154.

6.4.2 TC Alfred

An important question is whether the characteristics of TC Alfred provided evidence of a shifting climate. To consider this, we have:

- reviewed the scientific literature
- discussed climate impacts with the Australian Climate Service
- evaluated the existing allowance in catastrophe models for climate change
- evaluated data comparing event sets in catastrophe models to the historical record.

Overall, we found that there was no clear evidence that TC Alfred could be attributed to climate change, or that it should trigger a significant revision to the assumptions underlying the cyclone pool premium rates. The catastrophe models used to set the AAL for the cyclone pool simulate events with tracks similar to TC Alfred, with a frequency of approximately once every 35 years. The cyclone pool collects premium in the areas impacted by the event. Warmer SSTs off the coast of South East Queensland may have increased the likelihood of an event like TC Alfred which maintained its strength as it moved southwards. However, there are historical events that have also made landfall at similar latitudes.

We concluded that TC Alfred does not provide evidence that the climate has shifted to an extent that impacts the adequacy of the current premium rates. This is owing to a lack of clear evidence that TC Alfred was outside the range of events contemplated by current catastrophe models, given indications that the model event sets roughly reflect historical data (see Section 6.4.3), and the significant scientific uncertainty surrounding key climate trends.

6.4.3 Climate risk in the premium rates

The catastrophe models used to inform the premium rates reflect the best available understanding of loss exposure for the effective period of current premiums. The premium rates are set to generate revenue sufficient to fund expected losses over the long term, while reflecting current climate conditions.

Analysis of documentation shows that models used to set premium rates were calibrated against various prior experience periods, and there is no information to suggest that models have been explicitly adjusted to reflect climate change.

We compared modelled event datasets from model vendors with historical cyclone track data. The analysis did not reveal strong trends in various historical cyclone metrics over time, nor that the vendor event sets were significantly outside of the historical record.

Over time as catastrophe models are updated to reflect the changing environment, these views of risk will be considered as part of our regular pricing reviews. These updates will reduce the risk that cyclone pool premiums and associated financial projections fail to reflect the best applicable scientific views of risk.

There are several ways climate risk could impact pricing adequacy. Table 6.3 summarises potential risks that climate change poses to premium adequacy, and our approach to mitigating those risks.

Table 6.3: Climate risk impact on premium adequacy

Potential risk	Risk control response
Catastrophe models fail to reflect climate change or the latest science.	New model versions will be tested, considered, and implemented where appropriate, as they become available; models will be monitored for how they address climate risk.
Climate change requires adjustments to overall revenue or relativities.	We can reprice on a regular basis. Pricing reviews will consider climate change and adjust rates where appropriate.
Advice from external experts indicates a high degree of uncertainty in key inputs to pricing.	We have been engaging with and will continue to engage with experts in the actuarial, scientific, and engineering communities to maintain awareness of the relevant issues.
Building codes and land use policies fail to allow for changing risk and/or fail to adequately 'future-proof' for climate risk; for example, if there is poleward migration of cyclones into areas currently lacking the strongest building codes.	Geographic relativities in the premium formula will reflect higher vulnerability in these regions.
We lack information to adequately price for risk.	We have collected detailed exposure data from insurers to better understand risk. Adjustments could be made in data standards over time to specifically focus on any emerging risks.
Exposure shifts into areas subject to a high level of storm surge risk, such as beachfront properties.	Detailed exposure data will allow us to detect such movements; prices could be adjusted to reflect the change in risk.

It is not clear when or how model vendors will adjust their models to account for climate changes occurring outside of the periods that were used to calibrate their models. We may need to develop a methodology to adjust for changing risk outside of model outputs. Given the significant scientific uncertainty, determining the changes required is a complex undertaking. Understanding the differences between model assumptions and general scientific consensus will be required, and a framework for adjusting for these differences will need to be established.

ACTION 3: Formalise a methodology for assessing scientific information and a framework to identify triggers for climate-related updates to cyclone pool premium rates.

6.5 Inflation

Inflation directly impacts the cyclone pool's claims costs. While inflationary pressures from previous years have decreased over the 2023-25 financial years, we will continue to monitor inflation as part of our pricing reviews. Below is an overview of the current inflationary environment.

6.5.1 Inflation indices

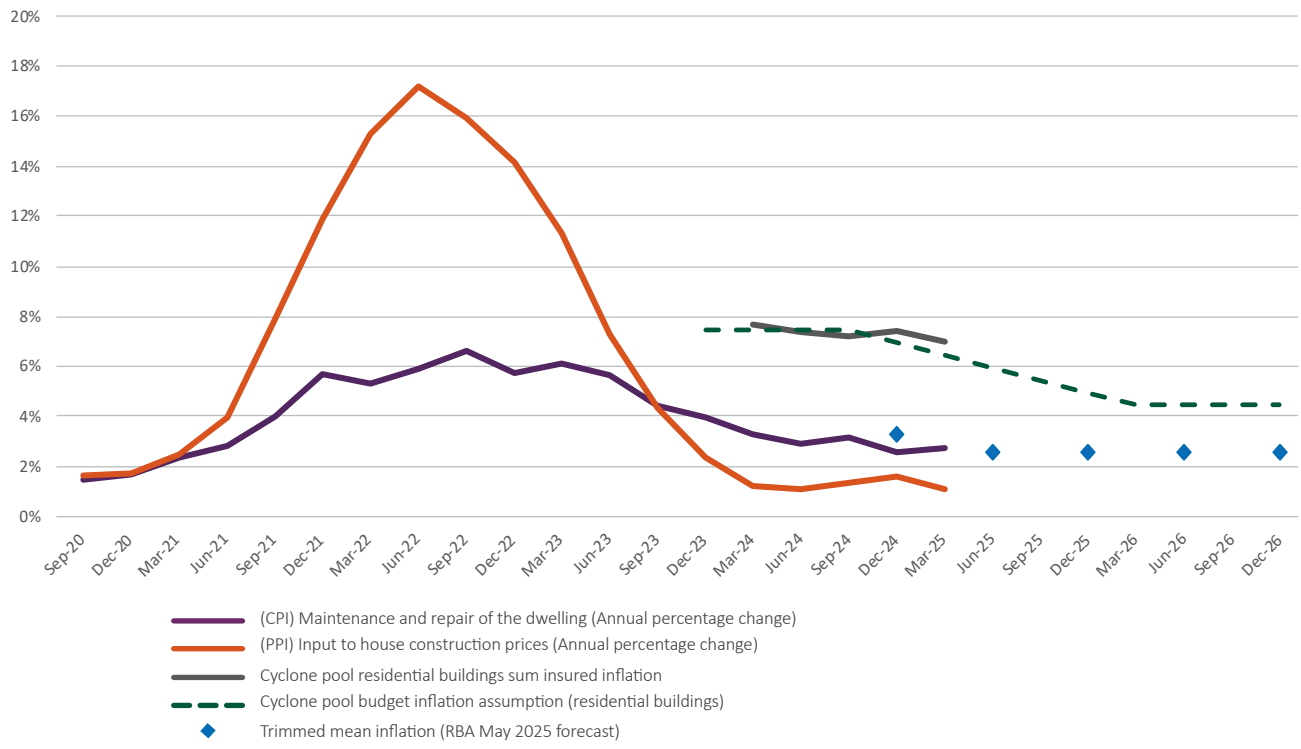
ABS Construction Producer Price Index and Consumer Price Index

Figure 6.4 shows the annual percentage change in the Consumer Price Index (CPI) and Producer Price Index (PPI, input to house construction prices only). The PPI more closely reflects the change in costs associated with servicing insurance claims. The figure also shows the RBA's CPI forecast and the assumption used by ARPC to inflate residential buildings sums insured for budget projections.

The annual change in the PPI construction price index peaked at over 17 per cent in June 2022, but has moderated to below CPI over the past 18 months. In the March 2025 quarter, the PPI index recorded the first quarterly decrease since March 2012, driven by softening demand for new housing construction materials.[61]

There is a lag between the PPI and CPI inflation indices and sum insured indexation, as sum insured indexation takes time to 'catch up' with higher inflation from the preceding period. This can be seen in Figure 6.4, where the average cyclone pool Home Building sum insured inflation rate of greater than seven per cent from March 2024 to March 2025 is higher than the CPI and PPI over the same period.

