



Australian Government

Australian Reinsurance Pool Corporation

# Innovative approaches to addressing evolving climate risks

Dr Christopher Wallace





Chief Executive, Australian Reinsurance Pool Corporation

2 June 2026





OFFICIAL

# Design of cyclone pool premium rates





## Legislative objectives

-  Deliver a long-term cost neutral outcome by covering expected claims and operating expenses
-  Reduce premiums in medium and high cyclone risk areas
-  Maintain premiums comparable to commercial reinsurance rates for low and nil risk
-  Support risk mitigation and encourage cyclone and flood resilience over time

## Pricing approach

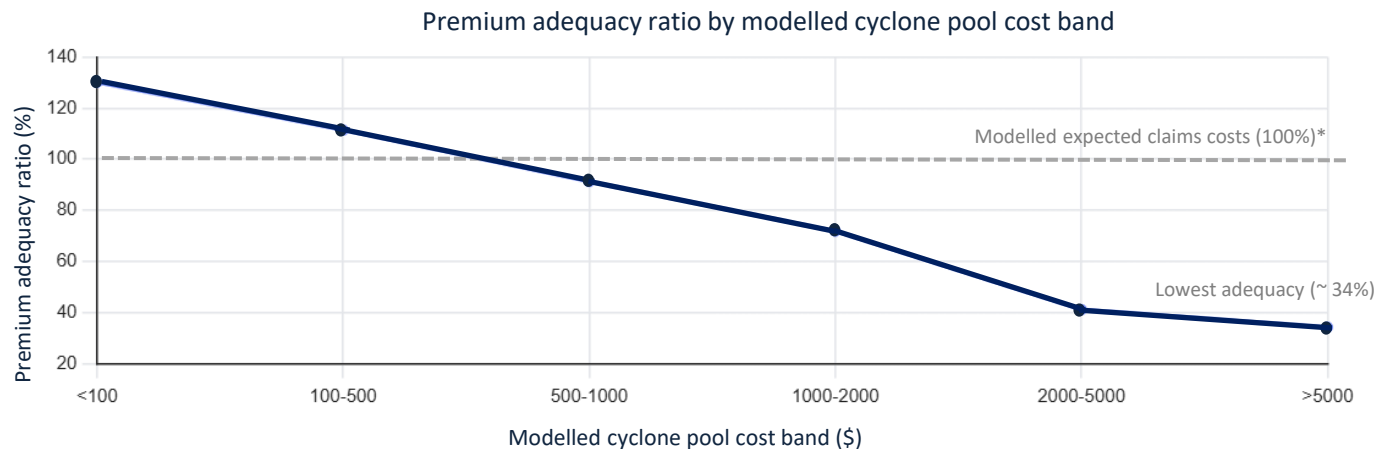
-  Pricing is set on a long-term basis and does not respond to short-term market cycles
-  Premium rates do not include a margin for profit, uncertainty, or cost of capital
-  Savings are reallocated to support affordability in higher-risk areas
-  Provides coverage across the full range of eligible cyclone events

## Capital and scheme design

-  Government-backed scheme with no cost of capital
-  Not required to hold capital to cover extreme loss events
-  Designed to operate over the long term and absorb year-to-year volatility
-  Premiums are sufficient over time to cover claims and expenses

The cyclone pool works because it removes the cost of capital, allowing the system to absorb extreme volatility without pricing it into premiums.

# High-risk properties benefit from cross-subsidisation



Pricing adequacy declines progressively as cyclone risk levels increase.

Higher-risk segments show lower levels of pricing adequacy relative to modelled costs.

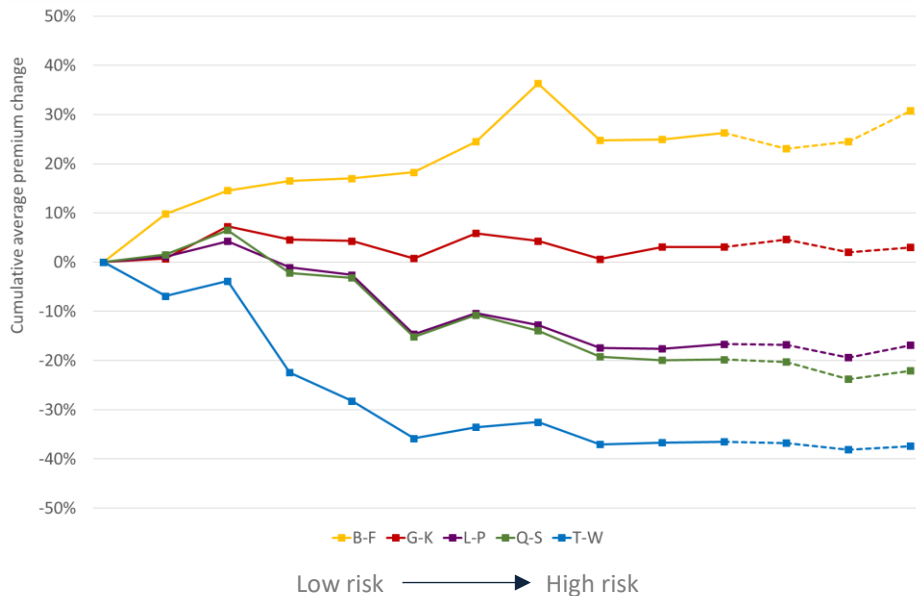
These patterns highlight considerations for risk-based pricing and longer term scheme sustainability.

\*Commercial insurers would typically price above this level to reflect profit and cost of capital.

