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Australian Government

Australian Reinsurance Pool Corporation

Cyclone Reinsurance Pool Financial Outlook Report

as at 30 June 2026

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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



\$701m

positive operating result
for 2025–26 driven by lower
claims costs



\$33m

net liabilities at 30 June 2026
— a broadly neutral financial
position

Funding and capital



Current assets and future premiums
could fund existing claims and an
additional event of approximately
\$2.1b before other funding
sources are required



Additional funding is
available through
the terrorism pool and
Commonwealth guarantee



Cyclone premiums

95.1%

within the **95%–105% target range**
but below the 100% long-term
cost-neutral level



95%–105% target range
100% long-term cost-neutral level

Outlook

For 2026–27 there is a:



10%

probability of an operating loss
greater than

\$1b



10%

probability of an operating
profit greater than

\$700m



From the Chief Executive and Chief Financial Officer

We are pleased to present the Financial Outlook Report (FOR) for the Cyclone Reinsurance Pool as at 30 June 2026.

The *Terrorism and Cyclone Insurance Act 2003* (TCI Act) requires ARPC to prepare an annual FOR assessing the financial outlook of the cyclone pool and to provide the report to the responsible Minister by 15 October each year, and publish the report within 10 business days.

The purpose of the FOR is to assess the current and expected future ability of the cyclone pool to meet its legislative objectives. The report includes an assessment of premium adequacy, liability adequacy, capital management, financial projections and the material risks affecting the financial outlook of the pool.

The report has been prepared using information available as at 30 June 2026 and reflects analysis undertaken by the Australian Reinsurance Pool Corporation's (ARPC's) actuarial team, supported by internal governance, quality assurance and independent review by the Reviewing Actuary (currently the Australian Government Actuary). The letter from the Reviewing Actuary is included in the appendices to this report.

In our opinion, the FOR:

- complies with the requirements of the TCI Act and the *Terrorism and Cyclone Insurance Regulations 2003*
- has been prepared using appropriate governance, data, systems and controls
- provides a fair and balanced assessment of the cyclone pool's financial outlook, recognising the inherent uncertainty associated with modelling natural catastrophe risk.

We thank the many people across ARPC who contributed to this report.



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Chief Executive



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Chief Financial Officer

Statement of actuarial advice

I confirm that I have directed the actuarial assessment supporting this Financial Outlook Report.

The actuarial assessment supporting this report has been prepared in accordance with the applicable professional standards of the Institute of Actuaries of Australia and has undergone internal actuarial quality assurance and independent actuarial review.

In preparing the report, we considered the available exposure information, catastrophe modelling, claims experience, liability valuations, financial projections and other evidence relevant to assessing the financial outlook of the cyclone pool.

The conclusions presented in this report reflect actuarial judgement applied to that evidence and recognise the inherent uncertainty associated with projecting future cyclone claims and financial outcomes.

In my opinion, the report provides an appropriate actuarial assessment of:

- the adequacy of premium rates
- the adequacy of claims liabilities
- projected financial outcomes
- observations on capital management
- the material risks affecting the cyclone pool's financial outlook

for the purposes of section 5E of the *Terrorism and Cyclone Insurance Regulations 2003*.



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Section 1: Executive summary

1.1 Summary of key findings

Our assessment as at 30 June 2026 finds that the cyclone pool remains financially sound, with its financial position and projected funding consistent with its legislative design and pricing framework. We have assessed that:

- premiums charged to insurers remain sufficient to meet eligible claims and corporation expenses over the longer term
- the claims reserves held are appropriate based on the information available
- no capital management action is currently recommended.

The cyclone pool recorded a positive operating result in 2025–26, following a negative operating result in 2024–25. Financial results vary considerably from year to year because cyclone related perils are highly volatile. This variability is expected and is consistent with the design of the pool.

Table 1.1 – Summary of key findings

FOR requirement (summary)	Key findings
(a) Recent performance	• The cyclone pool reported an operating result of \$701 million for the financial year ended 30 June 2026, driven by lower claims costs than expected for the 2025–26 cyclone season and a \$265 million reduction in expected claims costs from prior period events. The prior period movement was mainly driven by the release of the risk margin as claims developed for Tropical Cyclone (TC) Alfred, which occurred in March 2025. • As at 30 June 2026, the cyclone pool was in a broadly neutral financial position, with net liabilities of \$33 million compared with net liabilities of \$734 million as at 30 June 2025.
(b) Broader financial risks	• Cyclone claims are highly volatile. A severe cyclone, or series of cyclones, could result in claims materially exceeding the cyclone pool's available assets and future premiums. This risk is managed through the cyclone pool's funding framework, with access to terrorism pool assets and the Commonwealth guarantee if required. • Inflation is a material current risk to the cyclone pool's short-term financial outlook. If construction costs increase faster than sums insured, claims costs could increase faster than the related premium income. This can temporarily increase underinsurance, as reported sums insured may not keep pace with the cost of repairing or rebuilding properties. Over the longer term, sums insured are expected to reflect higher construction costs, with corresponding increases in premium income. We will continue to monitor construction costs and sum insured growth. • Other risks may develop over longer periods and require ongoing monitoring. We did not identify any risks requiring immediate action.

FOR requirement (summary)	Key findings
(c)(i) Assessment of premium adequacy	- The cyclone pool premium adequacy ratio, which compares annual premiums charged to insurers with the modelled long-term costs, was estimated at 95.1% as at 31 March 2026 (31 March 2025: 100.1%). The reduction reflects an approximately 3% increase in modelled costs from the updated view of risk and an approximately 2% reduction in adequacy due to changes in the portfolio mix. There is uncertainty in modelling cyclone claims costs, which is why the Financial Resilience Policy¹ defines a target premium collection range of 95% to 105% of modelled costs. However, the current premium adequacy is below the central long-term cost-neutral level of 100%. The 2026 Pricing Review will consider whether premium rates should change in response to the updated view of risk and exposure, while balancing both legislative and pricing objectives (Action 2026-2, Section 4.2.1). - Premium rates continue to provide discounts for risk mitigation activities and the annual Home premium discount as at 31 March 2026 was \$9.4 million. Mitigation discounts now also apply to Strata and Small to Medium-sized Enterprises (SME), although take-up for these classes remains low and will continue to be monitored (Action 2026-4, Section 4.4).
(c)(ii) Assessment of liability adequacy	We assess that the claims reserves held are appropriate based on the information currently available. As at 30 June 2026, TC Alfred had a total estimated cost to the cyclone pool of \$1.6 billion and incurred costs had developed broadly in line with expectations. Payments have been slower than expected, affecting the timing rather than the ultimate cost of claims and resulting in a slower release of risk margin and additional discounting, with a minor overall impact on the claims liability.
(d) Observations on capital management	- The cyclone pool is currently in a broadly neutral accumulated position. This is consistent with the pool operating financially as intended, but should not be interpreted as an expectation that the pool will return to neutral every 4 years. Cyclone claims are highly volatile, and the pool can remain in either a net asset or net liability position for extended periods. - Cash flow modelling³ projects that current cyclone pool assets and future premiums would fund existing claims and an additional event of up to about \$2.1 billion. Larger events can also be funded through drawing on terrorism pool assets and, if required, the Commonwealth guarantee.
(e) Financial projections	- Cyclone claims are highly variable, so future financial results have a wide range of possible outcomes. For the 2026–27 financial year: - There is a 10% probability of a negative operating result greater than ~\$1 billion, resulting in a net liability position (excluding the risk margin) of ~\$1 billion or more. - There is a 10% probability of a positive operating result greater than ~\$700 million, resulting in a net asset position (excluding the risk margin) of ~\$700 million or more.

¹ The Financial Resilience Policy was approved by the Board in 2025–26 and replaced the Capital Management Policy. It provides direction regarding pricing, capital management, liquidity and investments for the cyclone pool.

² 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 2026. Premium data to 30 June 2026 was not available at the time of writing.

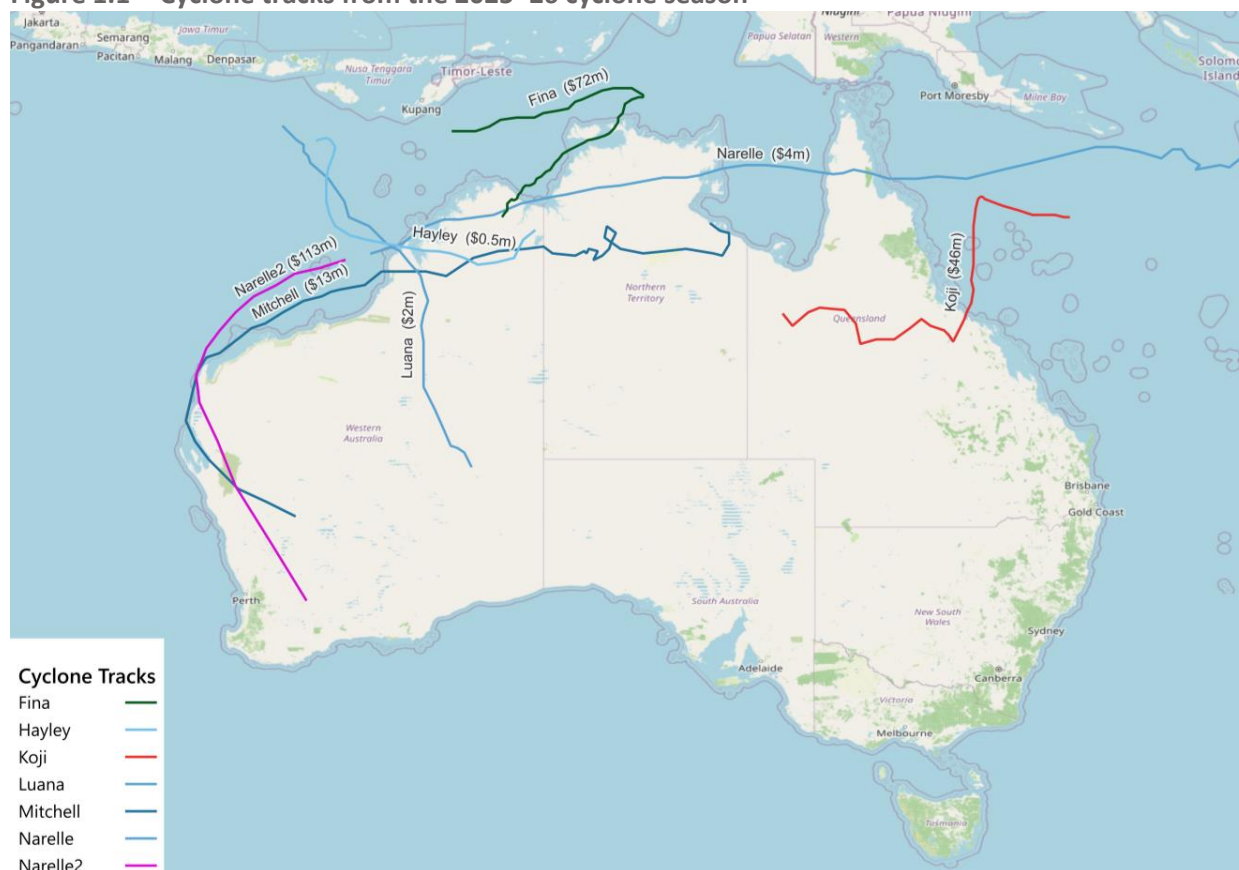
³ Modelling assumed that claim payments from prior events would be consistent with central estimate assumptions as at 30 June 2026.

1.2 Recent and forecast financial performance

The cyclone pool recorded a positive operating result of \$701 million in the 2025–26 financial year. Claims from the 2025–26 season were \$203 million, below the previously forecast long-term Average Annual Loss (AAL) of \$638 million. The positive operating result was also driven by a \$265 million reduction in claims costs from prior financial year events, mainly due to the release of the risk margin from TC Alfred.

There were 9 Declared Cyclone Events (DCEs) during this reporting period, of which 7 resulted in claims to the cyclone pool. TC Fina, TC Koji and TC Narelle² were the main drivers of claims. Figure 1.1 shows the cyclone tracks from the season and their estimated claims costs.

Figure 1.1 – Cyclone tracks from the 2025–26 cyclone season



The AAL represents the average claims cost across the full range of modelled cyclone seasons over the longer term. Actual claims in any financial year can differ materially from this amount. Claims are expected to be below the AAL in approximately 4 out of 5 years, with less frequent years of significantly higher claims. Therefore, material positive or negative operating results are expected to occur in individual years.

1.2.1 Premium income

Earned premium for the 2025–26 financial year was broadly in line with the forecast. Higher than expected sum insured inflation was partly offset by a decrease in the number of Strata and SME properties being reinsured by the pool. We will investigate the drivers of this decrease, whether it is expected to continue and whether any response is required (**Action 2026-1, Section 3.3**).

The projected earned premium for the 2026–27 financial year is forecast to be \$693 million, approximately 4% higher than earned premium for the 2025–26 financial year. As pool premium rates are applied to

⁴ ARPC declared 2 DCEs for TC Narelle, as the weather system was downgraded before re-intensifying. TC Narelle2 refers to the second DCE.

underlying insurance policy sums insured, premium income is expected to increase in line with sum insured inflation and growth in reinsured properties.

1.2.2 Financial outlook

A small positive operating result is forecast for the 2026–27 financial year, with investment income more than offsetting a negative underwriting result (including management expenses). However, future claims experience is highly variable, and actual results are likely to differ materially from this projection. There is:

- A 10% probability of a negative operating result greater than ~\$1 billion.
- A 10% probability of a positive operating result greater than ~\$700 million.

Table 1.2 shows the range of projected claims and underwriting result outcomes.

Table 1.2 – Cyclone pool recent and projected financial performance⁵

	FY 2025–26 (\$m)		FY 2026–27 (\$m)	
	Actual	Forecast	Budgeted	Forecast
Earned premium	665	657	693	693
Current year claims costs (central estimate)	(203)	(638)	(673)	(714)
<i>Claims costs (90th percentile)</i>		<i>(1,467)</i>		<i>(1,715)</i>
<i>Claims costs (10th percentile)</i>		<i>(1)</i>		<i>(1)</i>
Movement in prior years	(26)			
Other operating expenses	(19)	(18)	(17)	(17)
Underwriting result before risk margin	422	0	3	(38)
<i>Underwriting result (90th percentile claims experience)</i>		<i>(828)</i>		<i>(1,039)</i>
<i>Underwriting result (10th percentile claims experience)</i>		<i>638</i>		<i>675</i>
Current year risk margin	(49)			
Prior years risk margin movement	291			
Underwriting result after risk margin	664	0	3	(38)
Investment income	38	26	26	39
Operating result	701	26	28	2

The FY 2025–26 Actual underwriting and operating results include a positive \$5m movement as a result of accounting adjustments (DAC and unexpired risk liability).

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*.

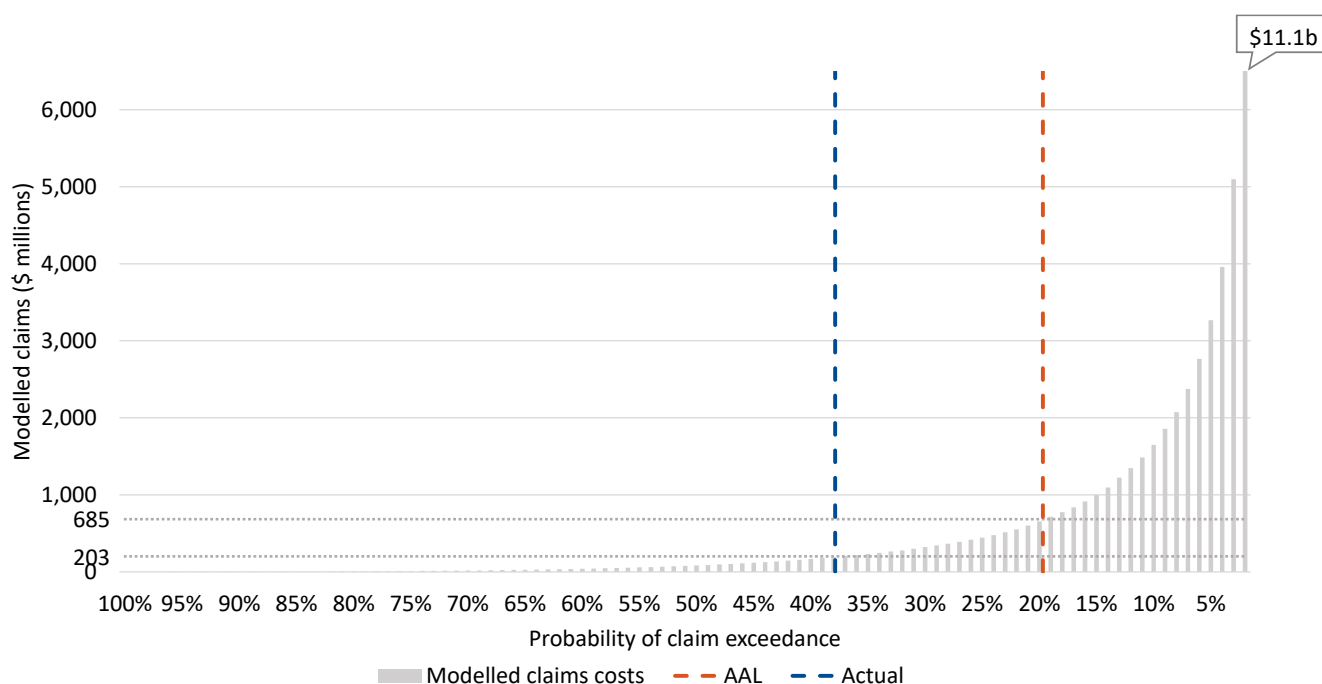
Projected claims costs and operating results are shown on a central estimate basis and exclude risk margins. See Section 3.1.

The forecast underwriting result before risk margin for 2026–27 is expected to be negative, compared with the positive result assumed in the budget. This figure reflects our updated assessment that current premiums are slightly below modelled long-term claims costs and expenses, with the premium adequacy ratio now estimated at 95.1%.

⁵ Budgeted costs for the 2026–27 financial year were set prior to the 2026 Pricing Review.

Figure 1.2 illustrates the variability in cyclone claims. Claims costs are below the AAL in most financial years, while less frequent high-cost events have a material influence on the long-term average.

Figure 1.2 – Modelled distribution of claims costs for the 2025–26 cyclone season



1.3 Assessment of premium rates

We assess that the cyclone pool's premium rates continue to meet the legislative objectives overall. The estimated premium adequacy ratio has reduced from 100.1% to 95.1%. This remains within the Financial Resilience Policy target range of 95% to 105%, but is at the lower end of the range and below the long-term cost-neutral level of 100%.

The reduction reflects an approximately 3% increase in modelled costs from the updated view of risk and an approximately 2% reduction in adequacy from changes in the portfolio mix. The 2026 Pricing Review is considering modest changes to premium rates in response to the estimated premium adequacy ratio, while balancing long-term cost neutrality with affordability, premium stability and the other legislative and pricing objectives.

Table 1.3 summarises our assessment against each legislative objective.

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

Category	Summary of legislative objective	Assessment findings
Premium adequacy <i>TCI Act section 8D(a)</i>	Over the longer term, premiums are sufficient to cover or offset claims and expenses including any payments funded by the Commonwealth guarantee.	The estimated premium adequacy ratio⁶ has reduced to 95.1%. The 2026 Pricing Review is considering changes to premium rates in response to the updated view of risk and exposure, while balancing both legislative and pricing objectives (Action 2026-2, Section 4.2.1).
Premium rates for medium to high cyclone risk areas <i>TCI Act section 8D(b)</i>	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 <i>TCI Act section 8D(c)</i>	In lower cyclone risk areas, keep premiums at levels comparable to what would be charged by other reinsurers.	Premiums for low-risk properties are broadly consistent with the modelled cost plus the margins that would be expected in the private insurance and reinsurance market.
Risk mitigation <i>TCI Act section 8D(b)</i>	Maintaining incentives to reduce and mitigate the risk of eligible cyclone claims.	- The annual discount for Home property-level mitigation was \$9.4 million as at 31 March 2026 (31 March 2025: \$7.9 million). - Mitigation discounts now apply to Home, Strata and SME properties, although take-up for Strata and SME remains low (Action 2026-4, Section 4.4). - Premium rates also reflect impacts of large-scale mitigation activities, such as flood levees (where the data is available).

Premium rates by cyclone risk level

As intended, cyclone pool premiums provide the greatest premium reductions, compared to modelled pool costs, for medium and high-risk properties, and are consistent with modelled pool cost plus a margin for low-risk properties. Changes to premium rates resulting from the 2026 Pricing Review are expected to maintain the same broad relationships between premiums and modelled cost across different levels of cyclone risk as shown in 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	1,805	47	61	128.3%
	\$100 to \$500	604	214	227	106.4%
	\$500 to \$1,000	79	671	612	91.3%
	\$1,000 to \$2,000	24	1,344	792	58.9%
	\$2,000 to \$5,000	13	3,002	1,229	40.9%
	More than \$5,000	2	6,436	2,121	33.0%
Total		2,526	139	132	95.1%

Table excludes 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.

⁶ 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). Refer to Table 1.4 and Table 4.2.

1.4 Assessment of liability adequacy

We assess that the claims reserves held are appropriate based on the information currently available. There is significant uncertainty in estimating catastrophe claims, particularly less than 12 months after the catastrophe has occurred. For the 7 DCEs that generated claims during the 2025–26 cyclone season, \$183 million (90%) of the \$203 million in ultimate claims costs remained outstanding as at 30 June 2026 (refer to Section 5.2). As these claims develop, the ultimate cost may be higher or lower than currently estimated.

Estimated claims costs for events before the 2025–26 cyclone season have remained broadly stable, increasing by 1% to \$1.7 billion between 30 June 2025 and 30 June 2026. TC Alfred is the largest claims event for the cyclone pool and its estimated ultimate cost has developed broadly in line with expectations.

We also assess that the reserves held for claims and expenses relating to unearned premiums are appropriate.

1.5 Risks to financial outlook

- **Catastrophic event risk:** The volatility in cyclone risk means that it is possible for high severity events to occur in any given financial year. A severe cyclone, or series of cyclones, could result in claims materially exceeding the cyclone pool's available assets and future premiums. In these circumstances, additional funding can be accessed from the terrorism pool or the Commonwealth guarantee, consistent with the design of the pool.
- **Inflation risk:** Inflation is a material current risk to the cyclone pool's financial outlook. During periods of high inflation, the cost of repairing or rebuilding damaged properties can increase faster than the amount properties are insured for. Recent geopolitical disruption has increased uncertainty around construction costs and the near-term inflation outlook.

Cyclone pool premiums increase as sums insured increase, and over the longer term, we expect sums insured to reflect higher construction costs. This means higher claims costs should also be accompanied by higher premium income. However, there can be a delay before higher construction costs are fully reflected in sums insured. If a material cyclone occurs during this period of delay, claims could cost more than reflected in the current assessment of premium adequacy, resulting in a larger operating loss and increasing the pool's short-term funding requirements. Longer-term analysis shows periods where construction costs and sums insured have moved ahead of each other, and does not suggest a material change in structural underinsurance over the period.