Figure 6.4: Inflation indices to March 2025, projected to December 2026



[61] Producer Price Indexes, Australia, March 2025 | ABS

6.5.2 Inflation impacts on premium adequacy

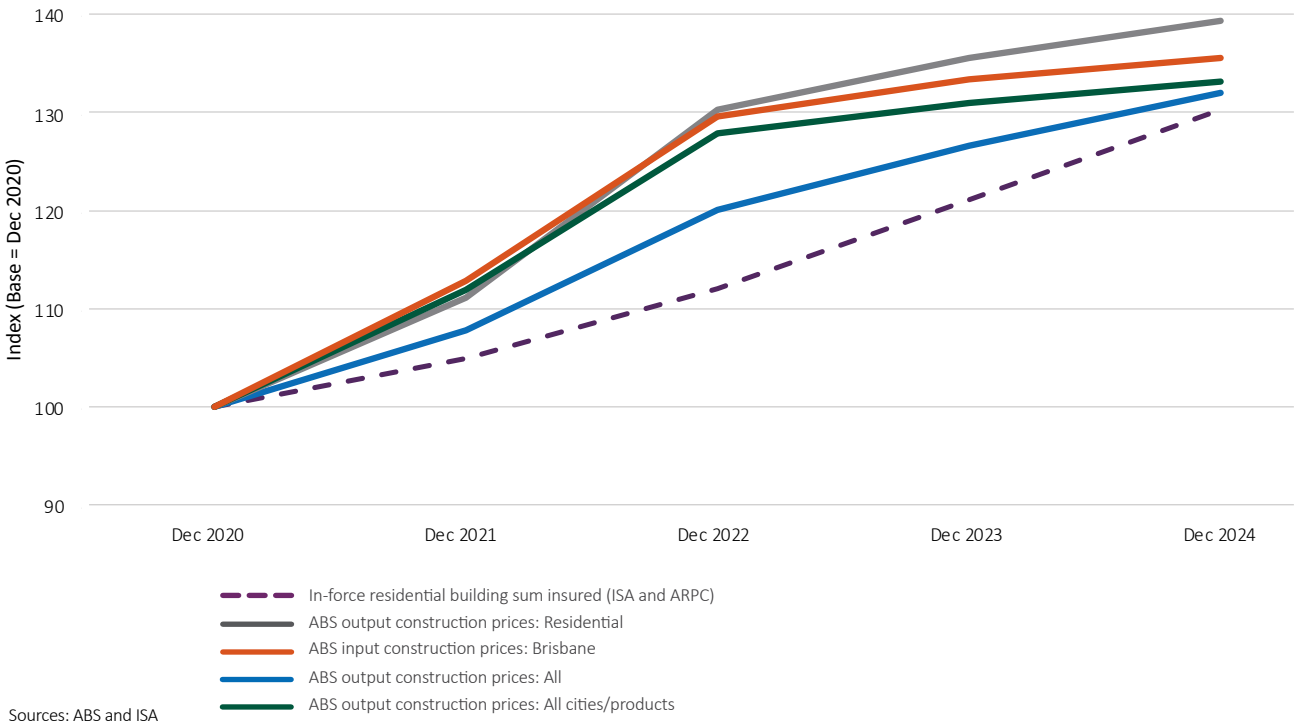
With house construction price inflation remaining steady over the past 18 months, inflationary pressures on the cyclone pool's claims costs are likely reduced.

Policyholder sums insured are intended to reflect the rebuild cost of a property. The cyclone pool premium formula is calculated as a rate per sum insured, where the rate reflects the level of risk for each building. Therefore, to the extent that sums insured increase in line with inflation and continue to reflect the rebuild cost of a property, any increased claims costs to the cyclone pool will be offset by increased premium income. Over the medium term, we do not expect the high levels of inflation seen in 2021 to 2023 to impact the adequacy of the premium rates.

However, in the short term, the high rate of building cost inflation in recent years is likely to have outpaced increases in sums insured, contributing to underinsurance. Policyholders being underinsured can occur for several reasons, such as delays in actual inflation being recognised by insurers, or policyholders moderating premium increases by limiting increases to sums insured.

Figure 6.5 compares a range of ABS construction cost indices with growth in residential buildings sums insured for the four years from December 2020 to December 2024. The sum insured growth is derived using data from the Insurance Statistics Australia (ISA) for the period December 2020 to December 2023, and using data from ARPC from December 2023 to December 2024.

Figure 6.5: Construction cost versus building sum insured indices



Sources: ABS and ISA

The lag between sum insured inflation and construction cost inflation for the years 2021 to 2023 is illustrated by the gap between the sum insured (what cyclone pool premiums are based on) and construction cost indices (what cyclone pool claims are likely to follow) (see Figure 6.5). This gap narrowed in 2024, and sum insured inflation is now only marginally lower than construction cost inflation over the period. We expect the mismatch to correct entirely if inflation remains steady.

Moderating inflation levels have significantly reduced the previously identified risk of short-term premium inadequacy arising from high levels of building cost inflation. Over the long term, any increase in costs resulting from inflation is expected to be reflected in increased sums insured, and therefore is unlikely to impact premium adequacy.

6.6 Insurer claims management

Claims are managed directly by insurers, with costs subsequently recovered from the cyclone pool. Given that the cyclone pool reinsures 100 per cent of eligible claims, it is important that ARPC maintains incentives for insurers to settle cyclone claims which arise from cyclones efficiently and consistent with policy terms. Otherwise, it could lead to claims leakage (the cost of settling claims being higher than required if managed efficiently), increasing the cost of claims from cyclone events, and posing a risk to long-term premium adequacy.

ARPC manages this risk through claim validations, audits, and portfolio benchmarking. Internal claims validation processes include comparing claim postcodes with a map of impacted postcodes and confirming that the claim occurred during the cyclone pool coverage period. The claims audit is performed once claims for a cyclone event have been substantially paid. A sample of claims is assessed to determine whether they have been paid in accordance with claims processing guidelines, and underlying documents are validated to assess whether the claim amount is both consistent and reasonable. Claims audits to date have identified claims submitted by insurers which were ineligible due to the loss starting outside of the cyclone pool coverage period. These claims have been withdrawn and recoveries reversed.

The claims data from TC Alfred will provide benchmarking data to compare individual insurer's claims practices, and to inform future claims audits.

ARPC will continue to monitor and mature claims management activities (including validations, audits, portfolio benchmarking and fraud identification) to reduce the risk to claims management outcomes.

6.7 Changes to insurer product coverage

The cyclone pool covers eligible claims consistent with the underlying insurer's Product Disclosure Statement (PDS). The Home premium structure seeks to price for differences in product coverage levels though a 'Coverage Level' modifier.[62] There is a risk that product coverage will change over time, and this could result in claims coverage that is more generous than that allowed for in the premium rating. As a result, we monitor insurers' PDS offerings. There is no 'Coverage Level' modifier currently in place for SME or Strata properties.

As we build up an increased volume of claims data (including from TC Alfred), it will be used to assess the appropriateness of the current 'Coverage Level' modifier for Home, by analysing the extent to which differences in insurer coverage impact claims costs.

[62] A modifier in the cyclone pool pricing formula that is intended to adjust the cyclone pool premium based on the level of coverage in the insurer's PDS.

6.8 Data quality

We rely on insurers to provide complete and accurate premium and claims data. Inaccurate or incomplete data could under or overstate the cyclone pool's risk exposure, premium income or claims cost. If an insurer is unable to provide data for a specific rating variable, an 'Unknown' option is available for each variable. Similarly, when an insurer does not collect a geocoded address (linking to the Geocoded National Address File (G-NAF)), a fallback postcode table is used to calculate premiums.

The figures in Table 6.4 show the proportion of missing or unknown variables, by class of business, as at 31 March 2024 and 31 March 2025. The table illustrates that there has been a material decrease in the overall proportion of unknown or missing variables over the year. The proportion has decreased across all classes, but the decrease is most significant for Strata properties.

The proportion of missing or unknown data has decreased for all variables with the exception of the G-NAF identifier, which denotes location, where the proportion of policies without a reported G-NAF has increased from 20 to 28 per cent.

Table 6.4: Proportion of missing or unknown variables as at 31 March 2024 and 31 March 2025

Class	Date	G-NAF	Construction type	Roof type	Year of construction	Number of storeys
Residential	Mar-24	18%	28%	39%	12%	54%
	Mar-25	27%	10%	24%	12%	28%
SME	Mar-24	46%	25%	58%	61%	89%
	Mar-25	37%	11%	39%	55%	81%
Strata	Mar-24	33%	6%	17%	14%	17%
	Mar-25	30%	1%	4%	1%	1%
Total	**Mar-24**	**20%**	**27%**	**40%**	**15%**	**55%**
	Mar-25	**28%**	**10%**	**25%**	**15%**	**31%**

Location is the most important piece of information in determining the relative risk of a property. Policies for which G-NAF is unknown are modelled and charged a premium based on the reported postcode. Costs for locations within a postcode may vary materially, especially for flood and surge. A higher proportion of policies with unknown G-NAF leads to a higher level of uncertainty in modelled claims cost. This could present a risk to premium adequacy, as the accuracy of the estimated relationship between premium and claims could be impacted. We are working with insurers where we have identified the deterioration in G-NAF reporting and expect this trend to reverse over the next 12 months.

For non-location factors, the improvement in data quality over the last year is considerable and will assist us to achieve our legislative objectives. Currently our premium formula charges an average premium rate for rating factors where the insurer does not collect, or is unable to provide, rating information (year of construction is an exception as collection is consistent with standard industry practice). At this stage, ARPC does not plan to introduce penalty rates, however, if the proportion of unknown G-NAFs continues to increase, we may consider introducing a penalty for this variable.

07 OBSERVATIONS ON CAPITAL MANAGEMENT

7.1 Overview of the factors affecting the funding position of the cyclone pool

The primary objective of capital management for the cyclone pool is that assets are available to meet financial obligations as and when they fall due, where possible. Net asset or liability positions for the cyclone pool are treated as reserves available to meet future claims.

The cyclone pool meets the cost of claims from the following sources:

- funds available from premium collection including any investment income accumulated
- funds from the terrorism pool when cyclone pool funds have been exhausted
- a $10 billion Commonwealth guarantee as set out in the TCI Act (separate Commonwealth guarantees apply for cyclone and terrorism claims)
- additional funds through Ministerial Direction.

The cyclone pool does not currently purchase retrocession. This is due to the cyclone pool's objective of reducing premiums for high-risk policyholders, which is achieved by minimising the cost of capital. Purchasing retrocession would introduce margins to the cost base for the cyclone pool and these costs would need to be passed onto policyholders.

7.2 Cyclone pool and terrorism pool funds

ARPC's approach to capital management and the flow of funds between the cyclone pool and the terrorism pool is based on the following two principles:

- The financial positions and performance of the two pools are managed and measured separately.
- Inter-pool transfers from the terrorism pool would only be used to pay for claims if there were insufficient assets in the cyclone pool. Any funds transferred between pools would be repaid over an appropriate time horizon.