Source: ARPC 2025 Financial Outlook Report

# Premium changes have diverged across cyclone risk bands since pool implementation

Figure 1 – Cumulative average Home premium change by risk band (October 2022 to January 2026)

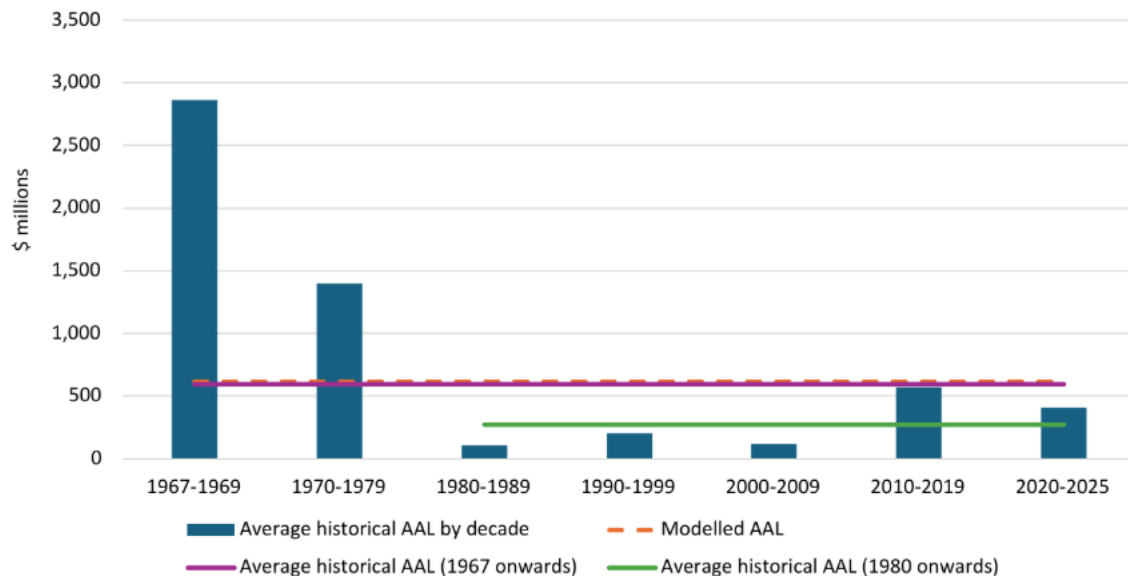


Policy intent is evident in premium reductions in high risk segments.

Source: ARPC Cyclone Reinsurance Pool Premium Assessment (May 2026)

# Modelled and historical cyclone losses by decade since 1967

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



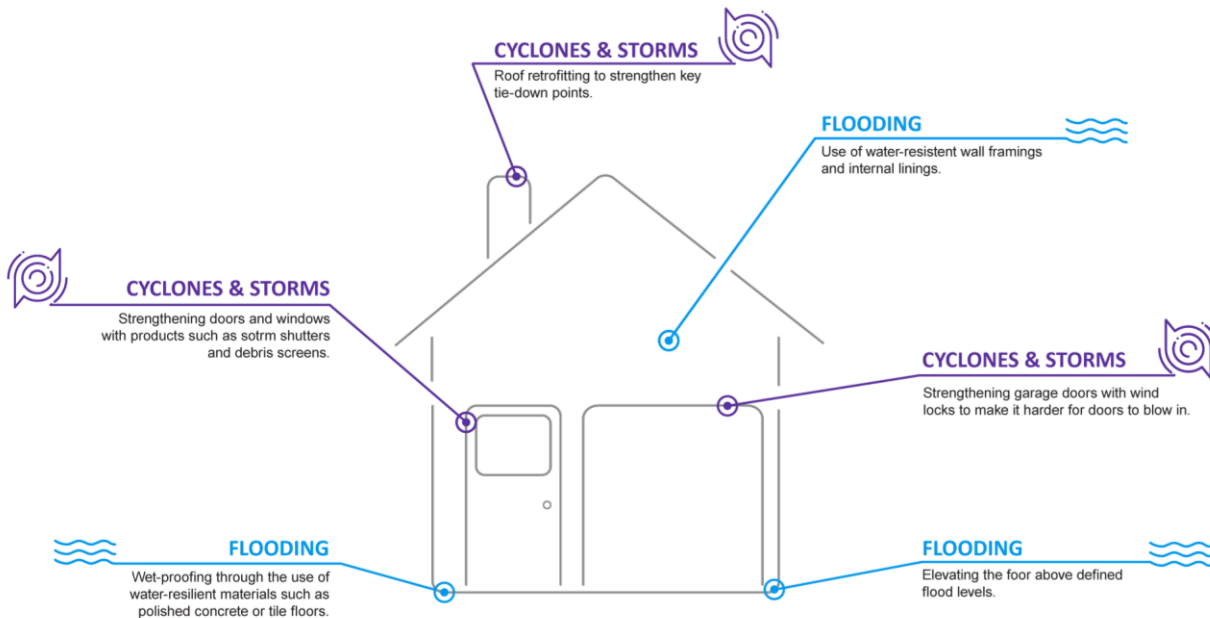
Cyclone risk is inherently volatile and uncertain.

Actual losses can diverge significantly from modelled averages, reinforcing the need for systems designed to absorb variability.

Historical losses are normalised to 2025 values

Source: ARPC 2025 Financial Outlook Report

# How does the cyclone pool mitigate risk?



Mitigation discount applied to residential buildings	
New roof *	30%
Roof tied down *	20%
Window protection	10%
Roller door braced**	8%

*\*Only homes built pre-1982*  
*\*\* Only homes built pre-2012*

The pool doesn't just absorb risk - it reshapes it through targeted mitigation incentives.