- **Other risks:** We also assessed other risks that could materially affect the cyclone pool's financial outlook in Section 6. These other risks generally develop over longer periods and require ongoing monitoring. We did not identify any additional risks requiring immediate action.

1.6 Observations on capital management

Cash flow modelling indicates that the cyclone pool is expected to meet its current claims liabilities from its assets and future premiums. Current cyclone pool assets and future premiums are also projected to fund an additional event of up to about \$2.1 billion before other funding sources are required to be drawn upon. If additional funding is needed, the cyclone pool can access funds from the terrorism pool and the Commonwealth guarantee, consistent with the design of the pool. The current accumulated position is within the target capital range, and no capital management actions are recommended.

During 2025–26, ARPC's Board approved the Financial Resilience Policy, which replaced the previous Capital Management Policy. The new policy sets a long-term capital target of zero. This does not mean that the cyclone pool is expected to have a neutral accumulated position in any particular financial year. Net asset and net liability positions are both expected outcomes as cyclone activity varies over time.

The policy also recognises that cyclone losses are highly volatile and that premium rates should not automatically respond to short-term movements in the pool's financial position.

1.7 Actions

Table 1.5 summarises the actions arising from the 2026 FOR and provides an update on ongoing actions. Actions closed over the financial year are shown in Appendix D. Actions reflect additional work arising from our assessment, rather than ongoing business activities.

Table 1.5 – FOR actions

Year / Number / Category	Action	Planned timeframe	Status
2026-1. Strata and SME policy counts	Monitor and assess the decline in reinsured Strata and SME properties to understand its underlying drivers, review expected future trends, and any actions required to maintain the cyclone pool's impact or operations.	12–24 months (set in 2025–26)	New. Refer to Section 3.3.
2026-2. Cyclone pool premiums	Consider whether premium rates should change in response to the updated view of risk and exposure, while balancing long-term premium adequacy, affordability and premium stability, maintaining risk signals and minimising additional implementation costs.	12 months (set in 2025–26)	New. Refer to Section 4.2.
2026-3. Property vulnerability	Analyse claims from cyclone events to test whether the vulnerability assumptions used in cyclone pool pricing appropriately reflect differences between property characteristics.	12–24 months (set in 2025–26)	New. Refer to Section 4.2.
2026-4. Strata and SME mitigation take-up	Monitor take-up of Strata and SME mitigation discounts and assess alternative or additional risk mitigation opportunities for the cyclone pool.	12–24 months (set in 2025–26)	New. Refer to Section 4.4.
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 2024–25)	Ongoing. As TC Alfred claims mature, we will analyse claims data over the next 12 months to identify insights into property vulnerability, cyclone risk and claims settlement patterns.
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 2024–25)	Ongoing. The methodology and framework are currently under development.

Section 2: 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 affordability and availability in areas with medium to high cyclone risk. All general insurers writing business in eligible classes within cyclone-prone regions joined the pool by 31 December 2024.⁷

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 can provide reinsurance at a lower cost than the private market because it does not charge margins for uncertainty, profit or return on capital. The annually reinstated \$10 billion Commonwealth guarantee provides funding for large losses and allows claims volatility to be absorbed through the Commonwealth's balance sheet.

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 an annual FOR, provide it to the responsible Minister by 15 October and publish it 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

⁷ The cyclone pool is a mandatory scheme with eligibility requirements defined in the TCI Act.

This FOR was prepared as at 30 June 2026 and, unless otherwise stated, all of the financial results are for the financial year ended 30 June 2026. Appendix A contains a summary of the data used for the 2025–26 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 F.

2.3 Uncertainty and reliance

Our analysis of cyclone risk relies on catastrophe model outputs. 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.

There have been approximately 100 cyclones with recorded insurance losses since 1967. Using historical events provides only a partial view of the large range of outcomes of possible future cyclone events. The cyclone pool has a short history of claims data available to analyse and compare to modelled outcomes. 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 to compile this report.

The premium and exposure data presented in this report generally uses insurer submissions as at 31 March 2026. The analysis reflects the information reported at that date and may therefore differ from later submissions due to late reporting, backdating or subsequent data corrections. Data completeness and consistency is more varied in the Strata and SME portfolios.

Section 3: Financial performance

3.1 Measuring financial performance

This section summarises the financial performance of the cyclone pool for the 2025–26 financial year, and projects performance for the next 3 financial years. The financial performance of the cyclone pool depends on the following components:

- reinsurance premiums received by the cyclone pool, which are relatively stable and predictable
- claims costs^{8, 9} which are volatile and depend on the cyclone events occurring in the financial year
- operating expenses
- investment income, which depends on the assets available to invest and prevailing interest rates.

The operating result reflects the premiums and investment income earned, less the claims costs and operating expenses incurred.

Financial projections in this report are prepared on a central estimate basis and do not include a risk margin for claims uncertainty. This basis is consistent with how we set cyclone pool premium rates and assess financial performance under ARPC's Financial Resilience Policy. Therefore, the projections are intended to show the underlying expected financial performance of the cyclone pool rather than replicate the accounting treatment of insurance liabilities.

Because premium income and operating expenses are relatively stable, variation in cyclone claims is the main driver of the operating result from year to year.

The financial performance shown in this section compares actual outcomes to budget and forecast positions. The budget was finalised in advance of the 2025–26 cyclone season, while the forecast was updated following the cyclone season to incorporate the most up-to-date information about the financial position of the cyclone pool. This updated position formed the starting point for the outlook projections in the previous FOR. A similar approach has been taken for the projections presented in this FOR.

3.2 Operating result

3.2.1 Operating result: experience over the past financial year

The cyclone pool recorded a positive operating result of \$701 million for the 2025–26 financial year, compared to a forecast positive operating result of \$26 million¹⁰.

Claims costs for cyclone events occurring during the 2025–26 financial year were \$203 million, compared with the forecast of \$638 million. Based on the modelled claims distribution, there was a 37% probability of claims costs of \$203 million or more, indicating that the claims experience was within the range of expected outcomes.

The central estimate of claims costs on prior financial year events increased by \$26 million. This was more than offset in the financial statements by a \$291 million release of risk margin, mainly relating to TC Alfred, as uncertainty in the ultimate cost of prior-year claims reduced. Therefore, the positive operating result reflects both the below-mean claims experience for the 2025–26 cyclone season and the release of risk margin on prior financial year events.

⁸ Claims costs include all eligible claims handling expenses.

⁹ Actual claims costs include a risk margin that ARPC holds to increase the probability of sufficiency (PoS) of the insurance liabilities in our financial statements as required by the accounting standard AASB 1023 *General Insurance Contracts*. This risk margin is not considered when setting cyclone pool premium rates, nor is it accounted for in future claims projections.

¹⁰ The positive operating result of \$701 million includes risk margin reduction of \$242 million. No movement in risk margin was included in the forecast.

The \$701 million positive operating result follows a \$1.2 billion negative operating result in 2024–25, when claims were materially above the AAL due to TC Alfred. The significant change between the 2 years illustrates the expected volatility in the cyclone pool's annual financial results.

Table 3.1 outlines 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*.

Table 3.1 – Cyclone pool recent financial performance

	FY 2025–26 (\$m)		
	Actual	Budgeted	Forecast
Earned premium	665	661	657
Current year claims costs (central estimate)	(203)	(638)	(638)
<i>Claims costs (90th percentile)</i>			<i>(1,467)</i>
<i>Claims costs (10th percentile)</i>			<i>(1)</i>
Movement in prior years	(26)		
Other operating expenses	(19)	(18)	(18)
Underwriting result before risk margin	422	5	0
<i>Underwriting result (90th percentile claims experience)</i>			<i>(828)</i>
<i>Underwriting result (10th percentile claims experience)</i>			<i>638</i>
Current year risk margin	(49)		
Prior years risk margin movement	291		
Underwriting result after risk margin	664	5	0
Investment income	38	58	26
Operating result	701	63	26

The FY 2025-26 Actual underwriting and operating results include a positive \$5m movement as a result of accounting adjustments (DAC and unexpired risk liability).

Projected claims costs and operating results are shown on a central estimate basis and exclude risk margins. See Section 3.1.

Claims costs in the 2025–26 cyclone season were lower than expected. This led to a positive operating result for the financial year, which was further improved by the release of risk margin from prior financial years. This follows a negative operating result of \$1.2 billion for the 2024–25 financial year. Given the volatile nature of cyclone events, financial outcomes are expected to vary considerably from year to year.

3.2.2 Operating result: future projections

Table 3.2 shows the budget for the 2026–27 financial year and the forecast operating results for the 2027–29 financial years. The updated forecasts incorporate the revised AAL from the 2026 Pricing Review, discussed in Section 4.2. The forecast claims costs are 6% higher than the budgeted claims costs in the 2026–27 financial year.

The forecasts assume current premium rates. As discussed in Section 4.2, premium changes are being considered as part of the ongoing 2026 Pricing Review. Any resulting changes to premium rates have not been reflected in these projections.

Forecast investment income is higher than budget, reflecting higher than expected asset balances following the below-mean claims experience in 2025–26 and slower claim payments on existing events, together with updated interest rate assumptions. Note that the range shown for investment income only reflects possible variation in the size of future events, and does not show possible variation in either interest rate outcomes or payment patterns.

On a central estimate basis, the cyclone pool is projected to record a small negative underwriting result, with investment income resulting in a small positive operating result over the 2026–29 forecast period. These baseline projections assume claims experience will be consistent with the modelled mean. Actual annual claims costs and operating results are expected to vary materially.

Table 3.2 – Cyclone pool forecast financial performance for the 2026–29 financial years¹¹

\$m	FY 2026–27		FY 2027–28	FY 2028–29
	Budgeted	Forecast	Forecast	Forecast
Earned premium	693	693	716	741
Claims costs (central estimate)	(673)	(714)	(738)	(763)
<i>Claims costs (90th percentile)</i>		(1,715)	(1,774)	(1,834)
<i>Claims costs (10th percentile)</i>		(1)	(1)	(1)
Other operating expenses	(17)	(17)	(16)	(15)
Underwriting result	3	(38)	(37)	(38)
<i>Underwriting result (90th percentile claims experience)</i>		(1,039)	(1,073)	(1,109)
<i>Underwriting result (10th percentile claims experience)</i>		675	700	725
Investment income	26	39	41	44
<i>Investment income (90th percentile claims experience)</i>		38	21	3
<i>Investment income (10th percentile claims experience)</i>		40	57	84
Operating result	28	2	4	6
<i>Operating result (90th percentile claims experience)</i>		(1,001)	(1,053)	(1,106)
<i>Operating result (10th percentile claims experience)</i>		715	757	809

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

The variation in future claims experience, and therefore, the projected operating result, could be significant. For the 2026–27 financial year there is a 10% probability of a negative operating result greater than ~\$1 billion, and a 10% probability of a positive operating result greater than ~\$700 million.

¹¹ Budgeted costs for the 2026–27 financial year were set prior to the 2025–26 cyclone season. Claims costs were based on the loss ratio estimated during the 2024–25 Pricing Review, and investment income was projected using the cyclone pool's accumulated position prior to the 2025–26 cyclone season.

3.3 Premium

The earned premium for the 2025–26 financial year was \$665 million, broadly in line with the \$657 million forecast. Higher than expected growth in sums insured and the number of Home properties was partly offset by fewer reinsured Strata and SME properties. The key drivers for the earned premium result include:

- **Higher sum insured inflation than expected:** Sum insured inflation was around 2% higher than projected across the portfolio. Sum insured inflation for Home Building peaked at around 8% in late 2023, and has reduced more gradually than we expected, exceeding 6% over the year to 31 March 2026. This contributed to higher premium income because cyclone pool premiums are calculated as a proportion of the sums insured. Given the uncertainty in the inflationary environment and the inflation in construction input costs, insurers may continue to inflate sums insured at a level above the Consumer Price Index (CPI).
- **Higher number of Home policies than expected:** The number of Home policies in the cyclone pool as at 31 March 2026 was 0.3% more than projected.
- **Lower number of Strata policies than expected:** The number of reinsured properties for Strata decreased by 4% between 31 March 2025 and 31 March 2026.¹²
- **Lower number of SME policies than expected:** The number of reinsured properties for SME decreased by 5% to 10% between 31 March 2025 and 31 March 2026.¹³
- **Insurers submitted late data to ARPC:** Insurers continue to upgrade data and reporting systems, with many large insurers undergoing significant data transformation projects. System migrations have led to some insurers submitting premium exposure information in subsequent reporting periods during the financial year, which has led to earned premium being higher than projected.

The reasons for the decrease in reinsured properties for Strata and SME are uncertain, but potential explanations could include:

- Customers buying policies from insurers that are not part of the cyclone pool. This may be more common for Strata and SME, as these classes are more likely to be underwritten by Lloyd's syndicates, which are not required to join the cyclone pool.
- Strata committees choosing to insure each lot individually under residential insurance. This would mean that the properties are still reinsured by the pool, but as Home policies. Under state regulations, single-storey strata properties in Western Australia and two-lot strata properties in Queensland are allowed to insure individually.
- Consolidation of multiple policies into one policy for the same risk.
- Incomplete or delayed reporting of eligible policies to the cyclone pool.
- Changes in insurance purchasing behaviour for businesses and strata committees (or bodies corporate) with affordability pressures potentially contributing.

¹² This metric considers exposure records with cyclone pool premiums greater than zero only.

¹³ Updated insurer data submissions are expected, which may change the number of SME properties in the pool, so the exact decrease is not yet known.

We will investigate the drivers of the reduction and assess any implications for the operation and objectives of the cyclone pool.


Action 1:

Monitor and assess the decline in reinsured Strata and SME properties to understand its underlying drivers, review expected future trends, and any actions required to maintain the cyclone pool's impact or operations.

Premium income is expected to increase in line with sum insured inflation and growth in reinsured properties. This is partly offset by projected changes in risk factors that reduce claims costs and lower premiums. These changes include increases in risk-mitigation discounts, average policyholder excess and the average year of construction.

Actual earned premium for the 2025–26 financial year was slightly higher than projected, driven primarily by sum insured inflation being higher than expected and partially offset by a lower-than-expected number of Strata and SME policies.

3.4 Claims

3.4.1 Claims: total experience over the financial year

There were 9 DCEs in the 2025–26 cyclone season, of which 7 resulted in claims to the cyclone pool. The central estimate of claims costs for these events is \$203 million, of which \$189 million was due to TC Fina, TC Koji and TC Narelle². This compares to the budgeted mean claims costs of \$638 million.

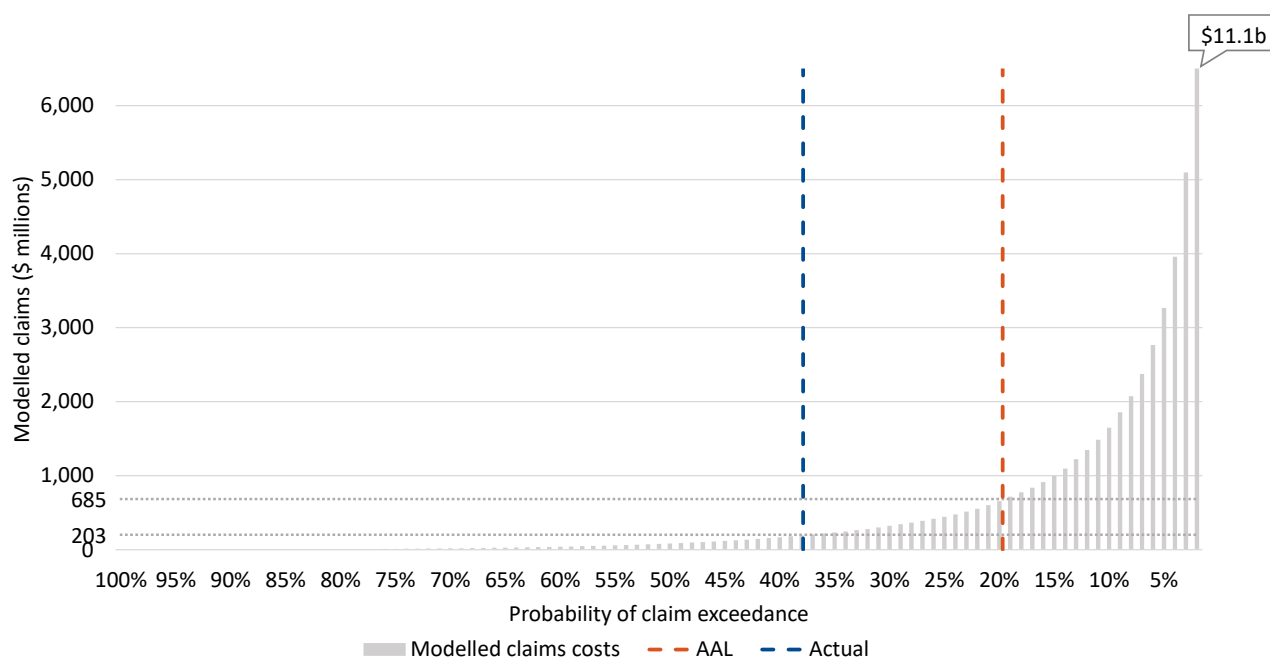
The financial statements also include a \$49 million risk margin for uncertainty in the ultimate cost of claims from 2025–26 events and there was a \$265 million reduction in the total provisions for prior events (mainly relating to the release of risk margins), leading to a total claims cost for the 2025–26 financial year of \$13 million.

Table 3.3 shows the actual versus projected claims costs for the 2025–26 financial year.

Table 3.3 – Actual versus expected claims costs for the 2025–26 financial year

	FY 2025–26 (\$m)	
	Actual	Forecast
Central estimate of claims costs for current year	(203)	(638)
<i>Claims costs (90th percentile)</i>		<i>(1,467)</i>
<i>Claims costs (10th percentile)</i>		<i>(1)</i>
Risk margin on current year events	(49)	
Movement in prior year events	265	
Total claims expense	13	(638)

The AAL represents the mean of the distribution of possible annual claims outcomes and is not a prediction of claims for an individual financial year. Based on the updated modelled claims distribution, there was a 37% probability of claims costs of \$203 million or more, indicating that claims experience for the financial year was within the range of expected outcomes. Figure 3.1 illustrates the skew in the distribution of modelled claims for the 2025–26 cyclone season.

Figure 3.1 – Modelled distribution of claims costs for the 2025–26 cyclone season¹⁴

Note that the modelled AAL in Figure 3.1 is \$685 million compared to the \$638 million projected in the 2024–25 FOR. The higher modelled AAL reflects the outcome of the updated view of risk resulting from the 2026 Pricing Review, as discussed in Section 4.2.

3.4.2 Claims costs: summary of events over the financial 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 2025–26 cyclone season, there were 9 DCEs, of which 7 resulted in claims to the cyclone pool. These 7 are summarised below in Table 3.4. TC Fina, TC Koji and TC Narelle¹⁵ were the main drivers of claims to the pool.

¹⁴ Modelled distribution was based on the actual earned premium for the 2025–26 financial year, assumptions related to pricing as at 31 March 2026 and the claims cost distribution as at 30 September 2025.

¹⁵ ARPC declared two DCEs for TC Narelle, as the weather system was downgraded before re-intensifying. TC Narelle2 refers to the second DCE.

Table 3.4 – Summary of DCEs for the 2025–26 cyclone season with insurer data to 31 March 2026¹⁶

	Fina	Hayley	Koji	Luana	Mitchell	Narelle	Narelle2	Total
Event information								
Crossing point	Northern NT	Northern WA	Northern QLD	Northern WA	Western WA	Northern QLD	Western WA	
Event start date	19 Nov 25	29 Dec 25	10 Jan 26	24 Jan 26	6 Feb 26	17 Mar 26	25 Mar 26	
Claims								
Claims reported	2,211	3	1,307	24	241	59	109	3,954
Average reported claim size (\$)	16,239	4,169	10,804	16,030	14,780	14,291	25,065	14,557
Costs (\$000s)								
Claims paid	15,131	4	4,061	61	673	31	(5)	19,956
Insurer case estimates	20,773	9	10,060	324	2,889	812	2,737	37,603
IBNR ^(a)	23,331	345	22,729	1,177	5,735	1,809	95,022	150,148
Risk margin, expenses, discounting	12,769	111	9,468	708	3,699	1,787	15,730	44,272
Total outstanding liability	56,873	465	42,258	2,209	12,323	4,408	113,489	232,024
Total incurred cost (\$000s)	72,004	468	46,319	2,270	12,996	4,439	113,484	251,980

The remainder of this section summarises the events impacting exposed cyclone pool properties.

¹⁶ Insurer claims data as at 30 June 2026 had not yet been submitted to ARPC at the time of publication.

Figure 3.2 – Cyclone tracks from the 2025–26 cyclone season



Source: Cyclone track information from the Bureau

- **TC Fina** was declared on 19 November 2025. It initially tracked close to Darwin, where it caused wind and flood damage in the city and surrounding region. It intensified to a Category 4 system in the Joseph Bonaparte Gulf, made landfall over the northeast Kimberley region on 24 November and then decreased in intensity on 25 November.
- **TC Hayley** was declared on 29 December 2025. The system intensified as it moved towards the Kimberley coast, and briefly reached Category 4 on 30 December. It made landfall near Cape Leveque, which is a sparsely populated area without much exposure in the cyclone pool. The system weakened as it moved inland on 31 December.
- **TC Koji** was declared on 10 January 2026. It developed over the Coral Sea off the Queensland coast and made landfall near Ayr on 11 January. The system was associated with intense rainfall and caused widespread riverine and flash flooding south of Mackay.
- **TC Luana** was declared on 24 January 2026. It formed off the coast of northern Western Australia, and made landfall near Beagle Bay, north of Broome, as a Category 2 system. This is a sparsely populated area, limiting the cost to the cyclone pool.
- **TC Mitchell** was declared on 6 February 2026. It intensified to Category 3 on 7 February off the Pilbara Coast. It continued to track along the Western Australian coast for several days, eventually making landfall near Shark Bay on 9 February. It caused wind damage in several coastal settlements.
- **TC Narelle** was declared on 17 March 2026. It developed off the coast of Queensland and initially made landfall as a Category 4 system on the Cape York Peninsula. Heavy winds caused structural damage to buildings in the area. It continued west across the top of the Northern Territory and was downgraded before reaching Western Australia. However, it re-intensified off the Western Australia coast – this re-intensification was declared as a separate DCE and is referred to as **TC Narelle2** in this report. The re-intensified system caused wind damage in a number of areas along the Western Australia coast.

For the 2025–26 financial year the total claims costs of \$252 million (including risk margin) across 7 DCEs were materially lower than the forecast (based on the AAL) of \$638 million and were more than offset by reductions in claims costs on prior events, largely the release of risk margin on TC Alfred. 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 2026–27 financial year is \$714 million, representing the mean of the modelled distribution of possible outcomes. Actual claims costs are expected to vary materially from this amount. Table 3.5 shows the distribution of claims for the 2026–27 financial year. There is an 80% modelled probability of claims less than \$683 million and a 1% modelled probability of claims greater than \$11.6 billion.