7.3 Investment management

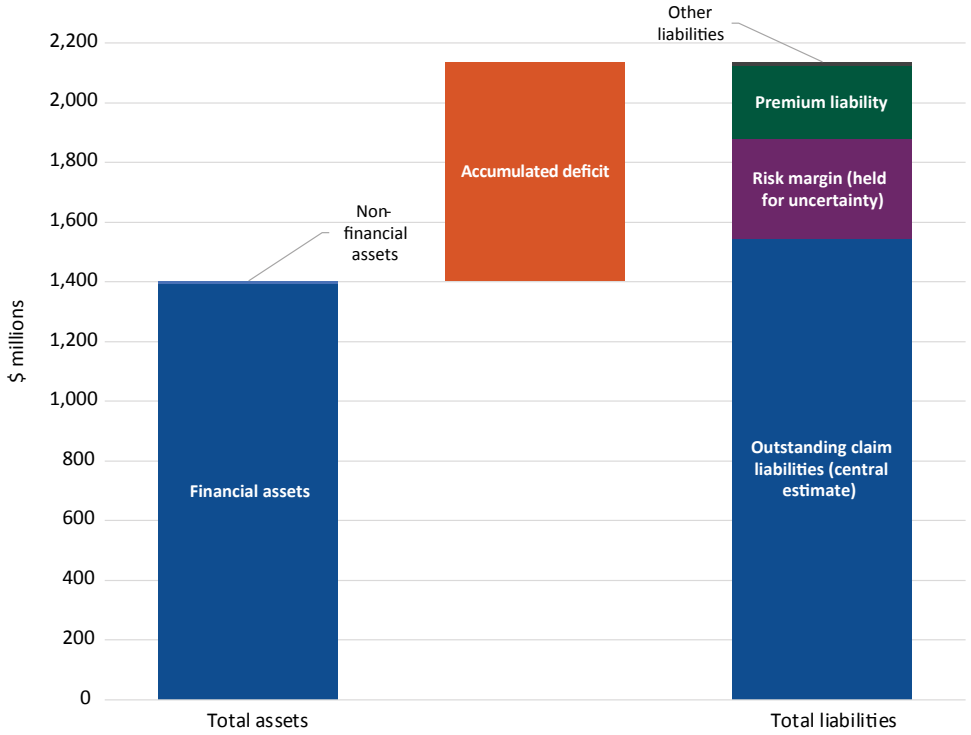
Our investment objectives are to maintain a low level of investment risk, low portfolio volatility, and to ensure funds are available to meet expected claim obligations. Investment decisions are informed by cash flow modelling that considers the expected claim payment pattern of cyclone events.

7.4 Current funding and liquidity position of the cyclone pool

As discussed in Section 3.7, as at 30 June 2025, the cyclone pool had net liabilities of $734 million. The accumulated position of the cyclone pool is expected to vary between net asset (positive) and net liability (negative) for premiums to cover claims costs over the long term. The cyclone pool could build up net assets if there are multiple consecutive years with small losses, then swing to a net liability position after a year with large losses, with the movements offsetting each other over the long term.

The main items in the cyclone pool's balance sheet as at 30 June 2025 are shown in Figure 7.1. The financial assets of $1.40 billion covered approximately 91 per cent of the central estimate of the outstanding claims liability of $1.54 billion. The remainder of liabilities was driven by the risk margin (reserves held to fund potential reserve deterioration) and premium liabilities (reserves held to fund potential future events).

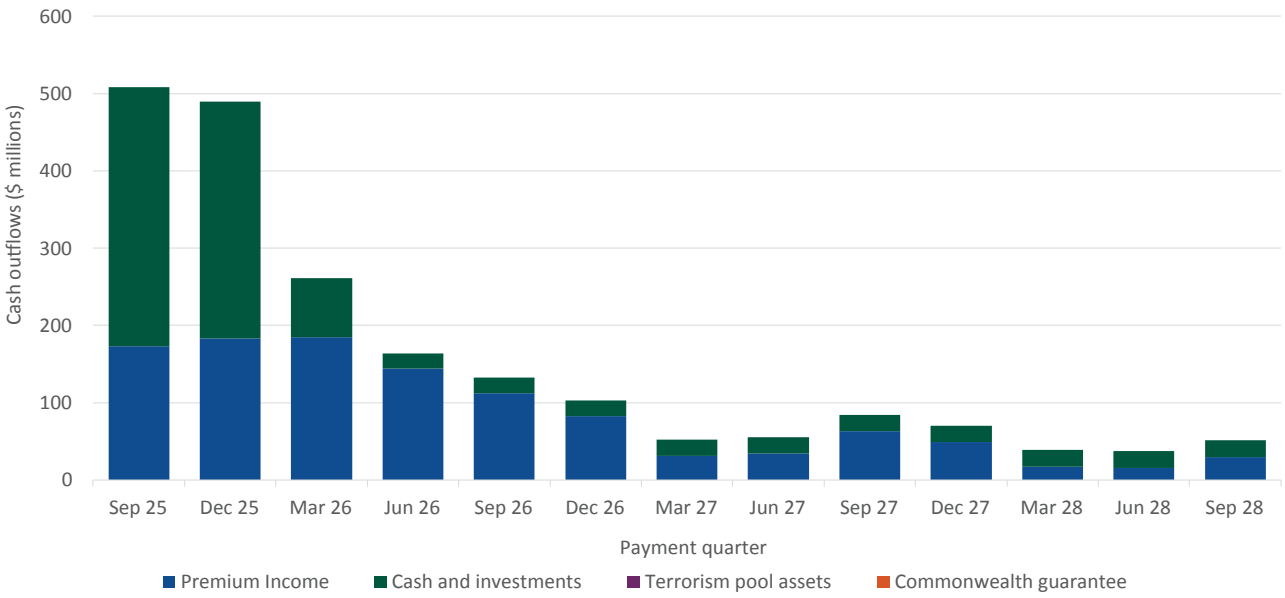
Figure 7.1: Cyclone pool's balance sheet as at 30 June 2025



The pool can be in a net liability position, but still be projected to be able to pay claims as they fall due. This is due to the delay between when cyclone events occur and when final recoveries are made from the cyclone pool, which can be several years. Insurers recover funds from the cyclone pool after they have paid their customers. Claims assessment and settlement processes can be lengthy, and there is an additional small lag in the time it takes to report claims to and receive recoveries from the pool. During the lag between the event and the recoveries, the cyclone pool is able to build additional funds from premiums received.

Figure 7.2 shows the expected payment pattern and funding sources for the cyclone pool's current liabilities as at 30 June 2025, plus future claims (assuming median claims experience for the 2025-26 cyclone season). Current cyclone pool assets plus future premium income are expected to be sufficient to fund the $1.54 billion central estimate of claims costs for past events. The final claim payments on current liabilities are expected to be made in the 2027-28 financial year.

Figure 7.2: Funding sources for current liabilities plus future median claims experience



Cash flow modelling scenarios to assess liquidity are considered in Section 7.5. Scenarios assessing the future accumulated position of the cyclone pool are considered in Section 7.6.

7.5 Cash flow modelling scenarios

The following scenarios consider how claim payments will be funded for past and future cyclone events, considering current cyclone and terrorism pool assets, future premiums and investment income.

- Scenario 1 – Reverse stress test: size of event that can be funded by the cyclone pool.
- Scenario 2 – Reverse stress test: size of event that can be funded by the cyclone pool and terrorism pool combined.
- Scenario 3 – Stress scenario: funding a $10 billion event.

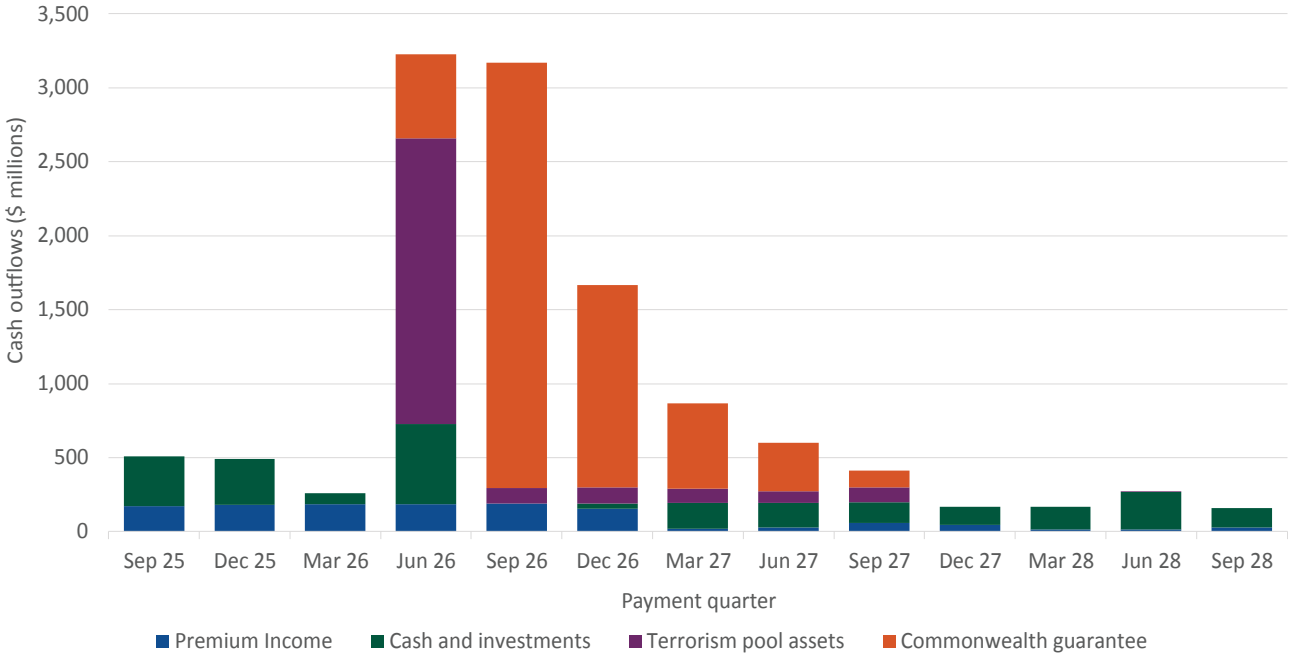
The cash flow modelling assumes that:

- The cost of past cyclone events and timing of payments will be equal to current central estimates as at 30 June 2025.
- The scenario event occurs in the middle of the 2025-26 cyclone season.
- Claims experience for the 2026-28 financial years will be equal to the median of the claims cost distribution.
- There are no claims on the terrorism pool.
- Future written premium will be equal to projections as at 30 June 2025.