Table 3.5 – Projected modelled claims for the 2026–27 financial year¹⁷

Cyclone pool claims distribution		
Average annual loss (\$m)		714
Return period	Probability of exceedance	Claims (\$m)
1 in 5 years	20.0%	683
1 in 10 years	10.0%	1,715
1 in 20 years	5.0%	3,402
1 in 50 years	2.0%	7,362
1 in 100 years	1.0%	11,573
1 in 200 years	0.5%	14,604

3.5 Operating expenses

3.5.1 Expenses: experience over the financial year

ARPC incurred \$19 million in operating expenses relating to the cyclone pool in the 2025–26 financial year, which was slightly above the budget (refer to Table 3.1). These operating expenses reflect the costs involved with the day-to-day operations of the pool.

3.5.2 Expenses: future projections

As shown in Table 3.2, operating expenses for the 2026–27 financial year are projected to decrease compared to the 2025–26 financial year.

Table 3.6 shows the cyclone pool's projected operating expense ratio¹⁸ for the 2026–29 financial years. This ratio is projected to decrease over time, with drivers both from increases in cyclone pool premiums in line with inflation and planned reductions in ARPC's operating expenses.

Table 3.6 – Actual and budgeted operating expense ratios, 2025–26 to 2028–29

	FY 2025–26	FY 2026–27	FY 2027–28	FY 2028–29
	Actual	Budgeted	Budgeted	Budgeted
Operating expense ratio	2.49%	2.41%	2.18%	2.05%

¹⁷ 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's AAL, but capped at \$15 billion. This represents the plausible large loss for the cyclone pool.

¹⁸ Total operating expense divided by the total gross written premium.

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 2025–26 financial year was lower than budgeted, but higher than forecast. The budget was prepared before TC Alfred and therefore assumed a higher level of assets available for investment.

The forecast incorporated the expected claims payments from TC Alfred. Actual investment income was higher than forecast because:

- Claim payments have been slower than expected, meaning that cash has been available for longer to earn investment income.
- The Reserve Bank of Australia (RBA) raised cash rates during the financial year. The forecast anticipated reductions in the cash rate, which reflected market expectations at the time.

This additional investment income on assets is available to meet future claims costs.

Table 3.7 – Actual versus projected investment income for the 2025–26 financial year

FY 2025–26 (\$m)			
	Actual	Budgeted	Forecast
Investment income	38	58	26

3.6.2 Investment income: future projections

We project investment income using estimated invested assets¹⁹ 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, the amount of invested assets and claims experience. Table 3.8 shows investment income projections and their potential variability due to claims volatility.

Table 3.8 – Projected investment income for the 2026–29 financial years

\$m	FY 2026–27	FY 2027–28	FY 2028–29
Investment income	39	41	44
Average cash and investments over the period	866	1,002	1,090
Average investment rate of return	4.54%	4.13%	4.04%
<i>Investment income (90th percentile claims experience)</i>	<i>38</i>	<i>21</i>	<i>3</i>
<i>Average cash and investments over the period (90th percentile claims experience)</i>	<i>854</i>	<i>526</i>	<i>76</i>
<i>Average investment rate of return (90th percentile claims experience)</i>	<i>4.49%</i>	<i>3.92%</i>	<i>3.66%</i>
<i>Investment income (10th percentile claims experience)</i>	<i>40</i>	<i>57</i>	<i>84</i>
<i>Average cash and investments over the period (10th percentile claims experience)</i>	<i>874</i>	<i>1,353</i>	<i>2,024</i>
<i>Average investment rate of return (10th percentile claims experience)</i>	<i>4.57%</i>	<i>4.22%</i>	<i>4.15%</i>

¹⁹ Projected investment income for future financial years has been re-projected since the original budget to allow for the latest asset position and projected claims costs.

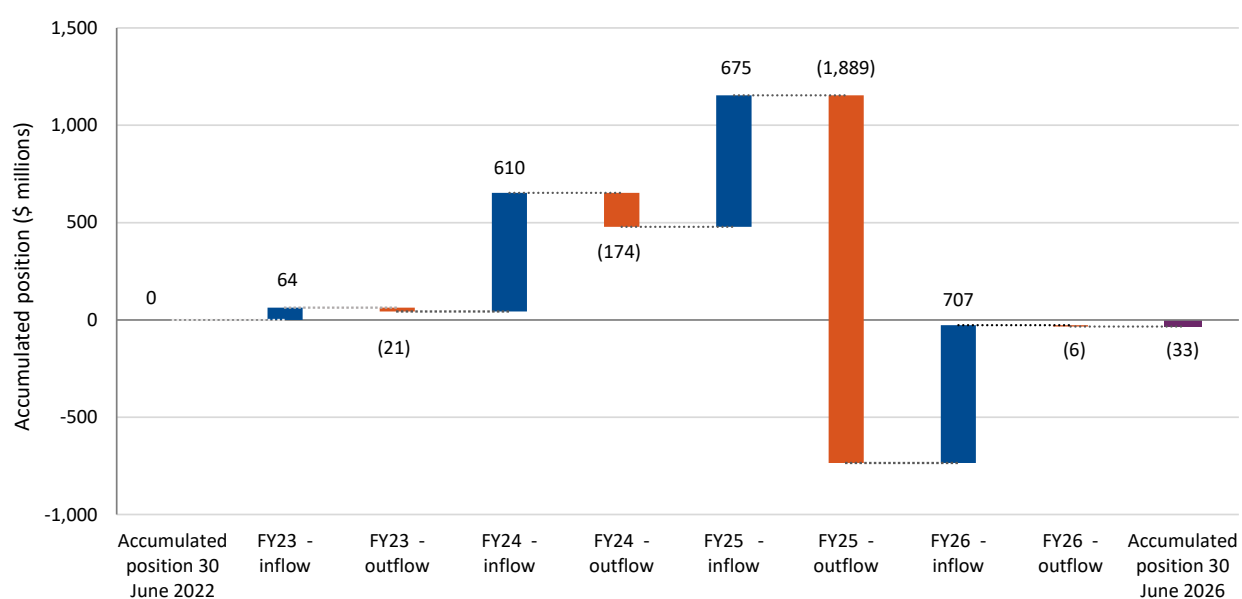
3.7 Accumulated position

As at 30 June 2026, the cyclone pool had net liabilities of \$33 million on an accounting basis, compared with net liabilities of \$734 million as at 30 June 2025.

For capital management purposes, the Financial Resilience Policy defines the cyclone pool's accumulated position excluding risk margin. On this basis, the accumulated position as at 30 June 2026 was net assets of approximately \$60 million.

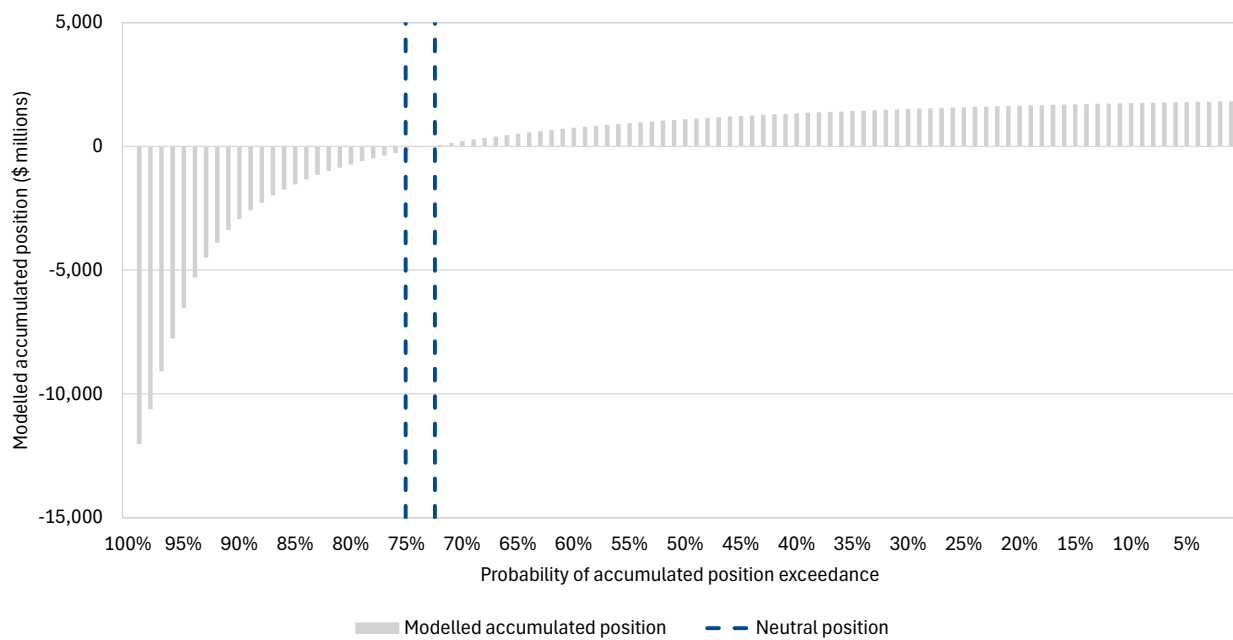
Figure 3.3 illustrates the movement in the accumulated position from 30 June 2022 to 30 June 2026 on an accounting basis.

Figure 3.3 – Movement in accumulated position from 30 June 2022 to 30 June 2026



The cyclone pool moved into a net asset position during its first 2 years of operation, when cyclone claims were below the long-term average. TC Alfred then resulted in a net liability position as at 30 June 2025. Following lower claims experience in 2025–26, the pool returned to a broadly neutral position as at 30 June 2026.

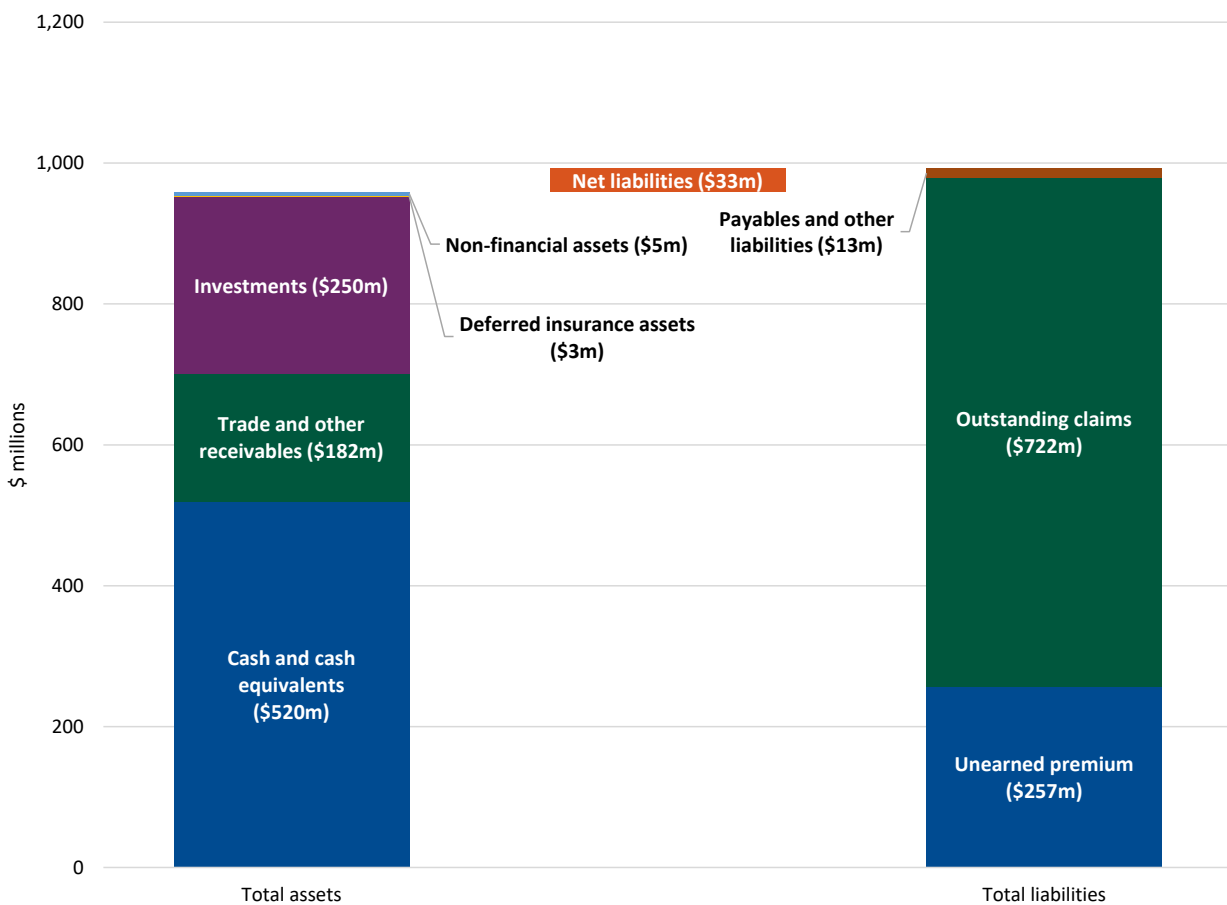
This shows how the cyclone pool is intended to operate, with assets accumulated in lighter cyclone seasons used to fund the claims costs from heavier cyclone seasons. However, it is important to note that the pool is designed to operate over an extended period, and therefore, the net asset position should not be expected to return to a neutral position every 4 years as it has done in its first 4 years of operation. Instead, it may be in a surplus or deficit position for many years at a time, depending on the cyclone experience. Figure 3.4 illustrates the range of possible outcomes after 4 years of operation.

Figure 3.4 – Modelled distribution of accumulated position after 4 years of operation to 30 June 2026²⁰

The above modelled distribution illustrates that the current net position, which is close to zero, is only one of a wide range of possible outcomes. After 4 years of operation, there is a 10% probability of net liabilities of approximately \$2.9 billion or more and a 10% probability of net assets of approximately \$1.7 billion or more. The probability of the pool being in a neutral position (net assets or liabilities of less than \$100 million) 4 years after inception has an estimated probability of 3%.

²⁰ Modelled accumulated positions are shown on a central estimate basis and exclude risk margin and investment income.

Figure 3.5 – Summary of financial position as at 30 June 2026



As at 30 June 2026, the cyclone pool had unearned premium liabilities of \$257 million and outstanding claims liabilities of \$722 million. The pool held \$520 million in cash for future claim payments and \$250 million in term deposits. The trade and other receivables of \$182 million mainly comprised estimated (accrued) premiums for the quarter ended 30 June 2026 (this is owing to insurers paying premiums one month after the end of the quarter).

The positive operating result led to the cyclone pool moving from a net liability position of \$734 million as at 30 June 2025 to being neutral as at 30 June 2026, with small net liabilities of \$33 million.

Section 4: Assessment of premium rates

ARPC's Financial Resilience Policy recognises that cyclone losses are inherently volatile and that this volatility is intended to be absorbed through the Commonwealth's balance sheet, rather than passed directly to policyholders through changing premiums. Accordingly, our assessment of premium adequacy is forward looking and is based on catastrophe modelling that considers the full distribution of possible cyclone events over the longer term, rather than based only upon recent claims experience.

4.1 Legislative objectives and defined targets

The Financial Resilience Policy has defined targets for meeting the legislative objectives of the TCI Act. This section assesses the cyclone pool premiums against these targets. A summary is provided 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 <i>TCI Act s8D(a)</i>	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 in the range of 95% to 105%.	Premium adequacy ratio ²¹ estimated to be 95.1% for current exposure. In the target range but below the central long-term cost neutral level of 100%.
Premium rates for medium to high cyclone risk <i>TCI Act s8D(b)</i>	In medium to high cyclone risk areas, to keep the premiums as low as possible.	Margins collected from lower cyclone risk areas are reallocated to properties with the highest modelled cost resulting in a premium adequacy ratio < 100% for medium and high-risk properties.	Premium adequacy ratio reduces as modelled cost increases and is below 40% for the highest risk properties. In line with target.
Premium rates for low cyclone risk <i>TCI Act s8D(c)</i>	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% 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 <i>TCI Act s8D(b)</i>	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, Strata and SME. In line with target.

We are currently undertaking a review of cyclone pool premium rates (i.e. the 2026 Pricing Review) to assess whether they continue to meet legislative objectives. The progress and preliminary findings of this review are discussed in Section 4.2.

²¹ The premium adequacy ratio is the cyclone pool's premium divided by the modelled cyclone pool's 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

We assess whether premiums are sufficient to cover expected claims and expenses over the longer term using the premium adequacy ratio. Premium adequacy is calculated as the ratio between:

- annual cyclone pool premiums and
- the expected AAL, eligible claims handling expenses and cyclone pool operating expenses, referred to as modelled costs.

Investment income is not included in this assessment because premium rates are set to cover expected claims and expenses over the longer term. Investment income contributes to the cyclone pool's financial position and is considered through capital management rather than through premium setting.

Estimation of modelled costs

The 2026 Pricing Review included the first comprehensive review of the cyclone pool's modelled costs since premium rates were initially set in 2021–22. The review used an updated panel of catastrophe models introduced in January 2026 and reconsidered the major assumptions used to estimate expected claims costs.

ARPC's process to estimate the total modelled costs for the cyclone pool is to:

- determine the exposure of the cyclone pool using data submitted by insurers
- input the exposure data to a panel of catastrophe models, which produce modelled losses for one or more perils
- adjust model outputs so that they are consistent with:
 - the coverage of the cyclone pool as defined in the TCI Act and Regulations
 - the coverage of the policies reinsured by the cyclone pool
 - ARPC's understanding of the vulnerability of the cyclone pool exposure
 - model limitations and uncertainty
- blend the results of multiple models and select total AAL for each peril
- add allowances for eligible claims handling expenses, cyclone pool operating expenses and tax credits.

To assess changes in the modelled costs, we first adjust for inflation and other changes in cyclone pool exposure. This allows us to isolate the impact of changes in catastrophe models, assumptions and methodology.

The result of the review was a **3% increase** in modelled costs from the updated risk modelling. This has been primarily driven by:

- An increase in the Flood AAL of 27%. This increase reflects updates to flood modelling and improvements in the representation of risk since cyclone pool premiums were initially set in 2021–22.
- A slight reduction in the Surge AAL.
- No material changes to the Wind AAL at the overall level.

While the movement in modelled costs is relatively modest, there are some material movements in the view of risk at the regional and property level.

Movements in cyclone pool premiums

The reduction in premium adequacy reflects movements in both expected claims costs and premiums. Updated risk modelling increased expected AAL by 3%, while annual premiums reduced by 2% after allowing for exposure growth and inflation. This reflects the following changes in the cyclone pool exposure:

- Improvements in the quality of location data provided by insurers increased the assessed flood risk for some properties. Although this change increased premiums for those properties, high-risk properties are deliberately charged less than their modelled cost. The resulting increase in premium was therefore smaller than the increase in the modelled claims costs.
- Policy excesses have increased at a higher rate than the sums insured. Higher excesses lead to reductions in both premium and expected claims costs, but the premium formula reduces premium by more than the corresponding reduction in the modelled cost. This has temporarily reduced portfolio premium adequacy without representing an equivalent increase in underlying cyclone risk. The effect is expected to reverse over time as the rating relativities are reviewed through future pricing reviews.

Premium adequacy

Table 4.2 outlines the cyclone pool's premium adequacy ratio as at 31 March 2026.

Table 4.2 – Premium adequacy ratio

Premium adequacy as at 31 March 2026	
Total premiums (\$m)	668.1
Total modelled costs (\$m)	702.1
Current estimated adequacy ratio	95.1%

The premium adequacy ratio of 95.1% compares to a premium adequacy ratio of 100.1% in the previous FOR. The decrease reflects the combined effect of a 3% increase in modelled costs and a 2% reduction in total premiums.

The current ratio remains within the Financial Resilience Policy target range of 95% to 105%, recognising the material uncertainty in estimating long-term cyclone claims costs. However, it is at the lower end of that range and below the long-term cost-neutral level of 100%.

The 2026 Pricing Review is considering whether modest changes to premium rates are required in response to the updated view of risk and exposure. Any changes will balance long-term cost neutrality with the legislative objective of keeping premiums as low as possible in medium and high-risk areas, together with premium stability, maintaining risk signals and implementation costs.

There is also material uncertainty in estimating long-term cyclone claims costs. To illustrate this uncertainty, Table 4.3 shows the premium adequacy ratio using alternative catastrophe model views. The ratio ranges from 80% when using the models with the highest AALs, to 106% when using the models with the lowest AAL. This range shows the uncertainty in modelling cyclone costs, and the diversity in the view of risk across different model vendors. To mitigate against this uncertainty, ARPC has analysed the model outputs from each model to assess their strengths and weaknesses, and blended multiple views of risk in estimating the cyclone pool's AAL. The selected modelled cost for the cyclone pool is a point estimate that sits within a reasonable range of results.

Table 4.3 – Premium adequacy ratio uncertainty

Premium adequacy as at 31 March 2026	Highest model	Selected	Lowest model
Total premiums (\$m)	668.1	668.1	668.1
Total modelled costs (\$m)	830.8	702.1	633.1
Current estimated adequacy ratio	80.4%	95.1%	105.5%

The Financial Resilience Policy recognises the uncertainty in modelling cyclone pool claims costs by defining the acceptable range of premium adequacy of 95% to 105%. The policy also defines the pricing objectives for the cyclone pool. In addition to the legislative objectives listed in Table 4.1, the policy defines the following objectives:

- **Premium stability:** Premiums in the private (re)insurance market can be volatile and sensitive to short-term market dynamics, such as inflationary pressures and global claims experience. The cyclone pool sets prices over the longer term through private market reinsurance cycles. The premium rates seek to absorb claims volatility and do not react to short-term capital volatility. Cyclone pool premium rates have remained largely unchanged since 2021–22.
- **Maintaining risk signal:** Premium risk signals are important for policyholders to understand the underlying risk of their properties, especially in cases where risk may be changing over time. Removing the risk signal may result in unintended consequences such as an accumulation of exposure in high-risk areas or factors. Cyclone pool premium relativities retain risk signals for building characteristics and geographic location.
- **Avoiding onerous implementation costs:** The costs of implementing the cyclone pool are passed to insurers and may ultimately be passed on to policyholders. Changes to the premium structure may create additional cost, and the impact of such changes should be understood and weighed against the benefit to both consumers and the pool. Changes to the premium rate formula have been limited since 2021–22.

Although overall premium adequacy remains within the target range, the updated modelling has changed ARPC's view of relative risk across perils, regions and individual properties. Therefore, the 2026 Pricing Review is considering whether changes to premium rates are appropriate, while balancing the objectives defined in the TCI Act together with the pricing objectives defined in the Financial Resilience Policy.

**Action 2:**

Consider whether premium rates should change in response to the updated view of risk and exposure, while balancing long-term premium adequacy, affordability and premium stability, maintaining risk signals and minimising additional implementation costs.