Results of the cash flow modelling show that:

- Scenario 1 – The cyclone pool will be able to pay claims from its investable assets and future premiums for an event costing up to $900 million. The modelled probability of claims costs for the 2025-26 cyclone season exceeding $900 million is approximately 15 per cent.
- Scenario 2 – ARPC will be able to pay claims from the current cyclone pool assets and future premiums and terrorism pool assets for an event costing up to $3.5 billion. The modelled probability of claims costs for the 2025-26 cyclone season exceeding $3.5 billion is approximately four per cent.
- Scenario 3 – For an event costing $10 billion, payments would be funded by a combination of cyclone and terrorism pool assets, future premiums, and a call on the Commonwealth guarantee. The modelled probability of claims costs for the 2025-26 cyclone season exceeding $10 billion is approximately one per cent. The funding sources for this scenario are shown in Figure 7.3. Under this scenario, 21 per cent of costs would be funded from cash and investments, 11 per cent from future premiums and 20 per cent from terrorism pool assets. Calls on the Commonwealth guarantee totalling $5.83 billion would be required to meet the shortfall, and whether there is a requirement to repay the Commonwealth guarantee or not would impact the pool's ability to accumulate reserves following the event.

Figure 7.3: Funding sources for claim payments for 2025-26 cyclone season costing $10 billion



7.6 Future accumulated position scenarios

The following subsections show how the cyclone pool's accumulated position could change under potential future scenarios:

- Baseline – Projection of accumulated position over 10 years based on the current net liability position and modelled distribution of losses.
- Scenario 1 – Stressed scenario with cyclone claims costs of $10 billion in the 2025-26 cyclone season.
- Scenario 2 – Scenario with a reserve deterioration of twice the current risk margin.
- Scenario 3 – Median losses of $86 million each year for five years.
- Back testing – Normalised claims costs for cyclone events from 1967 to 2025.

The modelling assumes that:

- The starting accumulated position is net liabilities of $734 million, which reflects the cyclone pool's position as at 30 June 2025.
- The risk margin as at 30 June 2025 is released over time, in line with the expected payment of claims on past events. A risk margin is held (and subsequently released over time) on future events.
- The cyclone pool remains at a steady state level of exposure.
- The simulations do not allow for any management actions.
- Premium rates are equal to estimated claims cost plus operating expenses such that the cyclone pool is at 100 per cent premium adequacy over the long term.
- Investment income is set to zero. Investment income could become material if the cyclone pool builds up a significant level of assets.

7.6.1 Baseline projection

The 'funnel' of financial outcomes shown in Figure 7.4 represents the probability distribution of the cyclone pool's accumulated position over the long term.

Figure 7.4: Distribution of financial outcomes for the cyclone pool over a 10-year time horizon

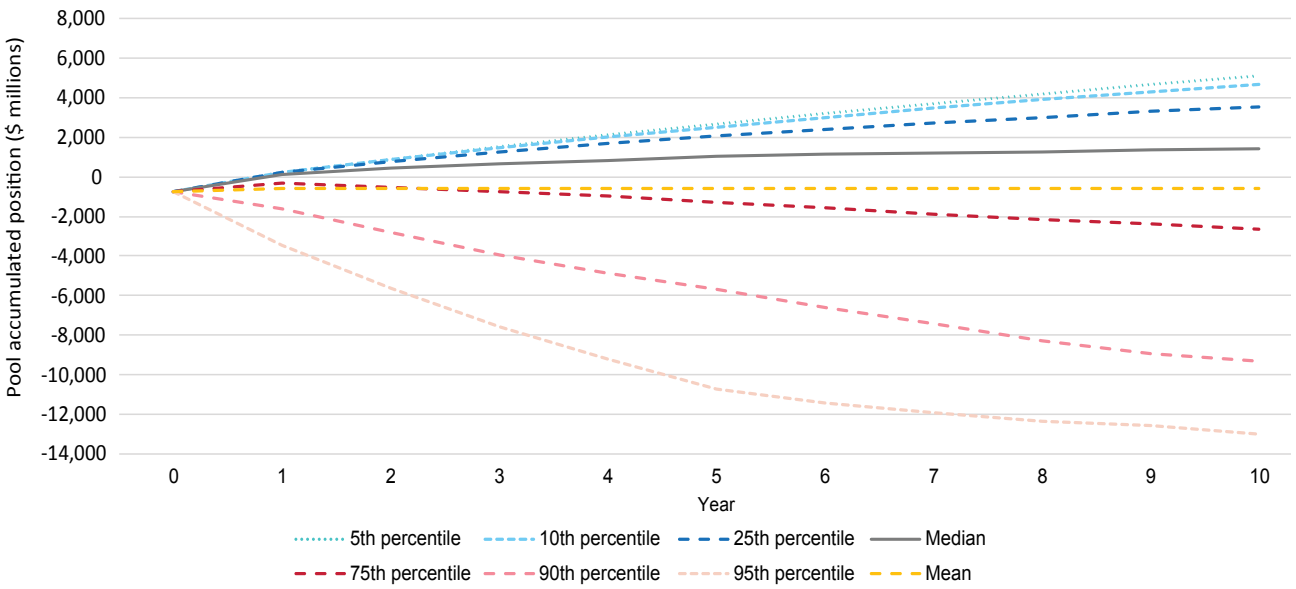


Figure 7.4 shows that the potential financial outcomes for the cyclone pool are highly variable:

- At the end of the 2025-26 financial year, there is a 61 per cent chance that the cyclone pool will be in a net asset position. There is a 10 per cent chance of the cyclone pool accumulating net assets of $211 million or more, and a 10 per cent chance that the pool's net liabilities will deteriorate to $1.60 billion or more.
- At the end of the 10 years, the mean outcome for the cyclone pool is a net liability position of $578 million. This reflects the assumption that future premiums will offset costs from future cyclone events; the mean outcome is equal to the current net liabilities plus a small benefit from the release of the risk margin. There is a 10 per cent chance of net liabilities of $9.30 billion or worse, and a 10 per cent chance of net assets of $4.65 billion or more.

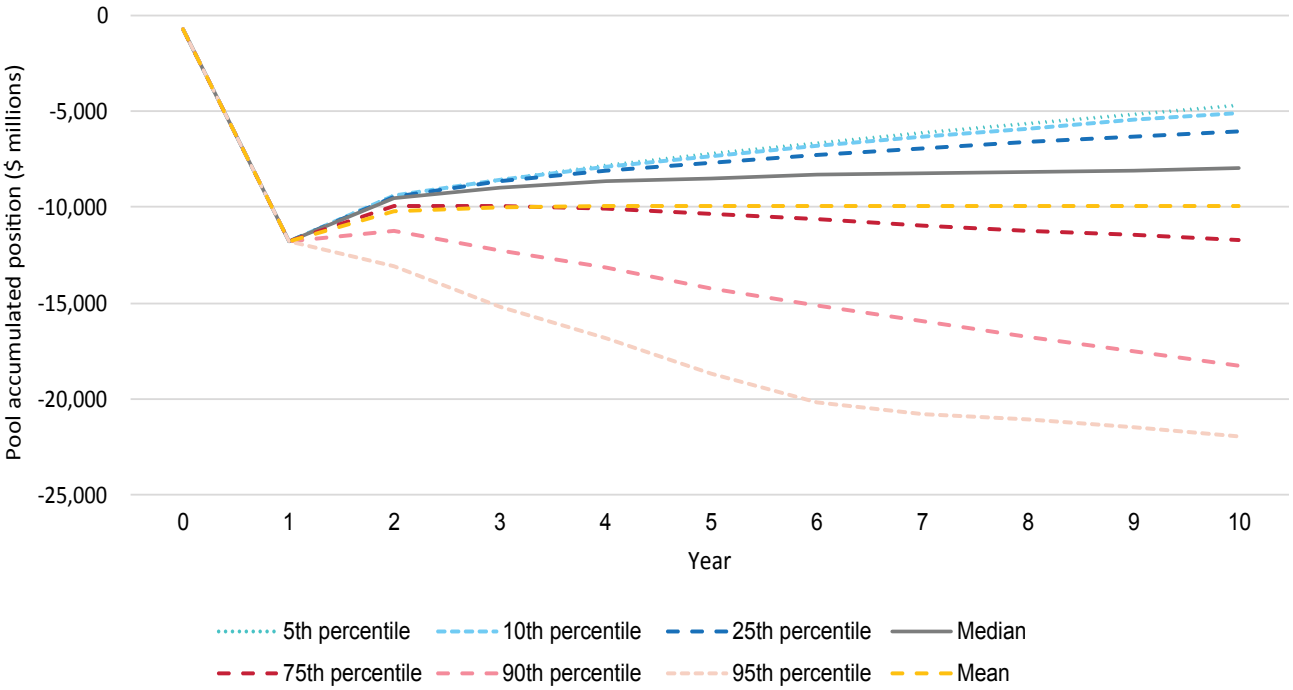
ARPC's Capital Management Policy recognises the wide range of potential financial outcomes for the cyclone pool and does not require management action in response to modest net assets or liabilities.