Expected claims costs are estimated for each individual policy for the purpose of premium rate setting. This is done by allocating a portion of the total modelled costs shown in Table 4.2 to each policy reinsured by the cyclone pool as at 31 March 2026. The allocation process uses the following information and assumptions:

- Blended outputs from multiple catastrophe models that provide a view of the relative level of cyclone risk for each address in Australia.
- The relative vulnerability (or relativities) of properties with different characteristics (for example, construction material) to damage from cyclones.

The scope of the 2026 Pricing Review did not include a review of the second component listed above, the relative vulnerability of different properties. ARPC plans to use the cyclone pool's claims data together with the information from the updated catastrophe model panel to validate and calibrate these assumptions over the coming reviews as claims are finalised.

**Action 3:**

Analyse claims from cyclone events to test whether the vulnerability assumptions used in cyclone pool pricing appropriately reflect differences between property characteristics.

It is expected that ARPC's view of cyclone risk will evolve as claims experience develops, models are updated and the make-up of the model panel changes over time. Premium rates are determined considering 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.

All catastrophe models and the results derived from their outputs are subject to a high level of uncertainty. Specific areas of uncertainty in the catastrophe models are outlined in Appendix B.

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 AAL²² with the historical AAL to provide insight into the adequacy of the premium rates. The modelled AAL is used in the determination of premium rates.

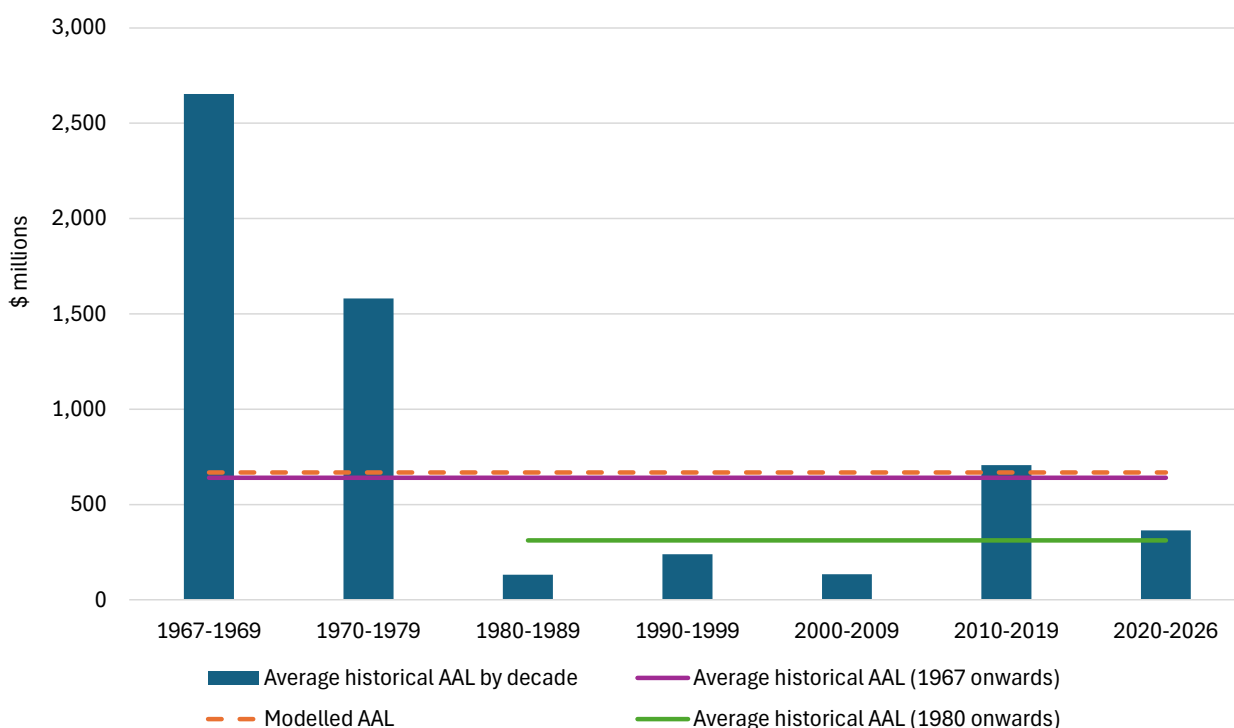
We have estimated the historical AAL using data published by the Insurance Council of Australia (ICA) providing insurance costs from historical catastrophic events (data is available from 1967 onwards). The losses have been normalised to current exposure²³ and adjusted to allow for cyclone pool coverage.²⁴ 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 costs for recent events.

²² The modelled AAL is equal to \$668 million, which is the \$702 million shown in Table 4.2 less the \$34 million allowance for ARPC's claims handling and operating expenses.

²³ The normalisation approach was developed by Risk Frontiers and accounts for changes in the number, value and size of dwellings, in addition to changes to building codes.

²⁴ 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 Crops) and estimated flood losses outside of the coverage period.

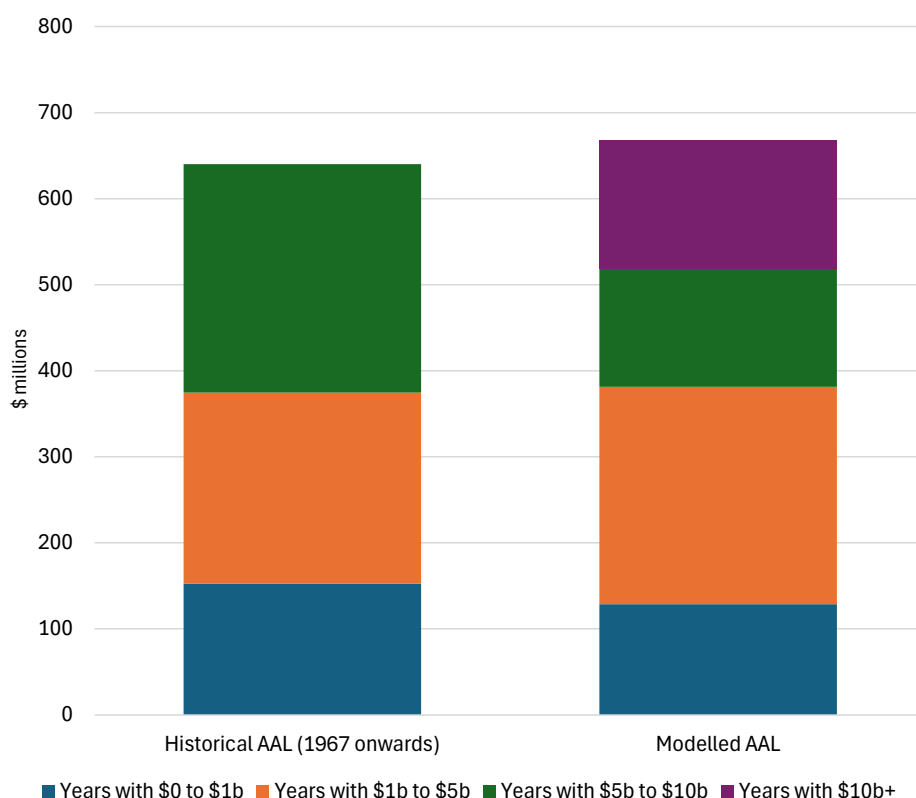
Figure 4.1 – Modelled AAL versus historical AAL by decade since 1967 as at 31 March 2026



The modelled AAL is in line with the historical AAL from 1967 to 2026. The 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 60 years.

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

Figure 4.2 – Comparison of historical and modelled AAL



Years with costs up to \$5 billion have an average annual historical cost of \$375 million over the 60-year history. The modelled AAL for years with costs up to \$5 billion is \$365 million. In both cases, years with costs up to \$5 billion make up approximately 60% of the overall AAL. Years with lower costs are generally more frequent, which means that the historical experience can be used as a 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 2 years that had annual costs greater than \$5 billion during the 60-year period captured by the historical data. This frequency is in line with the modelled frequency. The models simulate costs greater than \$10 billion approximately once every 85 years. There have been no years with costs greater than \$10 billion in our historical data period.

This comparison suggests that the observed 60-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 historical analysis provides a useful reasonableness check on the modelled AAL.

Overall, we consider the historical experience to be supportive of the selected modelled AAL.

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 4.4 outlines the premium adequacy ratio by modelled cyclone pool cost band.

Table 4.4 – 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	1,805	47	61	128.3%
	\$100 to \$500	604	214	227	106.4%
	\$500 to \$1,000	79	671	612	91.3%
	\$1,000 to \$2,000	24	1,344	792	58.9%
	\$2,000 to \$5,000	13	3,002	1,229	40.9%
	More than \$5,000	2	6,436	2,121	33.0%
Total		2,526	139	132	95.1%

Table excludes 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.

Properties with modelled cost more than \$5,000 pay the highest premiums on average, in line with the pricing objective of maintaining risk signal, but their average premium is far below the modelled cost to meet the legislative objective of minimising premiums for high-risk properties.

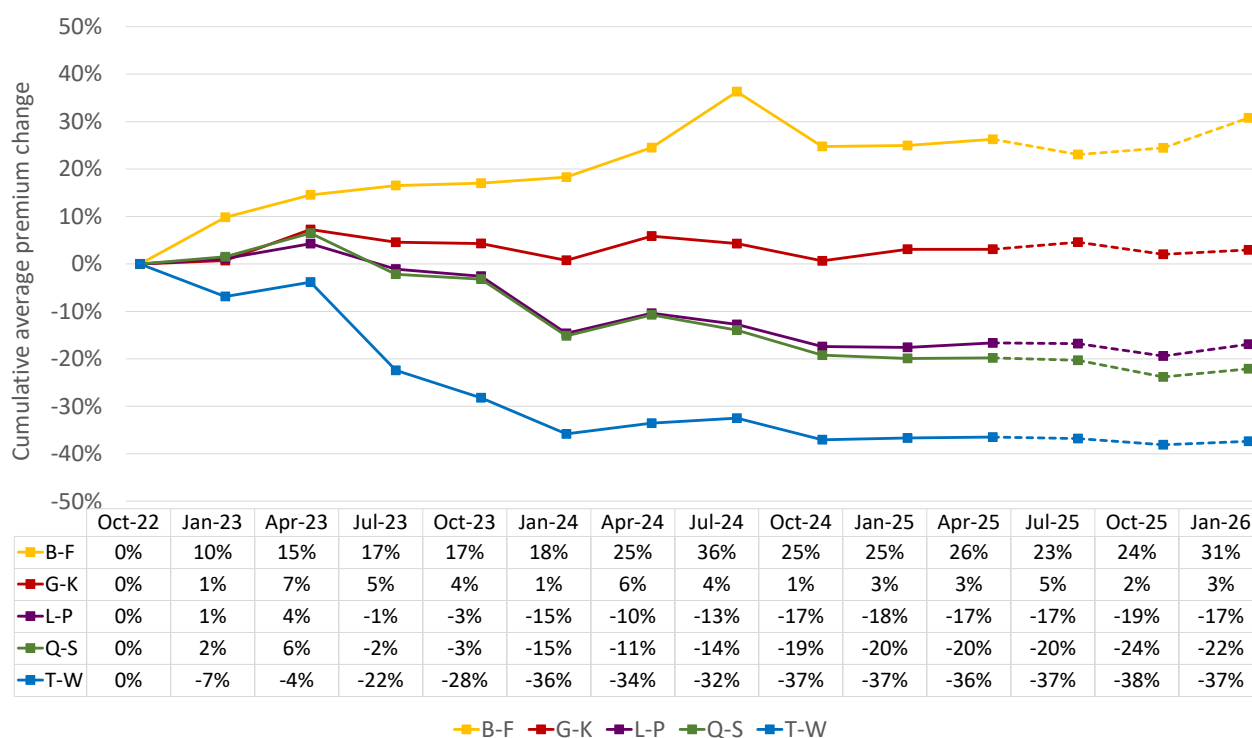
The 2026 Pricing Review is considering changes to premium rates to reflect the updated view of modelled cost. The review will also consider the allocation to medium and high-risk properties of the benefits of the margins charged on low-risk properties. It is expected that the broad relationship between modelled costs and cyclone pool premiums outlined in Table 4.4 will be retained.

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

4.3.1 Analysis of premium quotes

ARPC has analysed quotes for Home Building insurance collected from insurers' websites by Finity Consulting to assess cyclone pool premium rates against legislative objectives. Figure 4.3 illustrates the cumulative change in average Home Building premiums since October 2022 (before any insurers joined the cyclone pool) by ARPC's Wind-risk band.

Figure 4.3 – Change in average Home Building premiums since October 2022 by Wind-risk band



Source: Quotes provided by Finity Consulting

Average premiums for properties in the highest Wind-risk bands have decreased by 37% since October 2022, while premiums for the lowest Wind-risk bands have increased by 31%. This increase reflects broader market movements in Home insurance rates over the past 2 to 3 years and is not attributable to the introduction of the cyclone pool.

The observed outcomes are consistent with the cyclone pool premium rates achieving their intended objectives and leading to significant premium reductions for medium and high-risk policyholders. Increases for low-risk policyholders reflect broader market movements; cyclone risk makes up a small component of their overall premium.

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 4.5.

Table 4.5 – 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 2026 was \$9.4 million (31 March 2025: \$7.9 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 4.6 provides the breakdown of premium discounts applied by region, and compares the proportion of policies with any mitigation discounts as at 31 March 2026 with last year's report. The proportion of policies with discounts has increased from 2.9% to 3.5%. Further breakdowns of these statistics are available in Section 4 of the Cyclone Reinsurance Pool Statistics as at 31 March 2026.²⁵

²⁵ Cyclone Reinsurance Pool Statistics as at 31 March 2026 (arpc.gov.au)

Table 4.6 – Breakdown of mitigation discount by region

Region	Number of properties with mitigation discounts (000s)	Total cyclone pool premium discount (\$000s)	Proportion of policies with mitigation discounts as at 31 Mar 2026	Proportion of policies with mitigation discounts as at 31 Mar 2025
South East and Mid Coast QLD	48.8	3,468	4.3%	3.5%
Far North QLD	28.4	4,457	18.2%	17.2%
Inland QLD	4.7	89	2.6%	1.9%
NT	1.5	158	5.1%	3.7%
Northern WA	3.5	1,191	8.8%	5.5%
Southern WA	0.9	17	0.1%	0.1%
Northern NSW	0.6	13	0.4%	0.1%
Total	88.4	9,393	3.5%	2.9%

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 higher 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.²⁶ 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 have been applied to eligible Strata policies since 1 April 2025 and to eligible SME policies since 1 April 2026. Table 4.7 shows the mitigation activities which currently qualify for a discount for Strata and SME.

Table 4.7 – 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%

Reporting of mitigation discounts for Strata has been minimal to date. ARPC understands that some insurers are planning to make changes to their underwriting and reporting systems to support the

²⁶ [About the Household Resilience Program \(qld.gov.au\)](https://www.qld.gov.au/about-the-household-resilience-program)

provision of the discounts, but low volumes are expected, as not many bodies corporate have implemented mitigation initiatives to date.


Action 4:

Monitor take-up of Strata and SME mitigation discounts and assess alternative or additional risk mitigation opportunities for the cyclone pool.

Mitigation take-up rates and discounts will be reviewed over time as more data becomes available from insurers. Additional discount factors may also 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 2026 was \$9.4 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:

- **Public awareness campaign:** ARPC launched its first targeted public awareness campaign during the 2025–26 cyclone season. Advertisements were placed in selected media outlets across Broome, Darwin, Townsville and Cairns, encouraging residents to inform insurers of resilience measures already undertaken and to consider upgrades to roofs, windows and roller doors to improve property resilience and potentially reduce insurance premiums. The campaign focused on communities at greatest risk of cyclone impacts, supporting ARPC's broader objective of strengthening resilience and increasing awareness of the benefits of mitigation investments before a disaster occurs.
- **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.

Section 5: Assessment of liability adequacy

5.1 Accounting basis of insurance liabilities

The liabilities shown in this section have been calculated in line with AASB 1023 *General Insurance Contracts*. From 1 July 2026, ARPC will commence reporting under AASB 17 *Insurance Contracts*. The impact of the transition to AASB 17 will be reflected in the 2027 FOR.

5.2 Outstanding claims liability

The actuarial valuation as at 30 June 2026 estimated the outstanding claims liability at \$629 million on a central estimate basis. A \$93 million risk margin increased the liability to \$722 million at the selected 75% PoS.

Based on the valuation and the uncertainty described in Section 5.5, we assess the outstanding claims liability as being adequate based on the information available as at 30 June 2026.

Table 5.1 – Outstanding claims liability estimates for the cyclone pool as at 30 June 2026 (using insurer claims data as at 31 March 2026)

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)	24%	(0)	50	13
Ilsa	8	1	0	1	24%	1	9	13
2023-24 cyclone season								
Jasper	83,441	8,993	5,286	14,280	20%	17,201	100,642	10
Kirrily	34,453	4,148	(242)	3,906	26%	4,908	39,361	9
Lincoln	3	346	5	352	24%	436	439	9
Megan	1,712	787	10	796	24%	987	2,699	9
2024-25 cyclone season								
Sean	4,775	1,704	861	2,565	25%	3,206	7,981	5
Zelia	2,926	470	81	551	24%	685	3,611	5
Alfred	1,143,803	239,316	183,970	423,286	9%	461,999	1,605,802	5
Dianne	64	381	9	390	24%	484	548	5
Errol	0	0	0	0	0%	0	0	4
2025-26 cyclone season								
Fina	15,131	20,061	22,897	42,958	32%	56,873	72,004	2
Hayley	4	8	345	353	32%	465	468	2
Koji	4,061	9,706	22,176	31,882	33%	42,258	46,319	1
Luana	61	318	1,171	1,490	48%	2,209	2,270	1
Mitchell	673	2,843	5,717	8,560	44%	12,323	12,996	1
Narelle	31	799	1,802	2,601	69%	4,408	4,439	1
Narelle2	(5)	2,641	92,492	95,133	19%	113,489	113,484	1
Total	1,291,191	292,523	336,580	629,103	15%	721,931	2,013,122	

(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 loss estimates.²⁷

²⁷ Loss estimates are produced from multiple catastrophe models and estimated separately for each DCE.

When a DCE initially occurs, there is little information available on actual claims costs. Therefore, a higher weighting is initially placed on the catastrophe model loss estimates to set 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 with the cyclones in the latest cyclone season.

The projected reporting pattern and development of costs for the cyclones in the pool are generally based on a blend of external benchmarks for tropical cyclones and the cyclone pool's observed patterns for similarly sized events. As the experience within the pool has grown, increased weight has been given to experience over the external benchmarks. For the 2025–26 cyclone season, assumptions for the larger cyclones (that is, TC Fina, TC Koji, and TC Narelle²) were set with reference to the experience of TC Jasper, TC Kirrily and TC Alfred, while assumptions for the smaller cyclones were set with reference to the experience of other cyclones from prior seasons.

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

5.2.1 Development of TC Alfred

TC Alfred is the largest DCE for the cyclone pool to date. The outstanding claims liability has decreased by \$1.3 billion, as shown in Table 5.2:

Table 5.2 – Movement in claims costs for TC Alfred

Change in outstanding claims cost for TC Alfred	\$m
Outstanding claims liability as at 30 June 2025	1,807
Payments made over 2025-26	(1,090)
Risk margin release	(283)
Change in estimate of ultimate cost	28
Total change	(1,345)
Outstanding claims liability as at 30 June 2026	462

The reduction in the outstanding claims liability is driven by the following factors:

- Payments on claims over the year of \$1.1 billion. This represents around 70% of the total costs from the event. This compares to the \$1.2 billion projected as at 30 June 2025. The projected payments were derived from external benchmarks due to the limited experience of the cyclone pool, and payment patterns to date have been slower than these external benchmarks suggested. We have observed similar outcomes with other cyclone events, notably TC Jasper and TC Kirrily.
- \$283 million of risk margin was released over the financial year in line with claims paid.
- TC Alfred claims have developed more slowly than expected overall, despite higher-than-expected developments in the last 3 quarters of the financial year. Combined with the slower payment pattern, this could indicate a more gradual development of incurred cost than implied by previous assumptions, which also relied on external benchmarks. Assumptions related to future cost development have been strengthened slightly to reflect the trend to date. We have also extended the assumed payment pattern by one year. These changes and other minor variations to valuation assumptions resulted in a \$15 million increase in estimated ultimate claims costs for TC Alfred.
- The remainder of the movement in ultimate claims costs of \$13 million is mainly related to the unwinding of discounting.

5.3 Comparison of estimated ultimate claims costs to previous valuation

The central estimate of ultimate claims costs for events occurring before the 2025–26 cyclone season increased by \$12 million, or less than 1%, between 30 June 2025 and 30 June 2026. Overall, the limited movement in prior-event central estimates provides supporting evidence that the previous estimates were reasonable.

Table 5.3 shows the comparison between the current and the previous estimates of ultimate claims costs for DCEs that occurred during the 2022–25 cyclone seasons.

Table 5.3 – Comparison between current and previous ultimate claims costs (all figures in \$000s)

DCE	Cyclone season	Central estimate of ultimate claim cost ^(a)	
		As at 30 June 2025	As at 30 June 2026
Gabrielle	2022-23	50	50
Ilsa	2022-23	9	9
Jasper	2023-24	96,077	98,009
Kirrily	2023-24	39,937	38,424
Lincoln	2023-24	376	358
Megan	2023-24	2,818	2,513
Sean	2024-25	5,537	7,367
Zelia	2024-25	5,699	3,483
Alfred	2024-25	1,567,961	1,582,776
Dianne	2024-25	2,797	457
Errol	2024-25	31	0
Total central estimate of claims		1,721,290	1,733,445
Risk margin		334,644	43,782
Discounting		(30,059)	(16,085)
Total including risk margin and discounting		2,025,875	1,761,142

(a) Inflated and undiscounted

As at 30 June 2025, there were 11 DCEs with estimated incurred losses.²⁸ Since then:

- TC Gabrielle and TC Ilsa, as expected, had no further development.
- TC Errol did not have any claims covered by the cyclone pool.
- We adjusted assumptions for cyclones from the 2024–25 season and earlier to reflect emerging experience.
- The central estimate for TC Jasper increased slightly, while it reduced marginally for TC Kirrily. Small adjustments were made to the development assumptions for these events to reflect their emerging experience.
- The central estimate for TC Alfred increased by 1% or \$15 million. There are a number of large, offsetting drivers behind this movement, including:
 - actual development being lower than expected immediately following the event, and then slightly higher than expected more recently
 - strengthening of the future development assumptions to reflect our recent experience
 - increased credibility being given to the estimate from incurred losses rather than the catastrophe model loss estimate.

²⁸ ARPC has declared 5 cyclone events that have had zero losses, 2 in the 2022–23 cyclone season, one in the 2023–24 cyclone season and 2 in the 2025–26 cyclone season. This does not include TC Errol, which is unlikely to have any losses.

- The remaining events were all relatively small. The central estimates increased for TC Sean, decreased for TC Zelia and TC Dianne, and remained broadly unchanged for TC Lincoln and TC Megan.

We expect differences in estimates between reporting periods, particularly soon after events occur. The movement of \$12 million over the financial year was relatively small, considering the risk margin held as at 30 June 2025 was \$335 million.

5.4 Premium liability

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

As at 30 June 2026, the cyclone pool had \$257 million of unearned premiums. The central estimate of claims and expenses expected to arise from the future cyclone events for in-force policies (i.e. unexpired risk) was \$245 million. When an \$8 million risk margin was applied, this estimate increased to \$253 million. The risk margin has been set to cover the cost of claims in 65% of cases (i.e. at a 65% PoS).

Given that the unearned premiums exceeded the estimated liability for unexpired risk, no unexpired risk liability was required at 30 June 2026. Therefore, we assessed the amount held for unexpired risk as adequate.

Table 5.4 – Premium liability as at 30 June 2026 for the cyclone pool

	(\$000s)
Premium liability ^(a)	244,853
Risk margin ^(b)	8,147
Premium liability at 65% PoS	253,000
Unearned premium	257,284
DAC	0
Unexpired risk liability	0
Total balance sheet items	257,284

(a) Central estimate of claims cost related to unexpired risks, inflated and discounted.

(b) Calculated at 65% PoS.

5.5 Uncertainty in estimating insurance liabilities

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

- **Data limitations:** Given that ARPC operates the cyclone pool as a reinsurer, there is typically 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 limited claims information, claim development patterns are based partly on industry benchmarks from historical cyclone events and partly on insurer estimates of ultimate costs.
- **Catastrophe model loss estimates:** The estimated ultimate cost for each DCE is based partially on catastrophe model loss estimates. There is inherent uncertainty in these estimates, particularly if the cyclone path, wind speed and rainfall are not well known when the estimates are made. The adequacy of the outstanding claims liability is therefore subject to the same risks and uncertainties as the catastrophe model loss estimates.
- **Claims cost assumptions:** Ultimate claims costs may also be affected by construction cost inflation, demand surge and delays in repair activity, particularly following a large event.

There is a risk that claims liability reserves for past cyclones may be inadequate, given the inherent uncertainty in reserving for catastrophe events. Despite the uncertainty, we assessed the outstanding claims liability and liability for unexpired risk as appropriate based on the information available at 30 June 2026. However, actual claims costs may ultimately be higher or lower than these estimates.

Section 6: Risks to financial outlook

6.1 Summary of risk assessment

The cyclone pool is exposed to a range of risks that could affect its financial outlook or its ability to meet legislative objectives. Some risks, particularly catastrophic cyclone events, are inherent in the design of the cyclone pool and are managed through its funding and capital management framework. Other risks may change over time and require ongoing monitoring or further analysis.

Table 6.1 summarises our current assessment of the material broader financial risks considered in this report and how ARPC is responding to them. The remainder of this section provides analysis supporting these assessments.

Table 6.1 – Summary of risk assessment and response

Risk	Current outlook	Response
Catastrophic events	High – Stable. Cyclone claims remain inherently volatile, with low-probability events capable of materially exceeding the pool's available assets.	Managed through the Financial Resilience Policy and funding framework
Exposure mix	Moderate – Stable. The mix of reinsured properties has remained broadly stable, with no material shift towards higher-risk properties identified. Changes in insurance participation remain a longer-term risk to premium adequacy.	Continue monitoring changes in the mix and risk profile of reinsured properties
Climate change	Moderate – Increasing. Climate change may increase cyclone risk over the longer term, although the timing and financial impact remain uncertain. Current evidence does not indicate that an explicit pricing adjustment is required.	Continue monitoring emerging evidence through Action 2025-3. Emerging changes in risk may also be reflected through future catastrophe model updates
Inflation	High – Increasing. Construction cost inflation has increased after moderating and may temporarily increase claims costs faster than sums insured and premium income.	Monitor construction costs and sum insured growth, including impacts on reserving and financial projections
Claims management	Moderate – Stable. The pool bears 100% of eligible claims costs, creating ongoing exposure to inefficient claims management or payments outside policy terms.	Claims validation, audits and benchmarking
Product coverage	Low – Stable. The 2026 Pricing Review did not identify material changes in insurer product coverage requiring adjustment to the premium structure.	Continue monitoring changes in insurer product coverage
Data quality	Moderate – Decreasing. Data quality has improved overall, particularly for Home properties, although material completeness limitations remain for some Strata and SME fields.	Continue data quality improvements, particularly for Strata and SME

6.2 Approach to risk management

This section considers risks that could materially affect the cyclone pool's financial outlook or its ability to meet its legislative objectives. It is not intended to describe all risks facing ARPC. Many of the identified risks develop over longer periods, and therefore, require ongoing monitoring rather than immediate action.

Our approach to risk management is shaped by our Board's approved risk appetite, which includes a low 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 the defined appetite settings, with the objective of maintaining the cyclone pool's sustainability and meeting legislated objectives.

6.3 Catastrophic events

Cyclone risk is highly volatile, with the potential for low-probability, high-severity events to occur in any given financial year. This was demonstrated by TC Alfred in the 2024–25 cyclone season, the largest DCE for the cyclone pool to date with an estimated incurred claims cost of \$1.6 billion. Due to TC Alfred, the cyclone pool was at a net liability position of \$734 million as at 30 June 2025. Despite this, the pool continued to meet claim payments without transferring assets from either the terrorism pool or calling on the Commonwealth guarantee.

The principal short-term risk is a severe cyclone, or series of cyclones, that result in the cyclone pool being unable to meet claim payments from cash and investment assets. ARPC manages the cyclone pool's funding and financial resilience in accordance with the Financial Resilience 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.

The positive operating result from the 2025–26 financial year reduced the cyclone pool's immediate funding and liquidity risk relative to our position as at 30 June 2025, and has increased the capacity of the pool to absorb a future event before accessing the terrorism pool or the Commonwealth guarantee. Section 7 considers the pool's current funding capacity and liquidity.

6.4 Changes in mix of reinsured properties

Changes in the mix of properties reinsured by the cyclone pool can affect overall premium adequacy because premium adequacy is deliberately lower for higher-risk properties. Therefore, we monitor whether exposure is becoming disproportionately concentrated in higher-risk areas. We have not identified evidence of a material shift in the Home portfolio towards higher-risk properties over the past financial year.

An increase in the proportion of higher-risk properties could be the result of:

- the pool achieving its objective of increased insurance take-up in medium to high-risk regions
- 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 illustrates the rate of growth in the number of reinsured Home Building policies by Wind-risk band between 31 March 2025 and 31 March 2026 (excluding nil risk properties). Growth varied across Wind-risk bands, with no consistent pattern of higher growth in higher-risk bands.

Figure 6.1 – Growth in Home Building policies by Wind-risk band between 31 March 2025 and 31 March 2026

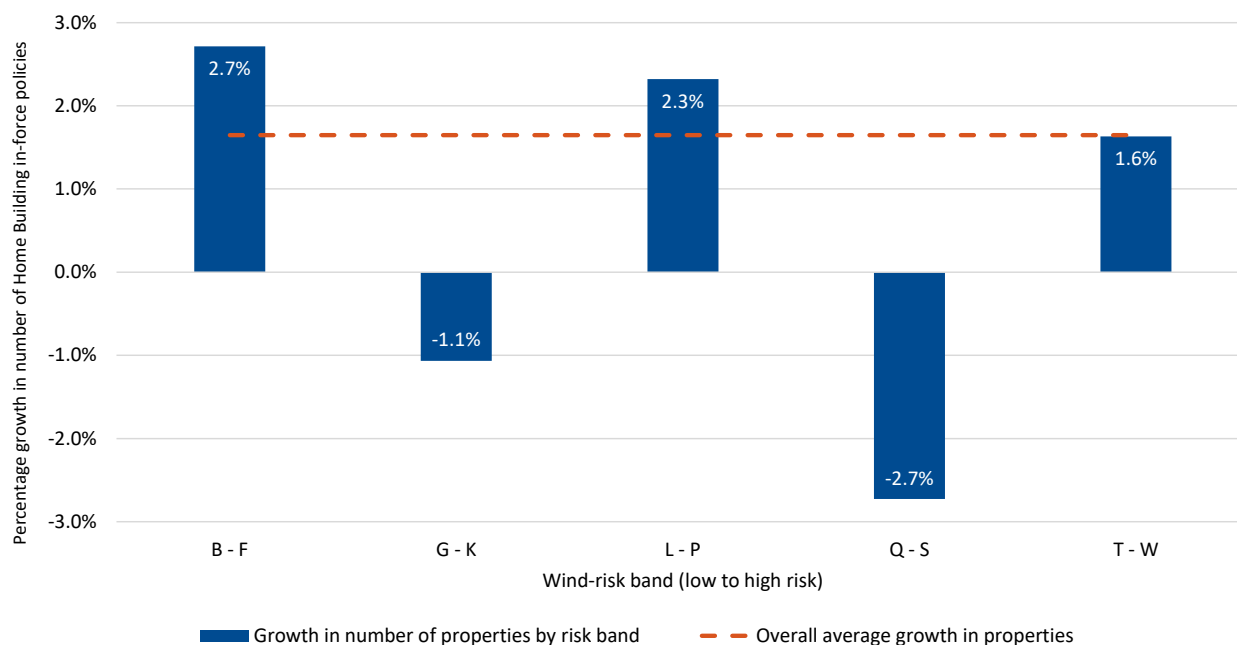
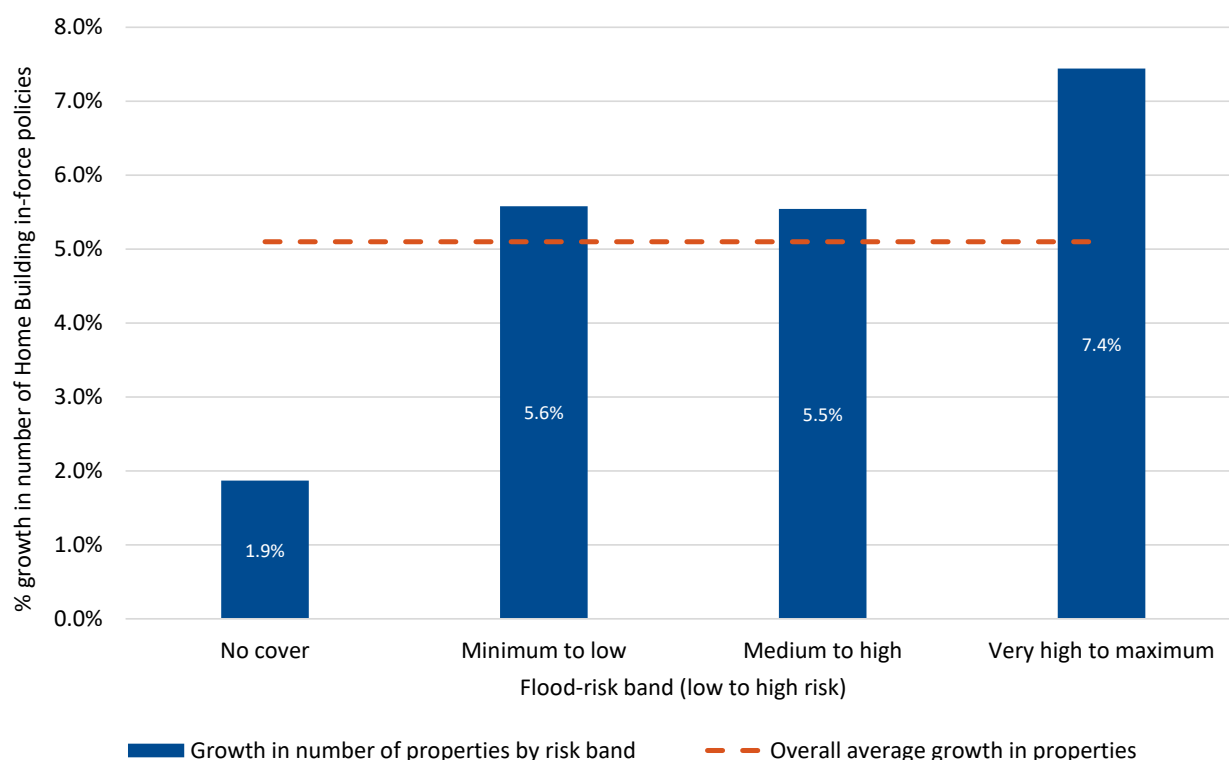


Figure 6.2 illustrates the growth in the number of reinsured Home Building policies by ARPC's Flood-risk band between 31 March 2025 and 31 March 2026. The chart includes properties with reported address information and excludes insurers with material changes in the proportion of address-rated²⁹ properties to reduce the impact of data-quality changes and better reflect changes in underlying flood exposure. Address data quality has improved over the financial year, and therefore, the growth in the number of address-rated policies shown in Figure 6.2 is higher than the overall growth in policies shown in Figure 6.1. The growth in policies with Flood cover is broadly consistent across different Flood-risk bands, but is slightly higher for the highest risk bands. We will continue to monitor exposure growth in high flood-risk areas.

²⁹ Where an insurer provides an address for a policy, the modelled cost and premium can be calculated based on the exact location of the property, which provides a more accurate assessment.

Figure 6.2 – Growth in Home Building policies by flood cover and Flood-risk band between 31 March 2025 and 31 March 2026



The mix of reinsured properties remained relatively stable over the financial year. We assess changes in mix as part of pricing reviews, for budgeting and business planning and for this report. This analysis provides signals that may allow us to react to any significant changes in the cyclone pool's exposure mix.

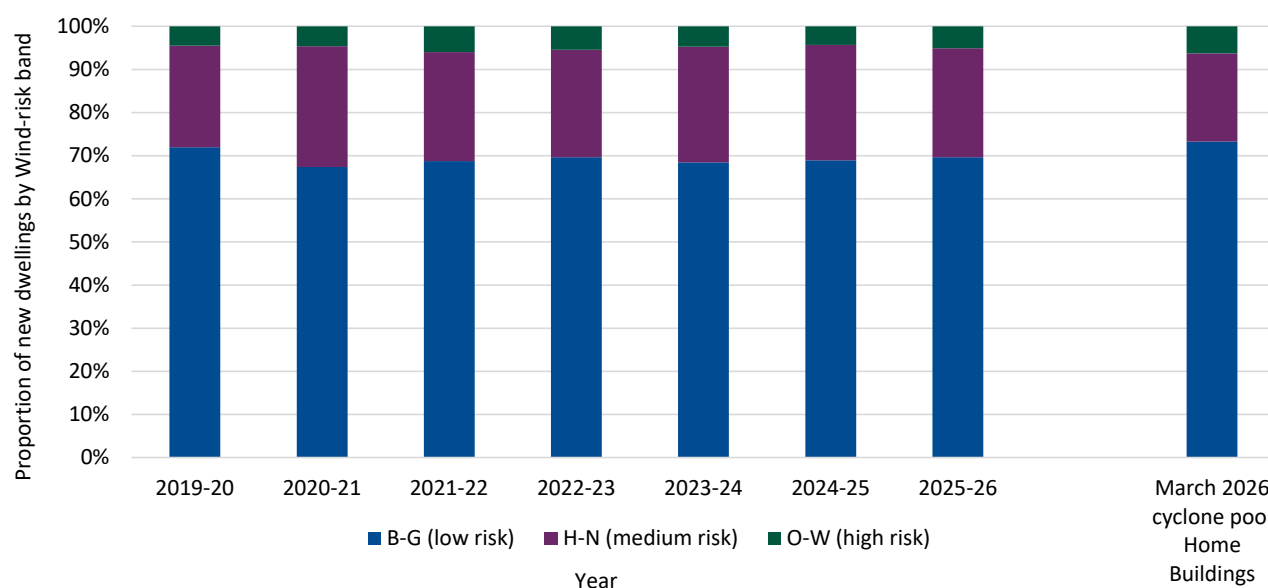
Exposure profile of new buildings

The cyclone pool's risk profile will change as the number of properties in Australia grows and as building stock is modernised. Disproportionate growth in higher-risk areas may impact the adequacy of the premium rates.

Figure 6.3 illustrates the mix of estimated residential building completions for the 2019–26 financial years, compared with the March 2026 Home Building exposure of the cyclone pool. This is grouped by

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 change since the cyclone pool was established in 2022.

Figure 6.3 – Proportion of estimated residential building completions by Wind-risk band for the 2019–26 financial years compared with the March 2026 cyclone pool Home Building exposure



Source: Australian Bureau of Statistics (ABS)

There is a risk that offering significantly lower premiums to medium and high cyclone risk properties could provide disproportionate incentives for growth in areas which would otherwise not have occurred. This would be an unintended consequence of the cyclone pool design and would negatively impact the adequacy of the premium rates. There is no evidence to date that this has occurred; however, we will continue to monitor this risk.

Insurance participation and premium adequacy

Insurance participation affects the cyclone pool's exposure mix and premium adequacy. ARPC has developed a market dataset that combines insurance exposures submitted by cyclone pool participants with address, census and land title information. This provides an address level estimate of insurance participation across cyclone exposed regions of Queensland, Western Australia, the Northern Territory and Northern New South Wales. In August 2026, we published a research report titled *Insurance Take-up and Coverage Gaps in Cyclone-Exposed Regions*.

In that report, we estimated that 91% of eligible dwellings in cyclone-exposed regions held Home Building insurance and 62% held Home Contents insurance. Participation was not uniform across either regions or property characteristics. In the higher Wind-risk bands, estimated Home Building and Home Contents insurance take-up was 86% and 51% respectively. Participation was also lower in some remote communities.

Holding an insurance policy does not necessarily mean that all cyclone-related perils are covered. Among dwellings exposed to flood risk, we estimated flood insurance take-up to be 65% for Home Building and 43% for Home Contents. In the highest Flood-risk band, estimated flood insurance take-up falls to 34% for Home Building and 24% for Home Contents.

Increased insurance take-up from high-risk properties would impact premium adequacy due to cross-subsidies implicit in the premium rates. Such an impact would be consistent with the pool's accessibility and affordability objectives, while reducing the scope to allocate the benefit of margin savings within the existing premium structure.

Changes in insurance participation may also affect the wider financial consequences of a cyclone. Lower participation or narrower policy coverage may reduce insured and reinsured claims, while increasing losses

borne directly by households, lenders and governments. We will continue to monitor the participation, coverage and exposure mix against the baseline established by our research report.

The 2026 Pricing Review assessed a scenario in which 50% of Home properties estimated not to hold insurance entered the cyclone pool. Under this scenario, the premium adequacy ratio would change from 95% to 91%, reflecting the different risk profile of the Home properties entering the insured portfolio.

Table 6.2 – Impact of higher insurance take-up scenario on premium adequacy ratio

Premium adequacy ratio	
Current estimated premium adequacy ratio (2026 Pricing Review)	95.1%
Premium adequacy ratio for eligible properties not reinsured by the cyclone pool	69.8%
Overall premium adequacy under higher take-up rate scenario	90.8%

Insurance participation is lower in some higher risk and remote communities, and coverage gaps remain material for cyclone-related flooding. Increased take-up rates would support the cyclone pool's accessibility and affordability objectives, but may affect premium adequacy if growth is concentrated in higher-risk properties.

6.5 Climate change

6.5.1 APRA's Insurance Climate Vulnerability Assessment

In March 2026, the Australian Prudential Regulation Authority (APRA) published the results of its Insurance Climate Vulnerability Assessment, which examined how the home insurance protection gap could develop through to 2050. This assessment was undertaken with 5 major general insurers using 2 severe, but plausible stress scenarios: a Current Policies Scenario³⁰ with higher physical climate risk, and a Delayed Transition Scenario³¹ with lower physical risk, but greater economic disruption arising from a delayed transition. The scenarios are stress tests rather than forecasts.

ARPC contributed to the assessment by providing a view of future cyclone pool reinsurance premiums under each scenario. These estimates were used by the participating insurers in modelling future Home insurance premiums and affordability. To develop the cyclone pool inputs, we applied climate change adjustment factors to cyclone pool premium rates using 3 vendor catastrophe models. The modelling considered prescribed changes in cyclone frequency and intensity, extreme rainfall, sea level rise and possible poleward migration. Estimates of cyclone pool premiums were produced at 5-year intervals through to 2050. The modelling was undertaken specifically for APRA's stress test and does not represent an ARPC forecast of future cyclone pool premiums.

Under the higher physical risk Current Policies Scenario, our modelling indicated that total cyclone pool modelled costs could be approximately 60% higher by 2050, in real terms and holding exposure constant, equivalent to average annual growth of approximately 1.8%. The largest increase was associated with Wind risk, for which modelled costs increased by approximately 64% by 2050. This result was primarily driven by the scenario assumption that cyclone activity would move further south, increasing risk in areas containing substantial exposure (such as Brisbane). Results under the Delayed Transition Scenario were lower (16% increase by 2050) because the scenario did not include the poleward migration assumption.

³⁰ The Current Policies Scenario is a higher emissions scenario, in which current climate policies are followed through to 2050, and global average temperatures increase +2.5°C above pre-industrial levels by 2050.

³¹ The Delayed Transition Scenario is a lower emissions pathway where a delayed transition to a lower emissions economy results in rapid policy and technology change, and global average temperatures reach +1.8°C above pre-industrial levels by 2050.

Despite the increase in modelled cyclone costs, our analysis indicated that the cyclone pool's reallocation of margins between lower and medium to higher-risk properties could be maintained. Therefore, the pool could continue to provide the greatest relative support to policyholders in medium- and high-risk areas, while maintaining overall premium adequacy.

APRA's broader results indicate that the proportion of Australian households facing high insurance affordability pressure, and therefore, likely to be uninsured, could increase from around 15% currently to around 25% by 2050 under both scenarios. APRA also concludes that the protection gap is likely to widen mostly in regional and rural areas and where insurance affordability is already under pressure. APRA estimates that current national annual cyclone losses are nearly \$900 million, and could exceed \$1.4 billion under both scenarios by 2050. Cyclone losses remain highly concentrated, with half of them occurring in fewer than 10% of regions. These national stress test estimates are not directly comparable with the cyclone pool's current AAL and should not be interpreted as an alternative estimate of expected claims costs.

The assessment reinforces the importance of monitoring climate risk, insurance participation, rebuilding costs and changes in the geographic distribution of exposure.

ARPC's modelling for APRA's Insurance Climate Vulnerability Assessment indicated that total cyclone pool modelled costs could increase by approximately 60% by 2050. Despite the higher modelled costs, the cyclone pool's reallocation of margins to medium- and high-risk properties could be broadly maintained under the assumptions used.