ACTION 4: Review the Capital Management Policy so that it continues to provide an appropriate framework for setting premium rates that consider the cyclone pool's net asset position.

7.6.2 Scenario 1: $10 billion cyclone claims in the first year

A future extreme cyclone event, or series of events, could lead to a material net liability position for the cyclone pool which would require calling on the Commonwealth guarantee. Figure 7.5 shows the distribution of financial outcomes if there were claims costs of $10 billion in the 2025-26 financial year. The modelled probability of this scenario is approximately one per cent.

Figure 7.5: Distribution of financial outcomes under scenario 1, with $10 billion of claims cost in the first year



This scenario would require a substantial call on the Commonwealth guarantee after using all available assets from both the cyclone and terrorism pools as shown in Figure 7.3. From the distribution of outcomes, it is evident that regardless of claims experience in future years, the pool would not return to a neutral accumulated position within 10 years. By the end of the 20th year, there would be a two per cent chance of the cyclone pool recovering to a net asset position.

Increasing premium rates would not be an effective method to reduce a net liability position of this size, as even a 25 per cent premium rate increase (which would equate to additional premiums earned of approximately $170 million per annum) would only lower the mean net liabilities at the end of 10 years from $9.92 billion to $8.23 billion.

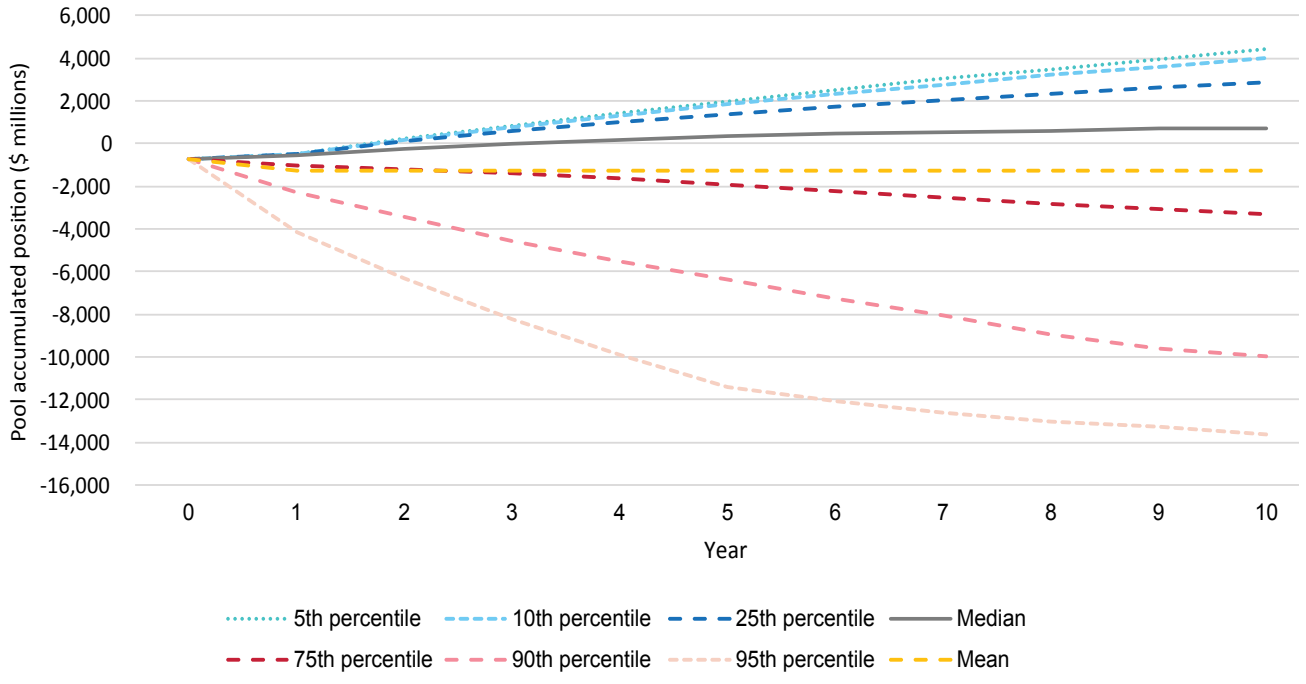
An extreme cyclone event is a risk to the financial outlook of the pool. A catastrophic event of $10 billion next year would result in the pool being in a net liability position for more than 10 years. In this scenario, the target of long-term sufficiency would need to be balanced against the objective of improving insurance affordability in medium to high-risk regions, and the funding position of the pool.

7.6.3 Scenario 2: deterioration in claims liabilities

As discussed in Section 5, there is still significant uncertainty in the development of claims costs for TC Alfred. Figure 7.6 shows the distribution of financial outcomes if there was a $669 million increase in the expected claims costs for past events, equal to two times the total risk margin (with the central estimate increasing by $669 million, from $1.54 billion to $2.21 billion). The variability in future claims costs is the same as in the baseline projection.

At the end of the first year, mean net liabilities would be $1.26 billion dollars. The pool would remain in a net liability position in all simulations for the first year. However, at the end of the second year, there is a 36 per cent chance that the pool would be in a net asset position. Cash flow modelling shows that the cyclone pool would require $28 million of assets to be transferred from the terrorism pool to meet claim payments under this scenario, assuming median claims experience for the next cyclone season.

Figure 7.6: Distribution of financial outcomes under scenario 2 with a deterioration in claims liabilities of two times the risk margin

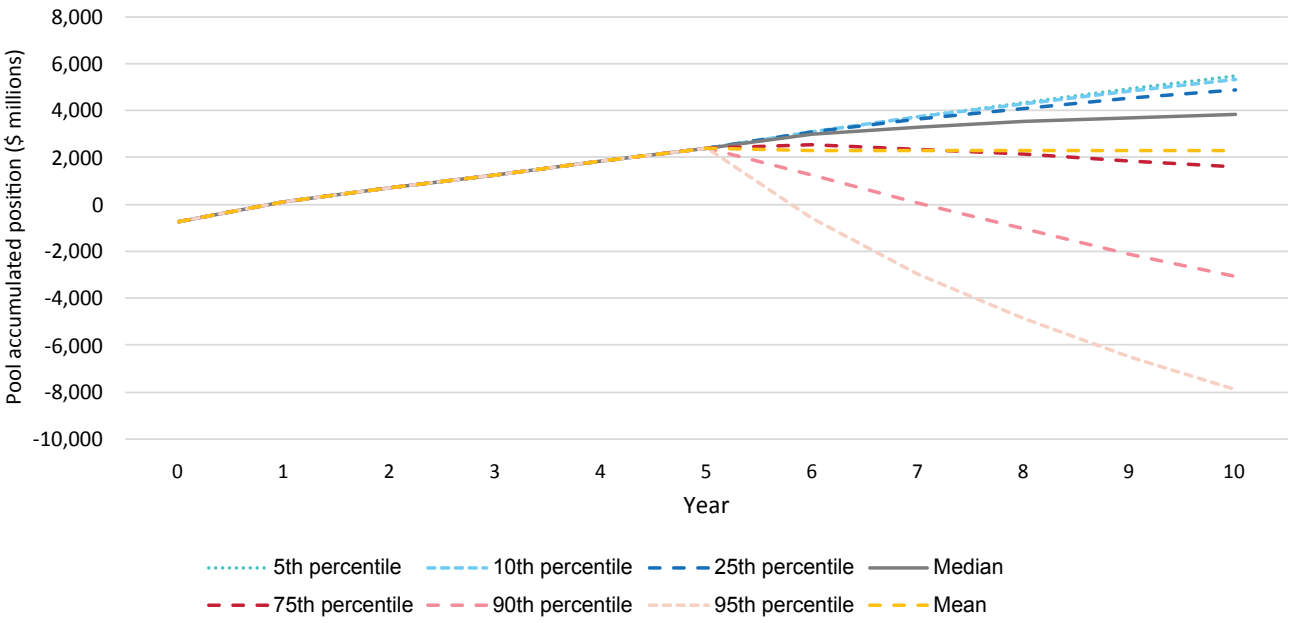


7.6.4 Scenario 3: median claims costs for five years

The median modelled claims cost is lower than the target premium pool due to the skew of the claims cost distribution. It is expected that the cyclone pool will accumulate assets in four out of five years, and pay out claims in excess of premium in one out of five years. Low cyclone activity across multiple years of operation could lead to the build-up of material net assets.

Figure 7.7 considers a scenario where the cyclone pool has a median level of claims (approximately $86 million per year) for the next five years, which would result in the accumulation of $2.28 billion of net assets. This scenario has a probability of approximately three per cent. At the end of the 10th year, there would be a 25 per cent probability that the pool would have net assets of $4.89 billion or greater. There would be an approximately 17 per cent chance that the cyclone pool would return to a net liability position by its 10th year under this scenario in the absence of management actions.