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

Climate change may affect Australian tropical cyclone risk through changes in event frequency, severity, rainfall, storm surge and geographic distribution. The current scientific assessment indicates that tropical cyclones may become less frequent overall, but more of them could be severe, and rainfall intensity and storm surge risk may increase. Evidence is less conclusive for changes in cyclone tracks, landfall latitude, translation speed³² and stalling.³³

ARPC engages with Australian climate experts on an ongoing basis. Emerging research and modelling will inform our monitoring and future catastrophe model development. Several potential climate-related changes are particularly relevant to the cyclone pool:

- **Frequency and severity:** The overall number of tropical cyclones is projected to decline or remain broadly unchanged, while the proportion of severe tropical cyclones is projected to increase. Variability from year to year is also significant. These effects operate in opposing directions. More intense events may increase loss severity, while fewer events may reduce aggregate claims costs. The net effect on long-term cyclone pool claims costs remains uncertain.
- **Rainfall:** A warmer atmosphere can hold more moisture, supporting higher rainfall rates. There is relatively strong scientific support for increasing tropical cyclone rainfall intensity under continued warming. However, the effect on cyclone pool flood claims depends on cyclone frequency and tracks, the location and duration of rainfall, pre-existing conditions, catchment characteristics and flood defences.
- **Poleward migration:** Global studies have identified possible poleward movement in some measures of tropical cyclone activity. However, there is no clear evidence of a poleward shift in cyclone genesis or landfall risk in the Australian region. Poleward migration is important to the cyclone pool because the

³² Translation speed is the speed at which the weather system moves across the earth's surface.

³³ Stalling occurs when a storm slows down significantly and stays trapped in a small area.

east and west coasts contain substantial exposure further south in regions that currently are not subject to the same building standards as historically cyclone-prone regions.

- **Storm surge and coastal inundation:** Rising sea levels provide a clearer indication of the direction of change than many other cyclone-risk drivers. Higher sea levels mean an increase in the potential depth and extent of coastal flooding arising from a given storm surge. Higher intensity cyclones could also increase surge severity.
- **Length and timing of the cyclone season:** Recent global research indicates that for several ocean basins, periods in which intense cyclones may occur are longer than they were previously. This is relevant for ongoing monitoring, but does not mean that the formal Australian cyclone season has changed.

Further detail on the science informing our view on climate drivers is provided in Appendix C.

6.5.3 Recent cyclone experience and near-term climate variability

The relatively benign 2025–26 cyclone season was within the range of expected annual variability, and therefore, does not indicate that the underlying cyclone climate has changed. Near-term cyclone activity is influenced by natural climate variability, including the El Niño–Southern Oscillation (ENSO), the Indian Ocean Dipole (IOD) and the Madden-Julian Oscillation (MJO). These cycles affect the atmospheric and oceanic conditions under which tropical cyclones form and develop. They are relevant to seasonal monitoring, but are distinct from the long-term effects of climate change.

As at July 2026, the Bureau reported that ENSO was in an El Niño phase. Every El Niño event is different, and Australia’s climate is also influenced by regional sea surface temperatures, the IOD and other atmospheric and oceanic conditions.

El Niño conditions are often associated with reduced tropical cyclone activity in parts of the Australian region, but do not eliminate cyclone risk. The Bureau noted that during the moderate to strong 2023–24 El Niño, 4 tropical cyclones and storms along the east coast contributed to above-average summer rainfall across widespread areas. Therefore, seasonal climate conditions cannot be treated as a reliable predictor of cyclone pool claims in any given year.

The cyclone pool’s premium rates and financial projections are based on long-term expected claims costs rather than a forecast for a single cyclone season. ARPC monitors the Bureau’s seasonal outlooks as the information is relevant for operational preparedness, liquidity planning and claims scenarios.

6.5.4 Climate risk in the premium rates

The catastrophe models used to inform the cyclone pool’s premium rates represent the best available view of cyclone risk under current climate conditions, subject to model limitations and uncertainty. Climate change remains an important source of uncertainty, but there is no clear evidence that an additional explicit climate adjustment would improve the accuracy of the current estimate of claims costs.

There are several ways in which climate risk could affect premium adequacy. Table 6.3 summarises the potential risks and our response.

Table 6.3 – Climate risk impact on premium adequacy

Potential risks	Risk control response
Catastrophe models fail to reflect climate change or the latest science.	ARPC will assess new catastrophe model versions as they become available and monitor model reference periods, climate conditioning methods and the treatment of cyclone frequency, intensity, rainfall, tracks and sea level rise.
Climate change requires adjustments to overall premium or relativities.	ARPC will consider emerging scientific evidence and updated catastrophe models through regular pricing reviews. Premium rates will be adjusted where there is sufficient evidence that a change improves the estimate of risk and is consistent with the cyclone pool's legislative and pricing objectives.
Advice from external experts indicates a high degree of uncertainty in key inputs to pricing.	ARPC will continue to engage with experts in the Australian scientific, actuarial, engineering and catastrophe modelling communities. Material uncertainty will be disclosed.
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.	ARPC will monitor changes in regional vulnerability, building standards and exposure through claims analysis, engineering evidence and catastrophe model updates. Geographic and property-level premium relativities will be reviewed where updated evidence indicates that existing vulnerability assumptions no longer represent current risk.
Available information may be insufficient to assess or price emerging risk adequately.	ARPC will continue to collect detailed exposure data from insurers and review data standards as relevant risks emerge. Cyclone pool claims experience and external replacement cost information will be used to test vulnerability, valuation and geographic assumptions.
Risks associated with changes in exposure mix (as discussed in Section 6.4) are exacerbated by climate change, for example if exposure concentration increases in areas subject to a high level of storm surge risk.	ARPC will continue to monitor changes in exposure by location and risk level. Updated catastrophe models and pricing reviews will reflect material changes in the distribution of exposure and risk.

Climate change remains a material source of uncertainty for the cyclone pool. Current Australian scientific evidence supports the direction of change for some individual drivers, particularly rainfall intensity and sea level rise, but does not provide clear evidence of quantifiable movements in the expected claims costs. ARPC will continue to engage with Australian climate experts and catastrophe model vendors and incorporate emerging evidence through future model and pricing reviews.

6.6 Inflation

Inflation affects the cyclone pool by increasing the cost of repairing and rebuilding insured property. Construction costs increased significantly faster than sums insured during the high-inflation period from 2021 to 2023, creating a short-term mismatch between rebuilding costs and the values on which cyclone pool premiums are based. Construction cost inflation subsequently moderated, allowing sum insured growth to narrow this gap. More recently, construction cost inflation has increased again, creating a risk that rebuilding costs could again grow faster than sums insured if the increase is sustained.

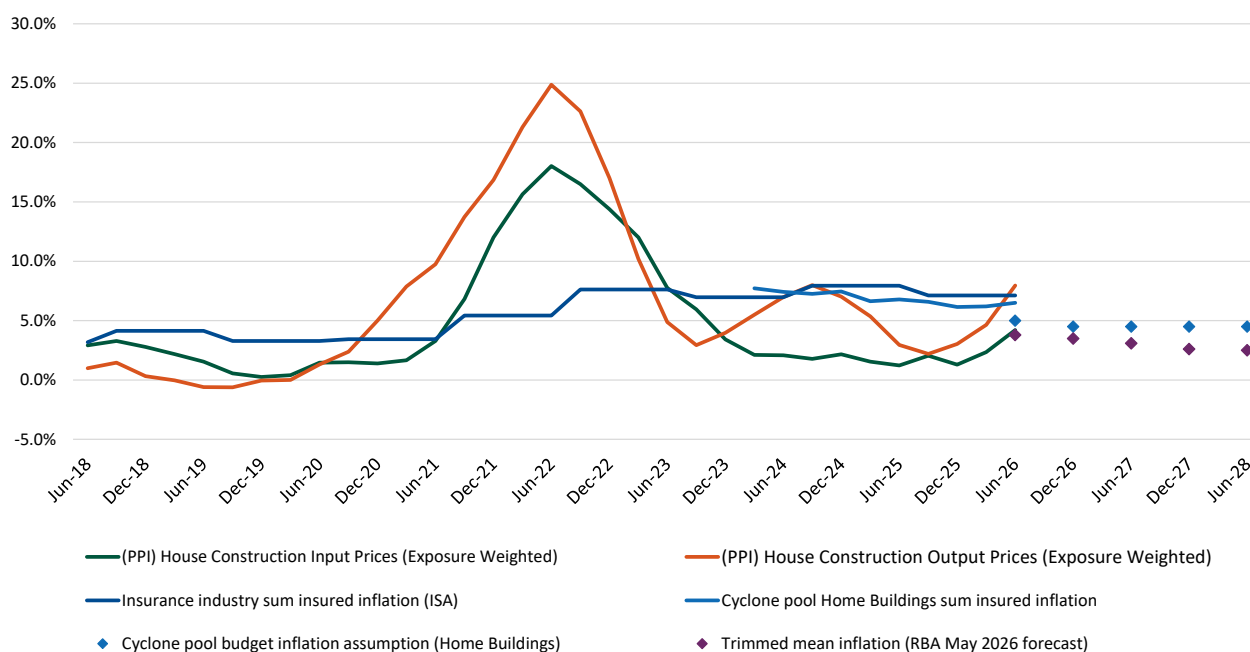
Cyclone pool premiums are generally calculated as a rate applied to reported sums insured. Over the longer term, we expect higher rebuilding costs to be reflected in higher sums insured, increasing both expected claims costs and premium income. However, construction costs and sums insured do not move together in every period, creating short-term risks that need to be monitored.

6.6.1 Construction cost and sum insured inflation

Figure 6.4 compares annual construction cost inflation with sum insured inflation. The construction cost indices are based on Producer Price Index (PPI) measures for house construction input and output prices. Regional PPI series have been weighted according to the geographic distribution of cyclone pool sums insured. This better reflects the pool's exposure, including regional areas where construction cost increases have at times been higher.

The input index measures changes in prices paid for inputs to house construction, while the output index measures changes in prices charged by builders. Neither index directly measures the rebuilding costs incurred by insurers. The figure also shows industry Home building sum insured inflation provided by Insurance Statistics Australia (ISA), cyclone pool Home Building sum insured inflation from June 2024 to June 2026, the RBA's CPI forecast and the assumption used by ARPC to inflate Home Building sums insured for budget projections to June 2028.

Figure 6.4 – Inflation indices to June 2026, projected through to June 2028



Source: ABS and Insurance Statistics Australia

Figure 6.4 illustrates that construction cost and sum insured inflation do not move together in every period. Before the sharp increase in construction costs associated with the COVID-19 period, industry sum insured inflation was generally higher than the construction cost indices. Construction cost inflation then increased rapidly during 2021 and 2022, with the exposure-weighted output price index peaking at around 25% in June 2022 while sum insured inflation increased more gradually and fell behind construction costs.

As construction cost inflation subsequently moderated, sum insured inflation remained elevated at around 6% to 8% and was again above the construction cost indices for a period. This allowed sums insured to catch up with part of the earlier increase in construction costs. More recently, construction cost inflation has increased again and is broadly in line with current cyclone pool sum insured inflation. The Middle East conflict and associated disruption to energy markets and international supply chains may further increase

Australian property rebuilding costs. If the increase is sustained, sums insured may again lag rebuilding costs.

The financial impact would be greater if a major cyclone occurred while construction supply chains remained constrained. Following a significant cyclone, demand for materials can rise sharply. In normal conditions, higher prices may reduce discretionary construction activity. However, this demand-reducing mechanism may be less effective following a catastrophe because insured properties need to be repaired and insurers have limited ability to defer work. A major cyclone affecting a large population centre before supply chains normalise could produce a greater increase in claims costs than indicated by general inflationary assumptions.

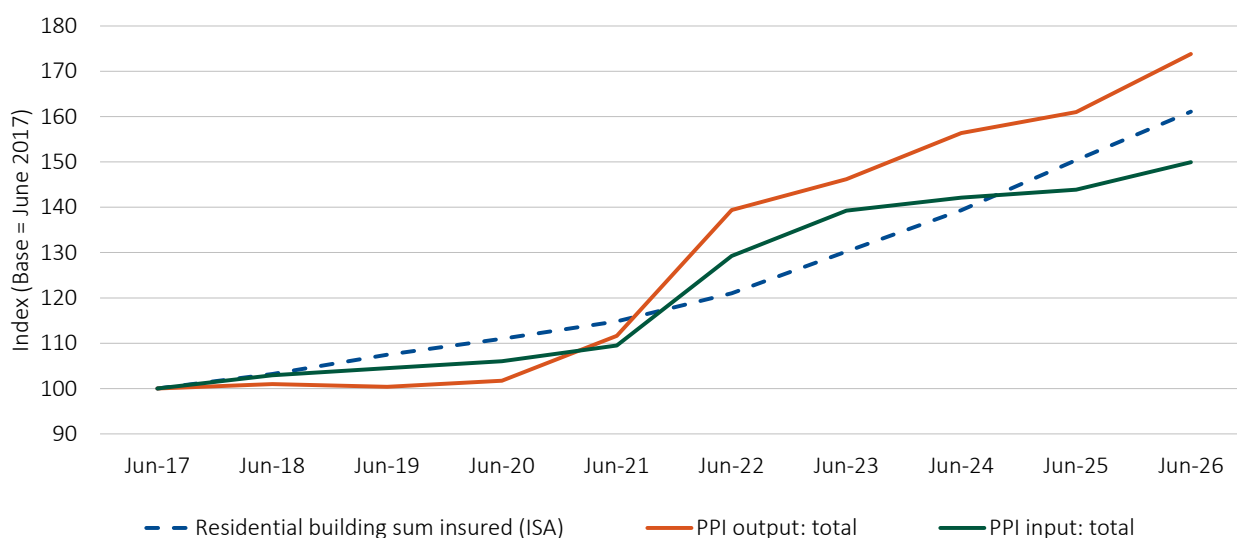
A major event in the current environment could also create operational impacts. Delays in assessment, repair scheduling and final settlement could increase uncertainty in insurer claim estimates and extend claim payment patterns. Although ARPC does not directly manage policyholder claims, longer repair periods and uncertain ultimate costs could lead to increased costs such as temporary accommodation, and affect the timing of reimbursements to insurers, cash flow projections and reporting to government and other stakeholders.

6.6.2 Longer-term relationship between construction costs and sums insured, and premium setting

The cyclone pool is designed to price risk over the longer term. Premium stability is an objective under the Financial Resilience Policy, and premium rates are not intended to respond mechanically to temporary movements in economic or climate conditions that may subsequently reverse.

Figure 6.5 provides a longer-term view of the relationship between construction costs and sums insured. It shows cumulative changes in the exposure-weighted PPI input and output indices alongside an index of residential building sums insured. The sum insured index uses Insurance Statistics Australia industry data.

Figure 6.5 – Construction cost versus Home sum insured indices – June 2017 to June 2026



Sources: ABS and Insurance Statistics Australia

The longer-term history shows periods where construction costs and sums insured have moved ahead of each other. Before the sharp increase in construction costs from 2021, cumulative sum insured growth was higher than both construction cost indices. Construction costs then increased rapidly during 2021 to 2023 and moved ahead of sums insured. Sum insured growth subsequently exceeded construction cost inflation, substantially narrowing the gap.

At June 2026, the cumulative sum insured index sits between the construction input and output price indices. It is possible that insurers' rebuilding cost inflation may fall between the 2 indices, as established supply chain relationships and purchasing scale may allow insurers to negotiate builder margins relative to the broader market. However, neither construction index directly measures rebuilding costs incurred by insurers, which may also be impacted by other factors not captured by the ABS data.

The experience illustrated in Figure 6.5 supports the cyclone pool's approach of pricing through short-term cycles. Temporary conditions can also operate in different directions. For example, El Niño conditions may reduce tropical cyclone activity in parts of the Australian region during a particular season, while geopolitical disruption may temporarily increase the cost of repairing cyclone damage. These factors can affect actual claims costs in a particular financial year, potentially in opposite directions, without changing the long-term basis on which premium rates are set.

Adjusting premium rates in response to each short-term movement could introduce unnecessary premium volatility and respond to conditions that subsequently reverse. We therefore consider longer-term changes in rebuilding costs and sums insured when setting premium rates, while monitoring short-term conditions and reflecting them in actuarial and financial processes where relevant. This is consistent with the cyclone pool's statutory pricing objective which requires premiums to be sufficient over the longer term.

6.6.3 Inflation and underinsurance impacts on premium adequacy

Underinsurance arises where the coverage available under an insurance policy is insufficient to meet the cost of replacing or repairing the property. Inflation can contribute to temporary underinsurance where rebuilding costs increase faster than insurer sum insured indexation.

This is distinct from structural underinsurance, where sums insured remain below estimated replacement costs over a longer period. The 2026 Pricing Review separately assessed structural underinsurance using property replacement cost information. For Home Buildings, modelled claims costs include an 8% allowance for structural underinsurance.

The longer term analysis in Figure 6.5 does not suggest that the structural level of underinsurance has materially changed over the period and supports the structural underinsurance allowance reflected in current modelled claims costs.

We will continue to monitor construction costs and sum insured growth. Short-term inflation conditions will be reflected where relevant in claims reserving, financial projections and liquidity planning. Persistent evidence of a change in the relationship between rebuilding costs and sums insured would inform future assessments of structural underinsurance, premium adequacy and premium rates.

Inflation is a material short-term risk to the cyclone pool's financial outlook. Construction costs and sums insured have moved ahead of each other at different points in the cycle, and the longer-term analysis does not suggest a material change in structural underinsurance. The cyclone pool prices through short-term inflation cycles, while monitoring current conditions and reflecting short-term impacts where relevant to reserving and financial projections.

6.7 Insurer claims management

Insurers manage claims directly with policyholders and recover eligible costs from the cyclone pool. As the pool bears 100% of eligible claims costs, inefficient claims management or payment outside policy terms could increase claims costs and reduce 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 have been finalised. A sample of claims is assessed to determine whether costs recovered from ARPC are in accordance with the TCI Act and relevant Reinsurance Agreement. Underlying documents and insurer processes are reviewed to assess eligibility and reasonableness. The claims data from TC Alfred may provide benchmarking data to compare individual insurers' 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.

6.8 Changes to insurer product coverage

The cyclone pool reinsures eligible insurance products for losses arising from cyclones. Insurance products can offer different features and benefits. The cyclone pool reimburses losses in accordance with the underlying insurance products' coverage.

Changes in product coverage can lead to imbalances in the premiums charged by the cyclone pool over time. This could include insurance products offering more generous benefits, which would increase the overall cost of the pool. New or expanded benefits triggered by cyclone events could affect overall expected claims costs and the allocation of cross subsidies between lower- and higher-risk properties.

The cyclone pool premium algorithm considers differences in insurance products through the product coverage rating factor. The purpose of this is to align the premiums charged by the cyclone pool with the level of claims benefits expected to arise for that policy. This factor was reviewed as part of the 2026 Pricing Review. The review considered whether the product benefits incorporated in the rating factor are still appropriate and whether additional benefits should be incorporated.

The review also assessed whether changes have been made to available products since the pool's inception to provide new or expanded benefits, given that costs are now recoverable from the pool. The review did not find any evidence of such changes or identify any additional benefits that should be incorporated into the rating factor.

Currently, the product coverage rating factor only applies to Home Building policies, which make up approximately 80% of cyclone pool premium. The review assessed whether coverage rating should be extended to Home Contents, Strata and SME products. We concluded that introducing coverage rating for these products would have no material financial impact on the cyclone pool and would lead to increased insurer implementation costs that would be passed to customers.

ARPC will continue monitoring product coverage offered by cyclone pool eligible insurance products to identify changes that may affect future financial outcomes for the pool.

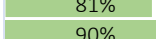
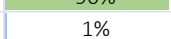
6.9 Data quality

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 costs. 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 Geoscape Geocoded National Address File (G-NAF)), a postcode table is used to calculate premiums.

Table 6.4 illustrates the proportion of missing or unknown variables, by class of business, as at 31 March 2025 and 31 March 2026. At the total level, the proportion of missing or unknown data has decreased across all variables.

This improvement was primarily driven by Home policies, which represent the largest class of business. In particular, the proportion of Home policies without a reported G-NAF identifier fell substantially from 27% to 13% over the year ended 31 March 2026. We also observed improvements across the remaining Home rating variables, which contributed to improved data quality overall. Strata and SME experienced mixed changes in data completeness over the same period.

Table 6.4 – Proportion of missing or unknown variables as at 31 March 2025 and 31 March 2026

Class	Date	G-NAF	Construction type	Roof type	Year of construction	Number of storeys
Home	Mar-25	 27%	 10%	 24%	 12%	 28%
	Mar-26	 13%	 8%	 16%	 7%	 23%
SME	Mar-25	 37%	 11%	 39%	 55%	 81%
	Mar-26	 32%	 12%	 30%	 18%	 90%
Strata	Mar-25	 30%	 1%	 4%	 1%	 1%
	Mar-26	 33%	 1%	 2%	 1%	 4%
Total	Mar-25	 28%	 10%	 25%	 15%	 31%
	Mar-26	 15%	 8%	 17%	 8%	 27%

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 costs. Improvements in G-NAF reporting over the last financial year have enhanced the accuracy of location-based risk assessment.

Data quality has improved materially overall, particularly for Home properties. However, completeness remains variable for Strata and SME, and missing location information increases uncertainty in property-level risk assessment. We will continue to work with insurers to improve data completeness and monitor its impact on premium and exposure analysis.

Section 7: 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, where possible, assets are available to meet financial obligations as and when they fall due. ARPC's Financial Resilience Policy states that ARPC has a low appetite for liquidity shortfall. Both net asset and net 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 accumulated investment income
- funds from the terrorism pool when the cyclone pool's 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.

We do not currently purchase retrocession for the cyclone pool. 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 principles:

- The financial positions and performance of the 2 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 timeframe.

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 cyclone pool funding position

The cyclone pool was in a broadly neutral position as at 30 June 2026, with net liabilities of \$33 million on an accounting basis. For capital management purposes, the Financial Resilience Policy measures the accumulated position excluding risk margin. On this basis, the cyclone pool had net assets of \$60 million. This is close to the long-term capital target of zero and within the Financial Resilience Policy target range of \$2.35 billion of net liabilities to \$2.35 billion of net assets. Each side of the target range represents approximately 350% of annual cyclone pool premiums. No capital management action is currently recommended.

The accumulated position of the cyclone pool is expected to vary between net asset (positive) and net liability (negative). The pool could build up net assets if there are multiple consecutive financial years with small losses, then swing to a net liability position after a financial year with large losses, with the movements offsetting each other over the longer term. As noted in Section 3.7, the probability of the cyclone pool being in a neutral position (namely, either net assets or net liabilities of less than \$100 million) after 4 years of operation is estimated at 3%.

The Financial Resilience Policy also states the objective of absorbing volatility through the Commonwealth's balance sheet rather than passing volatility to policyholders through varying premiums. This provides a framework for setting premiums in the aftermath of a materially adverse event.