Figure 7.7: Distribution of financial outcomes for the cyclone pool under scenario 3 with median claims costs for five years



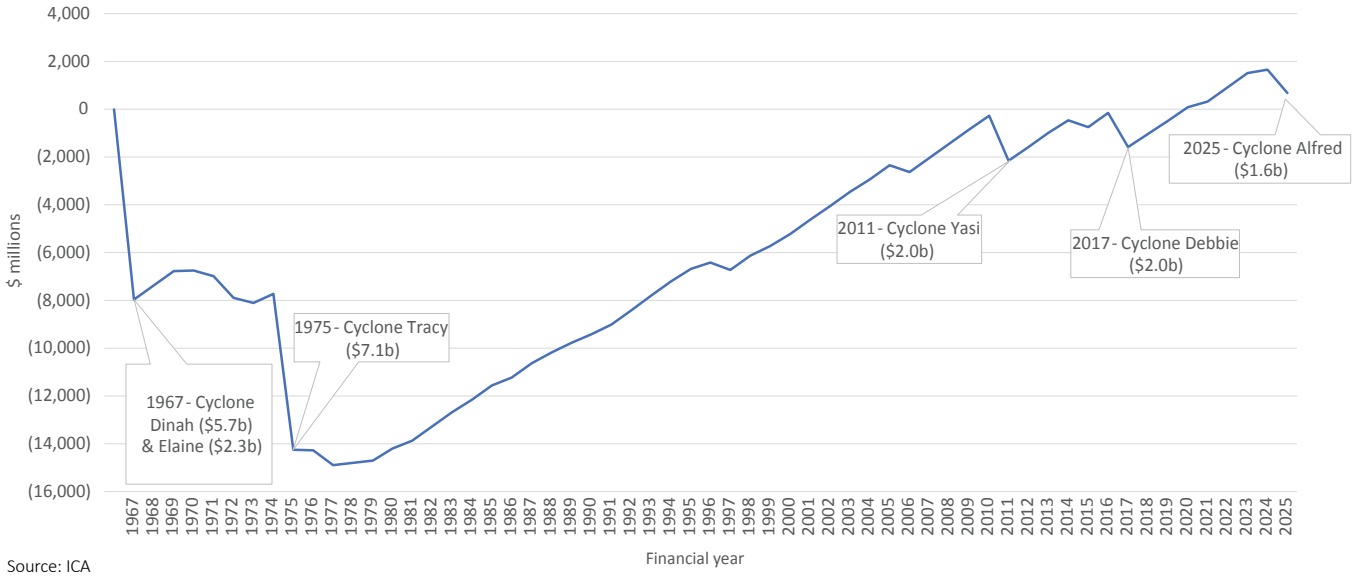
Under this scenario, investment income for the cyclone pool would be expected to be material, which would increase the funds available to pay claims from future cyclone events.

7.6.5 Back testing – historical cyclone claims costs since 1967

Figure 7.8 shows cyclone pool accumulated position if the pool had existed since 1967, with claims costs from historical events normalised to 31 December 2024 (adjusted for inflation, changes in exposure and changes in building codes). When interpreting this analysis, note that due to early events being more than 50 years ago, there is significant subjectivity and uncertainty in the normalisation of costs for these events, as well as in the estimation of the proportion of losses which would be covered by the cyclone pool.

The chart highlights the impact of a few large events on the pool's funding position. We have assumed that the pool starts with no assets. The pool would immediately be in a net liability position following a few large events, including Cyclone Dinah and Cyclone Elaine, in 1967. It would take until 2020 (53 years) to return to a net asset position. The pool would then accumulate funds over the next five years, with final net assets of $688 million, as in aggregate across these years, claims costs would be below the modelled AAL.

Figure 7.8: Cyclone pool funding position over time if it existed since 1967



Source: ICA

ARPC's approach to asset management is appropriate for a portfolio with significant volatility and the backing of the Commonwealth guarantee. The current net liabilities are modest in the context of the range of potential outcomes and volatility in future experience.

08 APPENDICES

APPENDIX A: DATA

The analysis in this report relies on data supplied to ARPC by insurers who have joined the cyclone pool, modelling data from the 2024 and 2025 Pricing Reviews, publicly available data sources, and data licensed by ARPC.

Data sources	Description	Table/Figure	Data date
ARPC data			
Financial statements	ARPC's financial statements.	Table 1.2, Figure 1.1, Table 3.1, Figure 3.1, Table 3.3, Table 3.4, Figure 3.3, Table 3.6, Table 3.7, Figure 3.4, Table 3.9, Table 5.1, Table 5.2, Table 5.3, Figure 7.1	30 June 2025
		Figure 3.4, Table 5.2	30 June 2024
		Figure 3.4	30 June 2023
Financial projections	ARPC's financial projections for the 2024-25 financial year. These reflect the final approved budget for the 2024-25 financial year, and distribution of cyclone claims cost assumed for the 2024 FOR.	Table 1.2, Table 3.1, Table 3.3, Table 3.5, Table 3.7	1 July 2024
	ARPC's financial projections over the next three financial years. This includes the approved budget and updated forecasts, plus assumed distribution of cyclone claims cost for the 2025 FOR (derived from the yearly event loss table, see below).	Table 1.2, Table 3.2, Table 3.5, Table 3.6, Table 3.8, Figure 6.4, Figure 7.2, Figure 7.3, Figure 7.4, Figure 7.5, Figure 7.6, Figure 7.7	30 June 2025
Insurer data submissions			
Unexpired Risk Transfer Report, Quarterly Movement Report, Policy Level Claims Report	Datasets provided by insurers when transferring in-force risks to the cyclone pool, and thereafter on a quarterly basis. Policy datasets contain a record for each risk ceded to the cyclone pool. Data fields include: ▪ Unique location identifier ▪ Exposure period ▪ Location ▪ Rating information including class of business, sums insured, excess, building characteristics, and policy coverage ▪ Transaction information ▪ Annual ARPC reinsurance premium ▪ ARPC reinsurance premium owing for the remaining time on risk. Claims datasets contain a record for each claim with incurred cost recoverable from the cyclone pool. Data fields include: ▪ Cyclone event designation ▪ Location ▪ Date and time of loss ▪ Claim status ▪ Claim description ▪ Paid to date and case estimates.	Figure 1.1, Table 1.4, Figure 3.1, Table 3.4, Table 4.2, Table 4.3, Table 4.5, Figure 6.1, Figure 6.2, Figure 6.4, Table 6.4	31 March 2025
		Figure 6.5	31 December 2024
		Table 4.5, Figure 6.1, Figure 6.2, Table 6.4	31 March 2024
		Figure 6.5	31 December 2023

Data sources	Description	Table/Figure	Data date
Pricing data			
Pool Eligible Market Dataset	Pool Eligible Market Dataset (aggregated and de-identified). Data fields include: ▪ Location (aggregated) ▪ Sums insured ▪ Building characteristics such as construction type ▪ Policy characteristics such as class of business and coverage.	Table 6.1	31 December 2024
G-NAF technical rates	G-NAF technical rates (cost per sum insured) for Wind, Flood and Surge developed during the 2025 Pricing Review using catastrophe model output.	Figure 1.1, Table 1.4, Table 4.2, Figure 4.1, Figure 4.2, Table 4.3, Table 6.1	31 December 2024
Catastrophe model data			
Catastrophe model yearly event loss table	Yearly event loss tables containing simulated annual losses for 50,000 years. Dataset created by ARPC using a stochastic blend of multiple catastrophe model event loss tables, which include the probability of a simulated event occurring and estimated cost for the cyclone pool given the event occurs.	Figure 1.1, Figure 3.1, Table 3.5, Figure 4.2, Figure 7.4, Figure 7.5, Figure 7.6, Figure 7.7	31 December 2024
Historical loss data			
ICA Historical Catastrophe List	List of catastrophes and associated costs reported by insurers to the Insurance Council of Australia, normalised to allow for growth in the number of dwellings and inflation.	Figure 4.1, Figure 4.2, Figure 7.8	31 December 2024
Economic data			
ABS – Consumer Price Index, Producer Price Index	Historical inflation indices.	Figure 6.4, Figure 6.5	31 March 2025
RBA	Forecast inflation.	Figure 6.4	May 2025
Other external data			
Early Warning Network	Wind buffers for past tropical cyclones.	Figure 3.2	Varies depending on cyclone event date
The Bureau	Track data for past tropical cyclones.	Figure 3.2, Figure 3.3	Varies depending on cyclone event date
ABS – Building Activity	Building Approvals by SA2, Average dwelling completion times, Abandonment rates for new dwellings, Dwelling units completed by state.	Figure 6.3	March 2025
ISA	An industry-owned data collection and analysis service of statistics made available to subscribers only.	Figure 6.5	December 2024

APPENDIX B: Uncertainty in modelling cyclone risk

ARPC draws on several catastrophe models in combination with additional analysis and expert input to establish a view of risk. The following summarises key areas of uncertainty or potential gaps related our catastrophe modelling:

- Strata vulnerability, particularly regarding wind and wind-driven water ingress for large strata, is not well understood in the catastrophe models and/or in available vulnerability studies.
- Pluvial (flash) flood is modelled as part of the wind peril with a low degree of consideration or understanding of the variation of risk by geography.
- We draw on a handful of available commercial models with the objective to have a market leading view of risk through model blending. Over time, we may change, add or remove commercial models used in our view of risk, and vendors may improve or update their models. These changes could lead to changes in our view of risk and premium adequacy.
- Limited claims experience to date means we do not have an established in-house view of vulnerability curves and largely rely on commercial products and/or public studies.
- Analysing flood attributable to a cyclone is not a deeply researched study area in the scientific community. Our view has drawn on multiple data sources and commissioned research and is considered to be based on reasonable assumptions.
- Completeness of data relating to flood defences (such as levees) is not consistent across commercial models and there is no single source of truth maintained at a national level.
- Licensed catastrophe models reflect the best view of risk currently, but the extent to which climate change has impacted cyclone risk to date is highly uncertain.
- The catastrophe models used to estimate the cyclone pool AAL and set the premium rates do not all provide a view of claims cost variability, particularly for flood and surge. This means that there is not a consistent application of catastrophe models between that used to set premium rates and that used to quantify claims cost variability.

ARPC continues to address these sources of uncertainty and gaps by:

- Commissioning focused studies on topics such as vulnerability, hazard modelling, flood attribution to cyclones and historical event analysis.
- Continuing to consider the appropriate use of commercial models as part of our solution to understanding risk, including regular reviews of the models available on the market and our model selection, as well as continuing to engage with vendors to address key modelling gaps.
- Leveraging claims experience and insights from exposure data to develop a refined view of vulnerability, model blending and overall risk.
- Undertaking our own research on topics such as the impact of climate change on cyclone risk and the capture of flood defences.
- Attempting to align the estimation of claims cost variability, where possible and reasonable, to the assumptions and methodology used in establishing a view of risk for premium setting. The modelled claims cost variability for flood and surge is based on one model only, which is a simplified approach.

APPENDIX C: GLOSSARY

Term	Definition
2025 Pricing Review	The 2025 Pricing Review is the most recent pricing review, with updated premium rates effective from 1 April 2026. The premium rates from the 2024 Pricing Review became effective on 1 April 2025.
ABS	Australian Bureau of Statistics
Accumulated position (net assets or liabilities)	Assets less liabilities, assuming any calls made on the Commonwealth guarantee are recognised as liabilities (noting that the repayment of calls made on the Commonwealth guarantee is subject to Ministerial direction).
ARPC	Australian Reinsurance Pool Corporation
Average Annual Loss (AAL)	The estimated average claims cost over a financial year for the cyclone pool. This amount includes recoveries paid to insurers for eligible claims, but does not include claims handling expenses or ARPC operating expenses.
The Bureau	The Bureau of Meteorology
Case estimates	The insurer's estimate of total payments to be made for outstanding reported claims. Each claim is individually assessed.
Catastrophe models	A model that simulates catastrophic events to estimate potential claims.
Category 1-5 (tropical cyclone)	Tropical cyclone intensity scale based on maximum mean wind speed, with 1 representing the lowest severity and 5 representing the highest severity.
Claims leakage	The difference between what an insurer spent to settle a claim versus the amount that should have been paid in a genuine, efficient transaction.
Coverage Level modifier	A modifier in the cyclone pool pricing formula that is used to adjust the cyclone pool premium based on the level of coverage in the insurer's Product Disclosure Statement.
CPI	Consumer Price Index
CTS	Cyclone Testing Station
Cyclone pool coverage ratio	Calculated as the number of properties reinsured by the cyclone pool divided by ARPC's view of the total number of properties eligible for the cyclone pool.
DAC	Deferred Acquisition Cost
DCE	Declared Cyclone Event
Earned premium	The portion of a policy's written premium that is earned based on time elapsed since the policy effective date and a pattern of risk over the policy term.
ENSO	El Niño Southern Oscillation
Fluvial flooding	Fluvial flooding (riverine) occurs when water in a river, lake or other water body overflows onto the surrounding banks and land.
FOR	Financial Outlook Report
G-NAF	The Geoscape Geocoded National Address File is a dataset that contains all physical addresses in Australia.
Home	A standalone residential property that is not a Strata policy.
IBNR	Incurred But Not Reported claims are claims that have taken place, but have not yet been reported to the insurer.
ICA	Insurance Council of Australia
Incurred claims cost (ultimate)	The total estimated claims cost comprising of paid to date, outstanding amounts and IBNR.
Initial Pricing Review	The first pricing review effective 1 October 2022.
IPCC	Intergovernmental Panel for Climate Change
ISA	Insurance Statistics Australia
JCU	James Cook University
Loss ratio	Total claims costs divided by total premiums.
Modelled cyclone pool cost	The estimated AAL plus an allowance for ARPC's operating expenses and eligible insurer claims handling expenses.

Term	Definition
NEMA	National Emergency Management Agency
Non-insurance	Refers to when no insurance is held to cover exposure to a risk.
OCL	Outstanding Claims Liability
Operating expense ratio	Total operating expense divided by total gross written premium.
PDS	Product Disclosure Statement
Pluvial flooding	Pluvial flooding (incorporating surface flooding and flash flooding) which can occur anywhere when high rainfall occurs, such as in the path of a cyclone.
PPI	Producer Price Index
Premium adequacy and premium adequacy ratio	Premium adequacy refers to the sufficiency of premiums to cover potential claims and expenses. The premium adequacy ratio is the ARPC cyclone pool premium divided by the modelled cyclone pool costs (the expected cost of claims, eligible claims handling expenses and cyclone pool operating expenses).
Probability of exceedance	The likelihood that a particular event or value will exceed a certain threshold or level.
Probability of sufficiency (PoS)	The likelihood that capital or liabilities will be sufficient to cover obligations.
Rateable sum insured	The insured value of a property as defined by ARPC and used to calculate the cyclone pool reinsurance premium.
RBA	Reserve Bank of Australia
Residential	Refers to a policy where the property is used wholly or mainly for residential purposes.
Retrocession	Reinsurance purchased by reinsurance companies. Reinsurers retrocede risks to other reinsurers as a means of risk management.
Retrofit	Refers to the process of making improvements or upgrades to an existing home.
Return period	A recurrence interval used to estimate the likelihood of a specific event occurring within a given period of time.
Risk Frontiers	Catastrophe modelling organisation
Risk mitigation	An action or measure taken to reduce risk.
Scenario testing	A forecasting technique where hypothetical scenarios are created to assess the potential outcomes and impacts of various events.
SME	Small to Medium-sized Enterprises (for which property risks are covered by the pool up to a maximum sum insured limit of AUD $5 million).
SST	Sea Surface Temperature
Storm surge	An abnormal rise in sea level over and above the normal (astronomical) tide levels during an intense storm or cyclone.
Strata	Refer to the definitions set out in items 4A (1) and (2), (3), or (4) of the *Terrorism and Cyclone Insurance Regulations 2003*.
Target premium pool	The premium rates are intended to achieve an overall target premium pool which meets the expected cost of claims, claims handling expenses and cyclone pool operating expenses.
TC	Tropical Cyclone
TCI Act	*Terrorism and Cyclone Insurance Act 2003*.
Total loss	A total loss occurs where the cost to rebuild or repair the property exceeds the sum insured.
Underinsurance	Refers to when a policyholder's insurance coverage (sum insured) is less than the total rebuild cost, or excludes some coverages (e.g. flood).
Wind / Flood / Surge risk band	Risk bands by peril determined by ARPC and used to set premiums, indicating a relative level of risk.
Written premium	The total premium that a policyholder is required to pay for a policy.

APPENDIX D: Letter of advice – Reviewing Actuary

Australian Government
Australian Government Actuary

3 September 2025

Dr Chris Wallace
Chief Executive Officer
Australian Reinsurance Pool Corporation
Gadigal Country, PO Box Q1432 Queen Victoria Building,
New South Wales, 1230

Dear Chris

JUNE 2025 FINANCIAL OUTLOOK REPORT

Section 40A of the *Terrorism and Cyclone Insurance Act 2003* (the Act) requires that the ARPC prepares a Financial Outlook Report (FOR) for the Cyclone Reinsurance Pool (CRP, or pool) after the end of each financial year beginning on or after 1 July 2023. Subsection 33B(1)b of the Act requires that the Reviewing Actuary review each FOR and report any findings to the Board. This letter summarises my review of the 30 June 2025 FOR.

Summary of key findings

- The FOR addresses the key areas set out in section 5E of the Regulations. The report assesses premiums, provides projections of outcomes and observations on capital management and risks facing the pool. I expect that the report will continue to set out actions to enhance the pool's ability to meet its objectives.
- After two years of modest positive operating results, the pool experienced a large negative operating result in the most recent year because of Tropical Cyclone Alfred. Accordingly, the pool now has net liabilities of $734 million. This is still within a range of reasonably probable outcomes and consistent with expectations that a modest positive operating result will arise in most years but will be rapidly depleted following a less frequent and large cyclone. Assuming median claims experience in 2025-26, the pool is expected to return to a positive net asset position in the next year.
- The 2025 pricing review confirms that premiums remain consistent with the pool's legislative objectives. Discounts proposed for SME mitigation ensure all three lines of business encourage mitigation.
- While the materiality and recent nature of Tropical Cyclone Alfred increases the uncertainty of the reserves at 30 June 2025, the evidence base demonstrating the adequacy of claims reserves will grow as claims data matures.
- The FOR has articulated financial risks faced by the pool and the steps being taken to monitor and, in some cases, manage those risks. The FOR notes the primary action being taken is to monitor the identified risks.
- Considering the current net liabilities, there is an action to review the Capital Management Policy to ensure appropriate trigger points are in place for premium rate setting. I believe this should include considering whether the pool responds to both short term movements in net assets and I changes in expected claims over the long term. I concur with this action, and the other actions set out in the FOR.

The Treasury, Langton Crescent, Parkes ACT 2600
02 6263 2137
aga@aga.gov.au

Financial Outlook Report

Section 5E of the *Terrorism and Cyclone Insurance Regulations 2003* (the Regulations) sets out the minimum content that is required to be included in the FOR. This states that a Financial Outlook Report must include:

a) an overview of the performance of the cyclone reinsurance scheme during the financial year;
b) observations on broader financial risks affecting the scheme's financial outlook;
c) an assessment of the adequacy of:
    i) the premiums the Corporation is receiving under cyclone reinsurance contracts; and
    ii) the Corporation's reserves that are available to meet claims under those contracts;
d) observations on capital management for the purposes of the scheme;
e) projections for financial outcomes for the scheme, based on estimates of future claims under cyclone reinsurance contracts; and
f) any other matters that the Corporation considers material to the current and future financial situation of the scheme.

Information Received

To complete this review, I have been provided with [1] a final version of the June 2025 FOR on 2 September 2025; [2] the models used to determine outstanding claims provisions; and [3] the *Australian Reinsurance Pool Corporation Cyclone Pool & Terrorism Pool – Actuarial Valuation Report as at 30 June 2025*, setting out the results of the outstanding claims valuation.

I have discussed elements of the information provided with the ARPC actuarial team. I have relied on this information for the purpose of this review.

Review of the Financial Outlook Report

This review focusses on the key developments reflected in the FOR. Specifically, the processes used to review premium rates have continued to be updated and the pool experienced a negative operating result because of Tropical Cyclone Alfred (TC Alfred). This cyclone led to a material increase in estimated liabilities and risk margins.