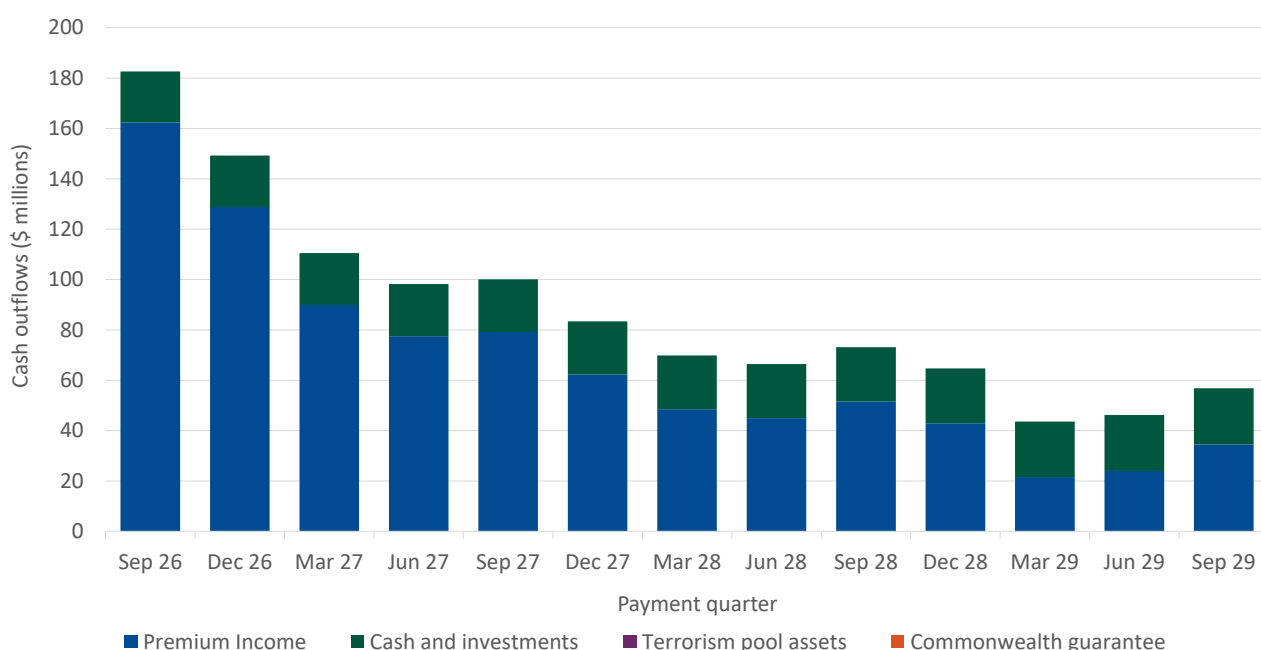
The capital target set in the policy is based on accumulated position excluding risk margin. The risk margin is an accounting requirement allowing for deterioration from the central estimate of liabilities, and does not represent our best estimate of future claim payments. Therefore, excluding it provides a more appropriate measure for assessing the cyclone pool's funding position. Unless otherwise stated, references to 'accumulated position' in this section exclude risk margin, consistent with the Financial Resilience Policy.

7.5 Current liquidity position of the cyclone pool

Figure 7.1 illustrates the expected payment pattern and funding sources from 30 September 2026 for the cyclone pool's current liabilities as calculated at 30 June 2026, and future claims (assuming median claims experience for the 2026–27 cyclone season). Current cyclone pool assets plus future premium income are expected to be sufficient to fund the \$629 million central estimate of claims costs from past events. The final claim payments on current liabilities are expected to be made in the 2028–29 financial year.

The Liquidity Coverage Ratio (LCR) as defined in the Financial Resilience Policy, considers the ratio of liquid assets to future cash outflows in a stressed scenario. As at 30 June 2026, the LCR was approximately 700%, which is significantly above the target of 120%. This indicates substantial liquidity against the defined stressed cash outflow at that date. The ratio will change as claims are paid, premiums are received, new cyclone events occur, and maturing investment assets are reinvested.

Figure 7.1 – Funding sources for current liabilities plus future median claims experience



The cyclone 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 pool, which could be over 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. This lag was observed over the 2025–26 financial year, which started with net liabilities (excluding risk margin) of around \$400 million. The pool was able to settle claims as they fell due

over the financial year without transfers from either the terrorism pool or the Commonwealth guarantee, due to the inflow of premiums.

Section 7.6 considers cash flow modelling scenarios to assess liquidity.

7.6 Cash flow modelling scenarios

The modelling indicates that the cyclone pool has substantial capacity to fund additional claims before funding from the Commonwealth guarantee is required. Under the scenario assumptions, cyclone pool assets and future premiums can fund an additional event of approximately \$2.1 billion, increasing to approximately \$5.4 billion after allowing for a transfer of terrorism pool assets.

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 a transfer of terrorism pool assets.
- Scenario 3 – Stress scenario: funding of a \$10 billion event.

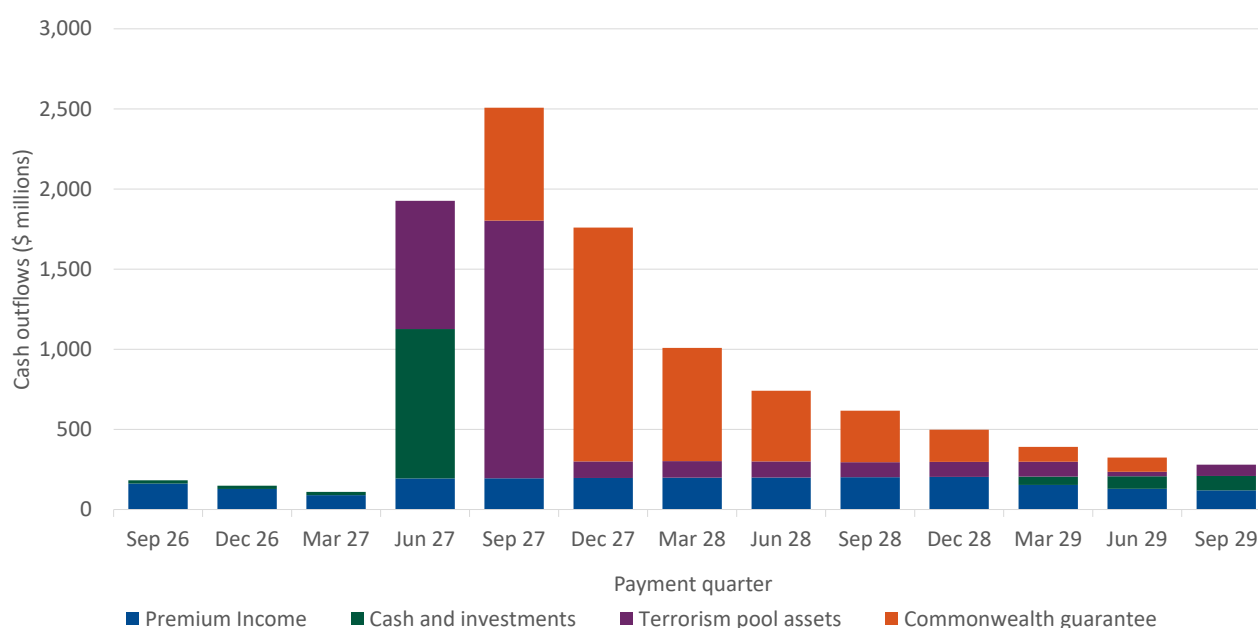
The cash flow modelling assumes that:

- The cost of past cyclone events and timing of payments will be equal to current central estimates as at 30 June 2026.
- The scenario event occurs in the middle of the 2026–27 cyclone season.
- Claims experience for the 2027–29 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 2026.

Results of the cash flow modelling show that:

- Scenario 1 – Under the scenario assumptions, the cyclone pool will be able to pay claims from its investable assets and future premiums for an event costing up to \$2.1 billion. The modelled probability of claims costs for the 2026–27 cyclone season exceeding \$2.1 billion is approximately 8%.
- Scenario 2 – Under the scenario assumptions, the cyclone pool will be able to pay claims from current cyclone pool assets, future premiums and transferred terrorism pool assets for an event costing up to \$5.4 billion. The modelled probability of claims costs for the 2026–27 cyclone season exceeding \$5.4 billion is approximately 3%.
- 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 2026–27 cyclone season exceeding \$10 billion is approximately 1%. The funding sources for this scenario are illustrated in Figure 7.2. Under this scenario, 13% of costs would be funded from cash and investments, 22% from future premiums and 29% from terrorism pool assets. Calls on the Commonwealth guarantee totalling \$4.0 billion would be required to meet the shortfall. Any requirement to repay the Commonwealth guarantee would affect the pool's ability to accumulate reserves following the event.

Figure 7.2 – Funding sources for claim payments with 2026–27 cyclone season costing \$10 billion



These scenarios illustrate the cyclone pool's funding capacity under the specified assumptions. They are not forecasts or estimates of the maximum loss that the pool could experience. Results would differ if claims on existing events deteriorated, future claims experience differed from the assumed median, premium income changed or claim payment patterns differed from those assumed.

7.7 Future accumulated position scenarios

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

- Baseline – Projection of the accumulated position over 10 years, based on the current accumulated position and modelled distribution of losses.
- Scenario 1 – Stressed scenario with cyclone claims costs of \$10 billion in the 2026–27 cyclone season.
- Scenario 2 – Scenario in which modelled costs have been underestimated, and actual mean claims are approximately 20% higher than current estimates (equal to the highest model estimate shown in Table 4.3).
- Scenario 3 – Lower losses over the first 5 years (average losses up to the modelled median).
- Back testing – Normalised claims costs for cyclone events from 1967 to 2026.

The modelling assumes that:

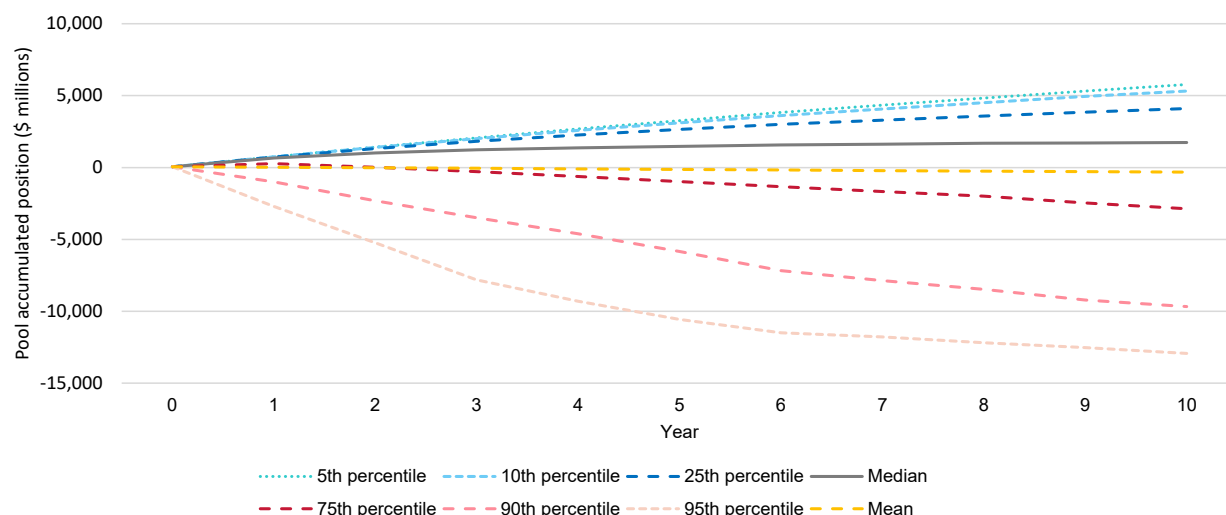
- The starting accumulated position is net assets of \$60 million, which reflects the cyclone pool's position as at 30 June 2026.
- The cyclone pool remains at a steady state level of exposure.
- The cyclone pool is at its current assessed level of 95% premium adequacy throughout the projection.
- Investment income is set to zero. Investment income could become material if the cyclone pool builds up a significant level of assets.

Actual outcomes will depend on the timing and severity of future cyclone events, and may fall outside of the ranges shown.

7.7.1 Baseline projection

The ‘funnel’ of financial outcomes illustrated in Figure 7.3 represents the probability distribution of the cyclone pool’s accumulated position over the longer term.

Figure 7.3 – Distribution of financial outcomes for the cyclone pool over a 10-year timeframe (from 30 June 2026 as Year 0)



The same results are shown in Figure 7.4 excluding the more extreme percentiles, to better illustrate the deficit movement in the mean scenario.

Figure 7.4 – Distribution (central percentiles only) of financial outcomes for the cyclone pool over a 10-year timeframe (from 30 June 2026 as Year 0)

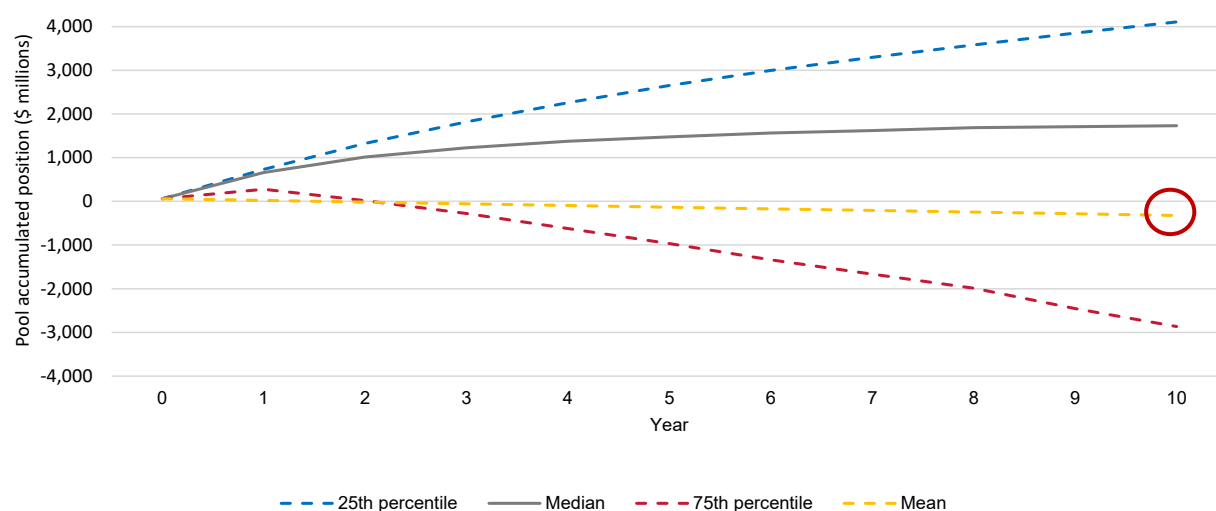


Figure 7.3 and Figure 7.4 show that the potential financial outcomes for the cyclone pool are highly variable:

- At the end of the 2026–27 financial year, there is a 10% chance of the cyclone pool’s accumulated net assets being \$735 million or more, and a 10% chance that the pool’s net liabilities will deteriorate to \$1.0 billion or more.
- At the end of 10 years, the mean accumulated position would be a net liability of approximately \$324 million (shown in the circled area in Figure 7.4). This reflects the cumulative effect of premiums being approximately 5% below modelled claims and expenses over the projection period. The deficit is small relative to the range of potential outcomes from cyclone claims, but illustrates that maintaining premium adequacy at the lower end of the target range indefinitely may gradually weaken the pool’s financial position.

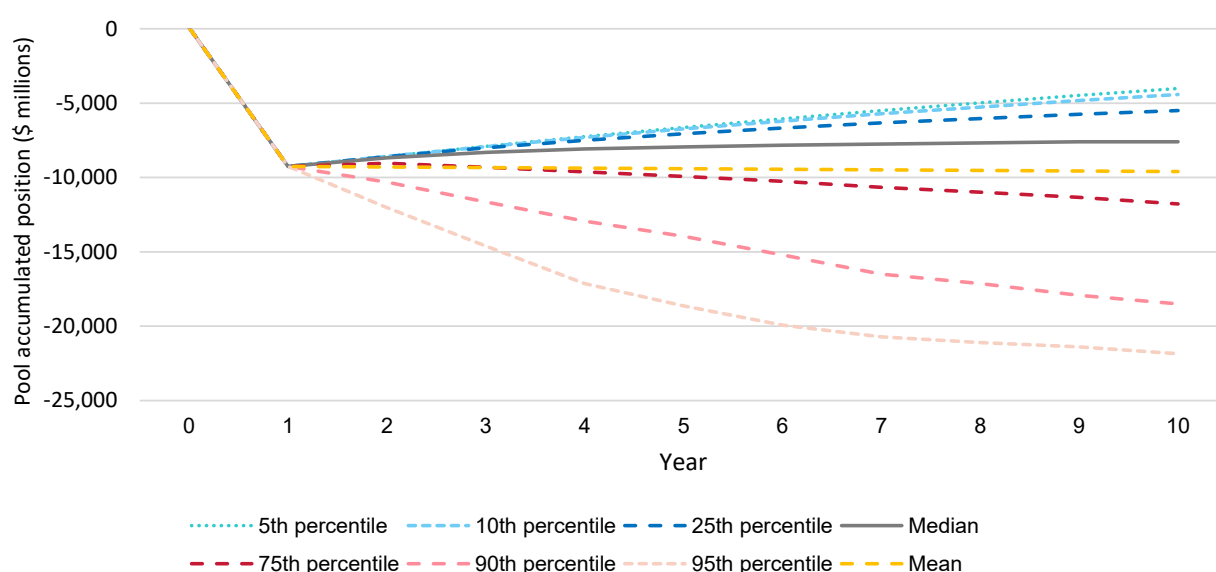
- There is a 10% chance of net liabilities of \$9.7 billion or worse, and a 10% chance of net assets of \$5.3 billion or more at the end of 10 years.

The Financial Resilience Policy's target range of $\pm\$2.35$ billion recognises that substantial positive and negative accumulated positions can arise through ordinary claims variability without necessarily requiring a capital response.

7.7.2 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 illustrates the distribution of financial outcomes if there were claims costs of \$10 billion in the 2026–27 financial year. The modelled probability of this scenario is approximately 1%.

Figure 7.5 – Distribution of financial outcomes under Scenario 1 with \$10 billion of claims cost in the first year (from 30 June 2026 as Year 0)



As illustrated in Figure 7.2, this scenario would require a substantial call on the Commonwealth guarantee after using all available assets from both the cyclone and terrorism pools. 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. Under this scenario, at the end of the 20th year, there would be a 5% chance of the cyclone pool recovering to a net asset position.

Increasing premium rates would not be an effective method of reducing a net liability position of this size, as even a 25% premium rate increase (which would equate to additional premiums earned of approximately \$175 million per annum) would only lower the mean net liabilities at the end of 10 years from \$9.6 billion to \$7.9 billion. This demonstrates why a large accumulated deficit following an extreme event would not be automatically recovered through premium increases. The scale of premium increases required would conflict with affordability objectives while having only a limited effect on the accumulated position over a practical timeframe.

An extreme cyclone event is a risk to the financial outlook of the cyclone pool. A catastrophic event of \$10 billion during the next financial 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.

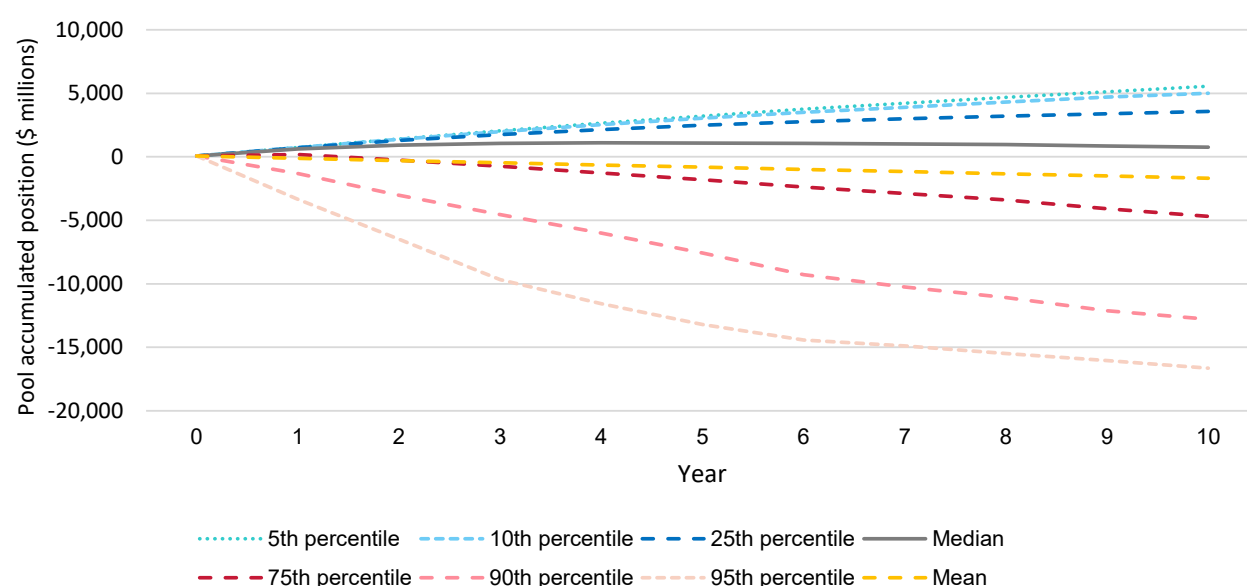
7.7.3 Scenario 2: underestimating modelled costs

Figure 7.6 illustrates the distribution of financial outcomes in a scenario where modelled costs are underestimated, and actual mean claims are approximately 20% higher than current estimates. This represents a level of premium adequacy of approximately 80%, in line with the highest model estimate in Table 4.3.

Under this scenario, the mean accumulated position would deteriorate each financial year by approximately \$175 million, reflecting the lower premium adequacy. The mean outcome at the end of 10 years would be a net liability position of \$1.7 billion. Despite the negative mean result, the pool would still have a greater than 50% probability of a net asset position because the claims distribution is highly skewed.

This scenario demonstrates the importance of periodically reassessing the modelled AAL and premium adequacy rather than relying on the pool's observed accumulated position alone.

Figure 7.6 – Distribution of financial outcomes under scenario 2 with claims costs 20% higher than current estimates (from 30 June 2026 as Year 0)

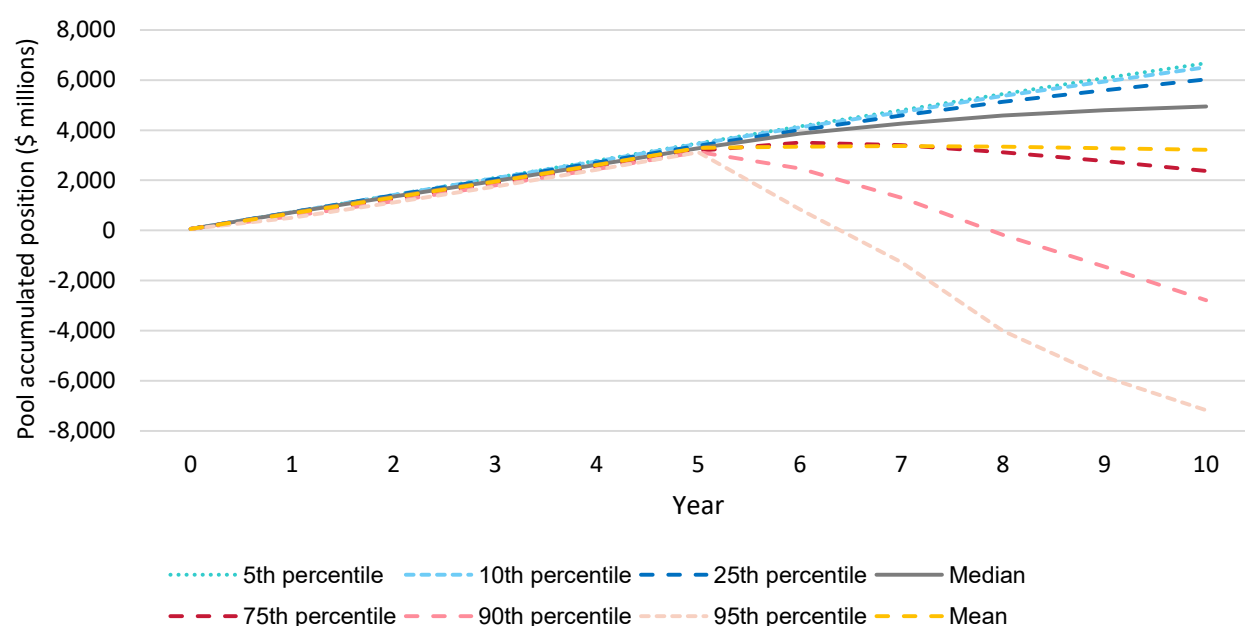


7.7.4 Scenario 3: lower claims costs for 5 years

Under this scenario, the median modelled claims cost (approximately \$88 million per year) would be 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 4 out of 5 years, and pay out claims in excess of the premium in one out of 5 years. Low cyclone activity across multiple years of operation would lead to the build-up of material net assets.