Overview of the performance of the scheme during the financial year.

Section 3 of the FOR provides an overview of the performance of the Scheme during 2024-25. The first three years of the pool's operation were characterised by increased exposure to the risk of cyclones as insurers joined the pool. Not surprisingly, this has resulted in increased premium income and increased claims.

In the first two years, claims were below the modelled long-term average which allowed a modest level of assets (relative to the potential cost of some cyclones) to accumulate to fund future cyclones. However, the past year's claims costs far exceeded the modelled long-term average due to TC Alfred. This is also not surprising. Section 3 of the FOR illustrates the skewed nature of the distribution of claims costs and that the $1.5 billion in claims experienced in 2024-25, could occur roughly every 11 years.

The operating result of the pool is expected to be characterised by small positive operating results in most years, with occasional years where a large cyclone occurs that depletes the pool and may result in a call on the guarantee.

With only two years of benign losses followed by the large TC Alfred claims during 2024-2025, the cyclone pool currently has net liabilities of $734 million. Despite this position, and assuming median claims experience in 2025-26, cash flow modelling projects that the cyclone pool is likely able to fund its claim payments from future premiums and current assets. The pool is also expected to return to a positive net asset position in the next year. However, it is also apparent that another large cyclone in the next cyclone season will increase the pool's net liabilities further.

Assessment of the adequacy of premiums.

Section 4 provides an assessment of the adequacy of premiums. In 2022 premiums were set that were consistent with the legislative objectives of the pool. All insurers have now joined the pool. ARPC now has additional information relating to the exposure to cyclone risk. Given this additional information, premiums were reviewed in 2024-25. The review recommended the introduction of discounts for mitigation activity on SME policies. The review also found that premiums remain consistent with the legislative objectives of the pool. I agree with this finding.

The FOR sets out six topics to be actioned in future pricing reviews. I concur with the actions outlined in the FOR and have the additional comments below.

- The premium structure is to be monitored on an ongoing basis. The sustainability of the rates depends on how the mix of risks reinsured by the pool, and how cyclone risk, change over time. Insurance policies are 12-month contracts that charge a premium for that year. It is expected that premium rates will steadily evolve as the risk changes from year to year.

- Premiums are based on catastrophe modelling. These models inform the total premium pool collected. These models evolve over time as additional data becomes available. The models have not been updated since the original premium setting. ARPC has identified an action to reassess the catastrophe modelling and review the weights applied to each model. Whilst this will open many questions relating to premium assumptions that will need to be worked through, the alternative of using out of date models introduces additional financial risk to the pool.

- The premium adequacy section provides analysis of modelled and historical average annual losses. Testing actual experience against all premium assumptions, including the allowances for loadings that were estimated at the time of the original premium setting, is a useful exercise to help inform the outlook of the pool. For example, the premium calculations include a 2% loading for unallocated loss adjustment expenses (ULAE) relating to claims expenses incurred by cedants which are reimbursable by ARPC. Two large insurers have advised early indications of ULAE relating to TC Alfred losses of around 7.5%. As more data becomes available, the ULAE assumption may need to be refined to reflect the emerging experience.

Assessment of the adequacy of the reserves.

Section 5 sets out the outstanding claims and premium liabilities and discusses the uncertainty in this estimate. By far the most material component of the outstanding claims liabilities is the reserve allocated to TC Alfred. The reserve for this event is therefore the focus of my review.

Reserves for claims following cyclones are a blend of estimates derived from catastrophe models and estimates derived from the development of specific claims data for that event (incurred chain ladder method), with the latter being given increased weight as more time since the event passes. As TC Alfred is a recent event, a higher weight is given to the catastrophe model (60%) and a lower weight to the incurred chain ladder method (40%). There is a large difference between these two models with ultimate costs (without risk margin) estimated as at 31 March 2025 of $1.2 billion and $1.9 billion respectively. Both estimates are inherently uncertain.

The outstanding claims liability at 30 June 2025 is determined by rolling forward the 31 March results to 30 June, with no updates for incurred claims data. Noting the significant uncertainty in this calculation (both in the model selection, but also within each model), updating the incurred chain ladder model with data as at 30 June as soon as possible could provide a useful comparison and improve the confidence in the overall reserve.

Other sources of uncertainty in the reserves include:

- Uncertainty in the estimate of ultimate claims costs derived from catastrophe models:
  Initial estimates of ultimate claims costs are informed by modelled cyclones with similar characteristics. ARPC should monitor the performance of catastrophe models in the estimation of ultimate losses, as event data builds over time. Understanding sources of variation could help improve early estimates of liabilities and validate the risk margin. Benefits may also accrue to the use of models in premium setting.

- Uncertainty in the chain ladder method:
  Uncertainty in the chain ladder method arises due to the immaturity of the experience to date and uncertainty in the use of benchmark experience from cyclones that occurred before the pool was established. Monitoring actual and expected payments has commenced. Modelling the progress of the liability estimate (rather than just cash flow) could be used to further validate the selection of run-off factors and risk margin.

- Uncertainty in the credibility weights applied to each model:
  The claims liability valuation grosses up the incurred costs data to allow for missing payment and case estimate information for some cedants at 31 March. Credibility weights determine the relative weight given to the chain ladder results compared to the catastrophe model and are calculated according to the proportion of the estimated ultimate chain ladder cost that has been incurred to date, after grossing up the data. I query whether the uncertainty arising from the grossing up process should be considered as part of the credibility weights.

Overall, I believe that the methods selected are an appropriate response given the immaturity of the available claims data. The experience to date is not sufficient to conclude that the current approach is inappropriate. A risk margin is held in response to the uncertainty noted above. I regard the outstanding claims liabilities to be appropriate, based on the data available at 30 June 2025.

I note that while the above modelling uncertainties are material to the current financial position (and outstanding claims provisions), they are likely of more concern to the pool through the uncertainty in determining the total premium collected.

The FOR reports premium liability reserve of $245.2 million. I note that assumptions regarding the seasonality of cyclones underpin this reserve which I have not reviewed. The premium liability reserve includes a 3.5% risk margin intended to increase the sufficiency to ARPC's elected level of 65% confidence. Due to the skewed nature of the claim distribution, the central estimate of claims in a single year is estimated to be similar to a 1 in 5-year return period loss (or 80% level of sufficiency). Accordingly, I believe the current risk margin percentage of 3.5% is likely to be conservative.

Observations on the financial risks facing the pool.

Section 6 focusses on broader financial risks affecting the financial outlook of the pool.

The clearest financial risk facing the pool is that of a severe cyclone, or series of cyclones. Cyclone risk is highly volatile, with the potential for low probability high severity events to occur in any given year. However, the pool has mitigated this financial risk with the Commonwealth guarantee, and associated provisions relating to its reinstatement and potential extension. With the current net liabilities, the FOR states that an event exceeding $900 million occurring next season would require a call on terrorism pool assets to meet claims payments, while an event exceeding $3.5 billion would need the Commonwealth guarantee to meet claims costs. With this level of financial protection, it is appropriate that the FOR focus on some of the more nuanced risks facing the CRP.

Changes in the mix of insured properties (through changes in insurance take up and the distribution of new buildings), climate change, inflation, insurers' claims management, changes in product coverage and data quality are the risks considered in the FOR. These risks have the potential to bring premium adequacy into question.

Whilst the pool can respond to adverse financial experience through targeted premium increases, I note that relying primarily on premium changes to manage emerging financial risk may not lead to the best outcomes for policyholders. Where possible, it is preferable to monitor the risks and work with insurers to help manage these emerging risks before premium increases are necessary. The FOR notes that ARPC is working with insurers to encourage the uptake of risk mitigation discounts.

The pool also manages its capacity to absorb risk through its capital management policy. This is discussed in the following section.

Observations on capital management

Section 7 of the FOR provides observations on capital management, the current capital position of the pool and liquidity.

Given the net liabilities following TC Alfred, the FOR focusses on the liquidity risk and cashflow modelling. The current cyclone pool assets plus future premium income are expected to be sufficient to fund the estimated $1.54 billion in claims for past events and median claims in the next cyclone season.

Additional scenarios are tested in the FOR. The FOR tests the level of future losses that could be funded by the cyclone pool, the terrorism pool and the Commonwealth guarantee. However, it is equally relevant that with median claims experience (each year) the fund is expected to return to a positive operating position next year and accumulate net assets of $2.28 billion in 5 years.

While the pool is designed to be cost neutral over the long term and therefore periods of net liabilities are expected, in light of the net liabilities position the FOR includes an action to review the Capital Management Policy. I agree with this action to ensure appropriate trigger points are in place to adjust premium rates in the event of a more material net liabilities or material net assets position. Given the long-term nature of the cyclone pool, trigger points and actions should be carefully considered. I further recommend that this review includes determining the degree to which the Pool should respond to short term variations in net assets and patterns in annual operating results.

ARPC invests its assets to be sufficiently liquid to meet expected future claims. The FOR illustrates how this has been implemented by setting out cash flow modelling that demonstrates how invested assets, and premium income can meet existing and potential future claims under a range of scenarios. No actions are proposed regarding ARPC's approach to managing liquidity. This is appropriate.

Conclusion

The FOR provides an assessment of the pool at 30 June 2025. I support the actions set out in the FOR. I encourage careful consideration in both the reassessment of the catastrophe modelling and the review of the Capital Management Policy, and the use of emerging experience to validate premium and claims reserving assumptions where possible.

The pool is not a static entity. The properties covered, and the risk to which they are exposed will evolve over time. The pool will need to evolve with these changes. I look forward to the FOR, and its actions, evolving as emerging risks bear out in the experience.

Your sincerely

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