Figure 7.7 considers a scenario where the cyclone pool has an average claims cost over 5 years that is less than or equal to \$88 million, which would result in the average accumulation of at least \$3 billion of net assets. This scenario has a probability of approximately 13%. At the end of the 10th year, there would be a 25% probability that the pool would have net assets of \$5.8 billion or greater. There would be an approximately 17% chance that the cyclone pool would return to a net liability position by its 10th year under this scenario without any management actions being taken.

Figure 7.7 – Distribution of financial outcomes for the cyclone pool under scenario 3 with median claims costs for 5 years (from 30 June 2026 as Year 0)



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.

This scenario illustrates that sustained below-median cyclone experience could result in a material accumulation of assets. This outcome would not necessarily indicate that premiums have been set too high, because the cyclone pool's long-term claims distribution is highly skewed and less frequent high-cost years have a material effect on expected claims costs.

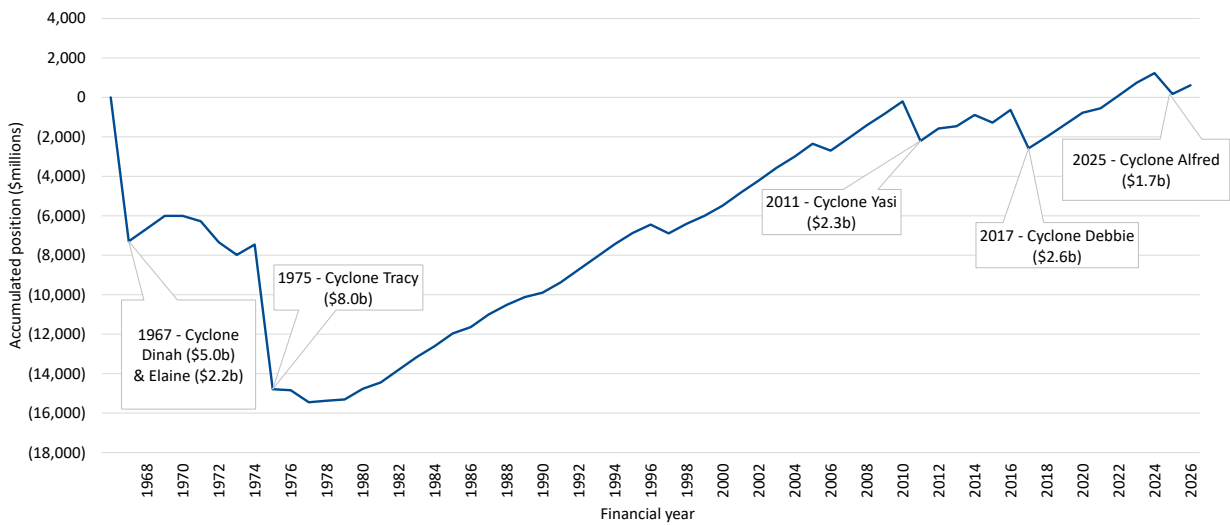
7.7.5 Back testing – historical cyclone claims costs since 1967

Figure 7.8 illustrates the cyclone pool's accumulated position if it had existed since 1967, with claims costs from historical events normalised to 30 September 2025 (adjusted for inflation, changes in exposure and changes in building codes). When interpreting this analysis, it is important to 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.

In addition, Figure 7.8 highlights the impact of a few large events on the cyclone pool's funding position. We have assumed that the pool started with no assets and charged premiums of \$668 million.³⁴ The pool would immediately be in a net liability position following a few large events, including TC Dinah and TC Elaine which occurred in 1967. The pool would return to a neutral position in 2022 (56 years after the inception of the pool). Net assets over the last few years would build to \$662 million in 2026.

³⁴ \$668 million is the annual premium on pool exposure as at 31 March 2026, as shown in Table 4.2

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



Source: ICA

Overall, the analysis supports the Financial Resilience Policy's approach of managing the cyclone pool over the longer term rather than seeking to return the accumulated position to zero over a fixed period. The pool currently has substantial liquidity, its accumulated position is within the target range, and the terrorism pool and the Commonwealth guarantee provide additional funding capacity for severe events. As a result, no capital management action is currently recommended.

Appendix A: Summary of data sources

The analysis in this report relies on data supplied to ARPC by insurers who have joined the cyclone pool, modelling data from the 2025 and 2026 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, Figure 1.2, Table 3.1, Table 3.3, Figure 3.1, Table 3.4, Figure 3.2, Table 3.6, Table 3.7, Figure 3.3, Figure 3.4, Figure 3.5, Table 5.1, Table 5.2, Table 5.3, Table 5.4	30 June 2026
		Figure 3.3, Figure 3.4, Table 5.2, Table 5.3	30 June 2025
		Figure 3.3, Figure 3.4	30 June 2024
		Figure 3.3, Figure 3.4	30 June 2023
		Figure 3.3, Figure 3.4	
Financial projections	ARPC's financial projections for the 2025–26 financial year. These reflect the approved budget and updated forecast for the 2025–26 financial year, and distribution of cyclone claims costs assumed for the 2025 FOR.	Table 1.2, Table 3.1, Table 3.3, Table 3.7	1 July 2025
	ARPC's financial projections over the next 3 financial years. This includes the approved budget and updated forecasts, plus assumed distribution of cyclone claims costs for the 2026 FOR (derived from the yearly event loss table, refer below).	Table 1.2, Table 3.2, Table 3.5, Table 3.6, Table 3.8, Figure 6.4, Figure 7.1, Figure 7.2, Figure 7.3, Figure 7.4, Figure 7.5, Figure 7.6, Figure 7.7	30 June 2026
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	Figure 1.2, Table 1.4, Figure 3.1, Table 3.4, Table 4.2, Table 4.3, Table 4.4, Table 4.6, Figure 6.1, Figure 6.2, Figure 6.3, Figure 6.4, Figure 6.5, Table 6.4	31 March 2026
		Table 4.6, Figure 6.1, Figure 6.2, Table 6.4	31 March 2025
		Figure 6.4, Figure 6.5	Earlier time periods

Data sources	Description	Table/Figure	Data date
	- 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.		
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 6.2	31 December 2024
G-NAF technical rates	G-NAF technical rates (cost per sum insured) for Wind, Flood and Surge developed during the 2026 Pricing Review using catastrophe model output.	Figure 1.2, Table 1.4, Figure 3.1, Table 4.2, Table 4.3, Figure 4.1, Figure 4.2, Table 4.4, Table 6.2	30 September 2025
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 1.2, Figure 3.1, Table 3.5, Figure 3.4, Figure 4.2, Figure 7.3, Figure 7.4, Figure 7.5, Figure 7.6, Figure 7.7	30 September 2025
Historical loss data			
ICA Historical Catastrophe List	List of catastrophes and associated costs reported by insurers to the ICA, normalised to allow for growth in the number of dwellings and inflation.	Figure 4.1, Figure 4.2, Figure 7.8	30 September 2025

Data sources	Description	Table/Figure	Data date
Economic data			
ABS – CPI, PPI	Historical inflation indices.	Figure 6.4, Figure 6.5	30 June 2026
RBA	Forecast inflation.	Figure 6.4	May 2026
Other external data			
The Bureau	Track data for past tropical cyclones.	Figure 1.1, Figure 3.2	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 2026
Finity	Insurance quote data.	Figure 4.3	January 2026
ISA	An industry-owned data collection and analysis service of statistics made available to subscribers only.	Figure 6.4, Figure 6.5	June 2026

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. Following is a summary of key areas of uncertainty in 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 have drawn 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 variations 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 we largely rely on commercial products and/or public studies.
- Research into flooding related to cyclones is not well developed. Our view draws on multiple data sources and commissioned research, and we consider it 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 those used to set premium rates and those used to quantify claims cost variability.
- Catastrophe models use claims data to calibrate modelled losses. There is less claims data available for areas that experience cyclone events less frequently or have lower exposure. The modelled losses in these areas may be subject to greater uncertainty.
- Extreme events are not well represented in the limited historical records available in Australia. Catastrophe models use extreme value distributions to simulate low-frequency events. The outcomes of these processes are sensitive to parameter selection and may be subject to greater uncertainty.

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 as it relates to 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. The modelled claims cost variability for both floods and surge is based on one model only, which is considered a simplified approach.

Appendix C: Climate change drivers

The entries in Table C.1 describe the direction of individual hazard drivers rather than their combined effect on the cyclone pool's expected claims costs. For example, increasing rainfall intensity may increase the cost of an individual event, while declining event frequency may partly or fully offset that effect at the portfolio level. The interaction between drivers, and differences by peril and by region, prevent a single conclusion that the cyclone pool's expected claims costs will either necessarily increase or decrease with climate change.

Table C.1 – Summary of climate drivers affecting tropical cyclones in the Australian region

Driver	Impact	Confidence level	Possible consequence for the cyclone pool
Changes in the frequency and severity of events	Overall frequency is expected to decline with ongoing warming; ³⁵ however, variability remains high. The Bureau's records indicate a downward trend in the annual number of tropical cyclones over recent decades, although interpretation is affected by natural variability and changes in observing practices.	Medium ³⁶	Fewer events and higher volatility of results may partially offset factors leading to higher losses.
	Globally, the proportion of storms with high intensity is expected to increase.	High ³⁶	Uncertain net effect on overall wind losses: fewer events may partly or fully offset higher loss severity from more intense events.
	The overall number of high intensity storms is expected to stay stable or slightly increase.	Low ³⁶	
Climate cycles	Strong ENSO ^{37, 38} events may occur more often.	Medium ³⁸	Increased volatility of results.
Changes in the characteristics of events	Cyclone winds are projected to become more intense.	Medium ³⁹	Increased severity of losses.
	Extreme rainfall is expected to increase. ^{36, 40}	Medium ³⁶ to High ⁴¹	Increased severity of flood losses.
	The forward speed of events may decrease, ⁴² which could mean that either wind or rain remain over an area for longer periods.	Low ⁴³	Increased duration of rain events at any given location, which could impact both pluvial (flash) and fluvial (riverine) flooding.

³⁵ Australian Climate Service (2025).

³⁶ Intergovernmental Panel on Climate Change (IPCC) (2023). Regional fact sheet – Australia. Working Group I – The Physical Science Basis. Sixth Assessment Report.

³⁷ Refers to the 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.

³⁸ Cai, W. et al. Anthropogenic impacts on twentieth-century ENSO variability changes. Nature Reviews Earth and Environment 4 (2023), 407-418.

³⁹ Australian Climate Service (2023). *Tropical Cyclones.*

⁴⁰ 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.

⁴¹ IPCC (2023). Synthesis Report of the IPCC Sixth Assessment Report (AR6). Longer Report.

⁴² 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.

⁴³ Kossin, J.P. A global slowdown of tropical-cyclone translation speed. *Nature* (2018), 558.

Driver	Impact	Confidence level	Possible consequence for the cyclone pool
Changes in exposure to storm surge	Sea levels are rising. ^{44, 45}	High ⁴⁶	Increased exposure to storm surge and coastal inundation.
	Enhanced warming of the ocean around Australia's coast. ⁴⁶	High ³⁶	
	Higher intensity events.	High ³⁶	
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. There is no consensus on poleward migration in Australia, although a small southward shift is possible.	Low ^{47, 48}	There is potential for an impact on the cyclone pool due to the 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 ⁴⁹	Larger areas affected in an event.

⁴⁴ 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.

⁴⁵ 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).

⁴⁶ 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.

⁴⁷ 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.

⁴⁸ 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.

⁴⁹ 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.

Appendix D: Previous FOR actions – closed

Table D.1 – Closed FOR actions

Year / Number / Category	Action	Planned timeframe	Status
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 2024–25)	Closed. ARPC completed a catastrophe model procurement in December 2025. This involved the licensing of a new panel of catastrophe models that are now used to estimate expected claims costs for pricing and losses from DCEs. The new panel provides a broader range of views on risk.
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 2024–25)	Closed. The Financial Resilience Policy replaced the Capital Management Policy and now provides a framework for managing capital and liquidity in addition to recognising that premium rates should not automatically respond to short-term movements in the cyclone pool's financial position.
2024-1. Risk mitigation	Monitor the take-up of existing mitigation discounts by region and consider initiatives to improve the 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 2023–24)	Closed. Mitigation discounts are now in place for all 3 classes. Take-up of Home mitigation discounts has increased each financial year, but take-up of Strata and SME mitigation is low. A new Action (2026-4) has been opened to address this.
2024-2. Under and non-insurance	Use the cyclone pool's exposure dataset and property replacement cost estimate of 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 2023–24)	Closed. ARPC recently published a report into the level and drivers of non-insurance, analysed using the cyclone pool's exposure dataset. In addition to this, property replacement cost estimate data was used to assess the level of underinsurance in the cyclone pool exposure for the purpose of estimating the impact of underinsurance on the expected claims costs as part of the 2026 Pricing Review.
2024-3. Product coverage rating	Review the product coverage rating for Home. Assess whether a product coverage rating is required for both Strata and SME properties.	12–24 months (set in 2023–24)	Closed. We have reviewed the product coverage rating for Home and determined that it remains appropriate. The review concluded that a product coverage rating should not currently be introduced for Strata and SME because the expected benefit does not justify the implementation cost. We will continue to monitor changes in product coverage.

Appendix E: Glossary

Term	Definition
2025 Pricing Review	The 2025 Pricing Review is the most recent completed pricing review, with updated premium rates effective from 1 April 2026.
2026 Pricing Review	The 2026 Pricing Review is currently underway, with updated rates expected to be published in December 2026.
ABS	Australian Bureau of Statistics
Accumulated position (net assets or net 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).
APRA	Australian Prudential Regulation Authority
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.
CPI	Consumer Price Index
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 (riverine) flooding occurs when water in a river, lake or other water body overflows onto the surrounding banks and land.
FOR	Financial Outlook Report
Financial Resilience Policy	ARPC's policy setting out the Board's direction to ARPC's management regarding pricing, capital management, liquidity, and investments.
FY	Financial year
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.

Term	Definition
ICA	Insurance Council of Australia
Incurred claims cost (ultimate)	The total estimated claims cost comprising paid to date, outstanding amounts and IBNR.
IOD	Indian Ocean Dipole
IPCC	Intergovernmental Panel on Climate Change
ISA	Insurance Statistics Australia
LCR	Liquidity Coverage Ratio
Modelled cyclone pool cost	The estimated AAL plus an allowance for ARPC's operating expenses and eligible insurer claims handling expenses.
NEMA	National Emergency Management Agency
Non-insurance	Refers to a situation when no insurance is held to cover exposure to a risk.
Operating expense ratio	Total operating expense divided by total gross written premium.
Pluvial flooding	Surface or flash flooding caused by intense rainfall, including away from rivers and other watercourses.
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 ARPC's 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 sufficiency (PoS)	The likelihood that capital or liabilities will be sufficient to cover obligations.
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.
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).
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 <i>Terrorism and Cyclone Insurance Regulations 2003</i> .
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.

Term	Definition
TC	Tropical Cyclone
TCI Act	<i>Terrorism and Cyclone Insurance Act 2003.</i>
Underinsurance	A situation in which a policyholder's insurance coverage (sum insured) is below the cost of rebuilding the property, or the policy excludes relevant coverage (for example, flood).
Wind / Flood / Surge risk band	Risk bands by peril determined by ARPC and used to set premiums, indicating a relative level of risk.

Appendix F: Letter of advice – Reviewing Actuary



11 September 2026

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 2026 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 2026 FOR.

Summary of key findings

- The FOR addresses the key areas required by section 5E of the Regulations.
- After two years of modest positive operating results, the pool experienced a large negative operating result in 2024-25, and net liabilities of \$734 million at 30 June 2025. Since then, the pool has paid all claims as they fell due and net liabilities are close to zero at 30 June 2026. This is 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.
- The progress in settling claims in respect of Tropical Cyclone Alfred has allowed the release in the risk margin within the claims reserve. This has contributed to the significantly improved operating result in 2025-26.
- ARPC has recently updated the panel of models used to determine the pool's expected claims cost. This has impacted the Actuary's assessment of premium adequacy. The current premium adequacy ratio is calculated to be 95.1%. Whilst this is acceptable in the short term, if this position is maintained over the long term, it may progressively become more difficult to demonstrate that the pool is being operated on a cost neutral basis. The 2026 pricing review is examining options for future premiums. This will be considered separately by the Board.
- 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.

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 draft version 4 of the June 2026 FOR on 9 September 2026; [2] the model used to determine outstanding claims provisions; [3] the *ARPC – Actuarial Valuation Report as at 30 June 2026*, setting out the results of the outstanding claims valuation; and [4] Taylor Fry's letter reviewing the actuarial 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.

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 2025-26. With all insurers having now joined the pool, the reinsurance premiums received and exposure to cyclone risk is now relatively stable. This means that the experience from cyclones and subsequent claims is the main driver of scheme financial performance each year.

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. Last year, TC Alfred more than eroded the accumulated assets to lead to a net liability position of over \$700m. However, cyclone experience in 2025-26 was again below the modelled long-term average, ultimately returning the cyclone pool to a broadly neutral position at 30 June 2026.

Fluctuations in annual claims experience is to be expected. Section 3 of the FOR illustrates the skewed nature of the distribution of claims costs; that claims are expected to be below the modelled long-term average roughly 4 out of every 5 years, and that \$1.7 billion in claims could occur roughly every 10 years.

The operating result of the pool will 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. Subsequently, the pool is expected to move between significant asset and significant liability positions, noting that a large, accumulated liability could take many years to recover.

Assessment of the adequacy of premiums.

Section 4 provides an assessment of the adequacy of premiums.

A major review of the catastrophe models, modelled claim costs and premium rates is ongoing. Updating catastrophe models ensures that the most recent information is used to assess premium adequacy. This information can ultimately be reflected in the premiums. The update has increased the modelled costs by 3% overall, primarily driven by a 27% increase in Flood AAL. There are also material movements at a regional and property level.

The increase in modelled costs leads to lower premium adequacy at 30 June 2026. The estimated premium adequacy ratio was 95.1% (previously 100.1%). This is just within the Financial Resilience Policy's target range of 95%-105%. A premium adequacy ratio under 100% may be acceptable in the short term, however operating the pool at a premium adequacy under 100% in the longer term would be inconsistent with the legislative objectives. Considering this information, a review of premium rates is underway. I agree with this action.

The financial forecast (Table 3.2) anticipates a negative underwriting result. This reflects the premium adequacy ratio (95.1%). This loss is offset by investment income. The resulting forecast operating result is just above break-even. Investment income cannot be relied upon to consistently fund an operating loss in every year as the level of assets in the pool is dependent on claims experience, which is volatile. The forecast shows it may offset a shortfall in the short term.

Assessment of the adequacy of the reserves.

Section 5 sets out the outstanding claims and premium liabilities and discusses the uncertainty in this estimate. The most material component of the outstanding claims liabilities remains the reserve allocated to TC Alfred. The reserve for, and the potential insights from, this event are therefore the focus of my review.

\$1.1 billion of claim payments have been made in 2025-26 relating to TC Alfred. This along with associated risk margin release and adjustments to assumed development patterns decreases the TC Alfred liability to \$462 million. The outstanding claims liability estimate for all claims at 30 June 2026 is \$722 million. Based on the data available at 30 June 2026, there is nothing to suggest that the outstanding claims liabilities are inappropriate.

The emerging experience from TC Alfred and other cyclones allows for greater understanding of cyclone claim development, with the potential to inform claims reserves as well as other cyclone pool operations including pricing. I recommend harnessing this information to inform:

- Reserves for claims following cyclones which 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). The performance of the catastrophe models, the estimated claim development patterns, risk margins and the credibility weights applied could all be reviewed and evaluated as the pool's experience grows.

- The allowances for broader expenses including unallocated expenses. TC Alfred has had higher unallocated expense experience (as a percentage) despite its larger scale. Understanding this experience could improve both the claims reserving estimate and pricing as well as inform the monitoring and auditing of insurer claims management practices.

The FOR reports premium liability reserve of \$253 million. I note that assumptions regarding the seasonality of cyclones underpin this reserve which I have not reviewed. The premium liability reserve includes a 3.3% 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 3.3% is likely to be conservative.

Alternatively, the premium liability calculation relies on a selected loss ratio assumption of 97.1% which was derived from the 2025 pricing basis. I note that a loss ratio derived from the current pricing basis would now likely exceed 100%. This would increase the premium liabilities and suggest a premium deficiency. In the absence of a change in premiums, this may have implications for future financial reporting.

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 neutral position, the FOR states that an event exceeding \$2.1 billion occurring next season would require a call on terrorism pool assets to meet claims payments, while an event exceeding \$5.4 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.

Inflation has been more volatile in recent years. Inflation can present as a risk to the extent that sums insured do not increase in line with increases in claims costs. This FOR compares changes in sums insured and building costs since 2017. The FOR shows (Figure 6.5) that sums insured have moved broadly in line with building input costs since 2017 and that this does not suggest a material change in underinsurance that would need further provision in the pool's premium rates. The report acknowledges that this can present short term pressures, it also notes that the pool prices for the long term. I agree with this conclusion.

The pool also manages its capacity to absorb risk through its Financial Resilience 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 neutral position of the pool, the FOR focusses on liquidity risk and cashflow modelling. The current cyclone pool assets plus future premium income are expected to be sufficient to fund the estimated \$629 million 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 (assuming average claims costs over the 5 years equal to the median) accumulate net assets of \$3.10 billion in 5 years. Following the update to the Financial Resilience Policy, no actions are proposed regarding ARPC's capital management. This is appropriate.

ARPC invests its assets to be sufficiently liquid to meet expected future claims. The FOR shows 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 2026. I support the actions set out in the FOR. I encourage careful consideration of the updated catastrophe modelling and setting future premium rates.

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.

Yours sincerely



Guy Thorburn
Australian Government Actuary