Financial Rights LEGAL CENTRE

financial counselling australia

Submission by the Financial Rights Legal Centre & Financial Counselling Australia

The Australian Government Treasury Department

Review of the Terrorism and Cyclone Insurance Act 2003

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About the Financial Rights Legal Centre

The Financial Rights Legal Centre is a community legal centre that specialises in helping consumers understand and enforce their financial rights, especially low income and otherwise marginalised or vulnerable consumers. We provide free and independent financial counselling, legal advice and representation to individuals about a broad range of financial issues. Financial Rights operates part of the National Debt Helpline, helping NSW consumers experiencing financial difficulties. We also operate the Insurance Law Service which provides advice nationally to consumers about insurance claims and debts to insurance companies, and the Mob Strong Debt Help services which assist Aboriginal and Torres Strait Islander Peoples with credit, debt and insurance matters.

Financial Rights also conducts research and collects data from our extensive contact with consumers and the legal consumer protection framework to lobby for changes to law and industry practice for the benefit of consumers. We also provide extensive web-based resources, other education resources, workshops, presentations and media comment.

This submission is an example of how CLCs utilise the expertise gained from their client work and help give voice to their clients' experiences to contribute to improving laws and legal processes and prevent some problems from arising altogether.

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Responses to Consultation Questions

Thank you for the opportunity to comment on Treasury's Review of the *Terrorism and Cyclone Insurance Act 2003*. This joint submission is on behalf of Financial Rights Legal Centre (**Financial Rights**) and Financial Counselling Australia.

Cyclone Reinsurance Pool

1. Is the cyclone pool helping to reduce insurance premiums for households, small businesses, and residential and commercial strata with medium to high cyclone and related flood damage risk, when compared to what they would be in the absence of the cyclone pool, while maintaining premiums at comparable levels to the private market for those with lower risk?

Yes, the cyclone pool is helping to reduce insurance premiums with medium to high-risk cyclone when compared to what they would be in the absence of the pool.

Evidence from the Australian Competition and Consumer Commission (**ACCC**) Price Monitoring reports as well as reports from the Australian Reinsurance Pool Corporation (**ARPC**) and the Massachusetts Institute of Technology (**MIT**)[1] confirm that quotes as well as actual paid premiums have reduced for medium to high-risk properties while maintaining comparable premium levels to the private market for those with lower risk.

However, the purpose of the cyclone pool is to improve insurance access and affordability for households, Small to Medium Enterprises (**SMEs**) and strata properties. Residential insurance for consumers with medium to high cyclone risk is still unaffordable for many homeowners in Northern Australia, and prices have been increasing even while the pool reduces reinsurance costs. For example, average strata insurance premiums in Northwestern Western Australia and North Queensland were higher on average by 124% and 27% respectively. In addition to this, the cyclone pool is intended to increase competition in cyclone-prone areas by encouraging greater insurer participation and support higher levels of insurance coverage by property owners. Although the pool achieved reduced strata premiums for some high-risk areas, it did not lead to increased competition or new market entrants offering strata insurance. Furthermore, the ACCC's most recent report noted insurer appetite for expanding coverage in these regions remains limited.

[1] Solomon, Adam, Insuring Correlated Climate Risk: Evidence from Public Reinsurance, July 2024.

As the Consultation Paper points out, the ACCC's reporting found that there continues to be a range of non-cyclone related factors that together are acting to sustain very high premiums.

Financial Rights submits that the design of the pool should be changed so as not to require cost neutrality in the longer term. If the purpose of the cyclone pool is to improve access and affordability for residents and small businesses in Northern Australia, greater investment will need to be made to ensure the cyclone pool itself is more likely to achieve affordable insurance premiums for consumers in cyclone risk areas.

While we recognise that reducing risk is the most sustainable way to reduce insurance premiums, we submit there is a role for some direct reinsurance premium subsidies for vulnerable consumers in limited circumstances. More importantly there is a role for Government investment into mitigation activities which will reduce risk and lead to reduced reinsurance and retail insurance premiums.

Recommendations

1. **The design of the pool should be changed so as not to require cost neutrality in the longer term and greater Government investment directly into the pool should commence.**

2. **The ARPC with the support of the ACCC Price Monitoring team should investigate options for direct reinsurance premium subsidies for vulnerable consumers in limited circumstances.**

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2. Are the ARPC's discounts for mitigation effective? Is pricing the only way the ARPC has encouraged risk mitigation?

No, the ARPC's discounts for mitigation have not been very effective. It is clear from the ACCC reporting the impact of private mitigation on premiums is inconsistent and small.

As the ACCC's recent report sets out,[2] one of the objectives of the pool is to maintain incentives for private mitigation, to improve affordability and property resilience over time. But the design of the pool and the accompanying legislation does not require insurers to adopt the ARPC's mitigation framework, or any other private mitigation framework. The law does not place any requirements on insurers to pass-through or communicate mitigation

[2] ACCC, Insurance monitoring Fourth report following the introduction of a cyclone and cyclone-related flood damage reinsurance pool July 2025

related benefits. In fact, the ACCC found that a small number of insurers are yet to implement any mitigation framework in their pricing. For many households, this means their insurance premium will not reflect any price reductions for cyclone mitigation measures they may have implemented at their home.[3]

The ACCC recommended that additional measures are likely needed to support investment in private mitigation to achieve meaningful improvements in risk reduction and affordability over time.

The current design of the cyclone pool relies on retail insurers to encourage mitigation activities, verify works have been done, inform the ARPC and then pass on risk reduction discounts. Unfortunately, the ACCC has found that insurers are not doing enough to motivate private cyclone risk reduction. Insurers are simply not communicating with consumers about the impact of private mitigation on premiums. Realistically insurers have no financial incentive to invest operational funds into these communications or into verifying mitigation works if they are then expected to pass through the entire discount. The ARPC's Pool Statistics Report in December 2024[4] found that only a small proportion of home buildings reinsured by the cyclone pool have completed mitigation and are accessing the cyclone pool premium discount allowances.

The Act requires the ARPC to set reinsurance premiums in a way that maintains incentives to reduce and mitigate the risk of eligible cyclone losses. The ARPC needs to play a bigger and more direct role in incentivising mitigation. The ARPC should be a vehicle for driving resilience investment.

Financial Rights submits that the ARPC could do much more than simply setting reinsurance premiums in a way that incentivises mitigation. Consumers need better access to mitigation information, funding for mitigation works as well as reinsurance premium discounts.

Better information for consumers about mitigation

The ARPC could play a bigger role in driving consumer information campaigns about the importance of cyclone mitigation. Consumers are not aware they can get discounts for completing certain mitigation activities, and they are not confident that their insurer will indeed pass those discounts on. Information about mitigation is patchy and needs to come from a trusted source for consumers to invest private funds into resilience upgrades.

[3] ACCC, Insurance monitoring report, July 2025. https://www.accc.gov.au/about-us/publications/serial-publications/insurance-monitoring-reports/accc-insurance-monitoring-report-2025
[4] APRC, Cyclone Reinsurance Pool Statistics Report, December 2024

There could be a role for the ARPC to partner with the Resilient Building Council to do more tailored risk rating assessments for homes and provide homeowners with reports about what mitigation works could be done on their property.

The ARPC already has a huge amount of household-level data regarding which properties have the highest levels of cyclone risk and which houses are the most likely to benefit from mitigation works. If this information was shared with the Resilient Building Council, it would be relatively straightforward to target resilience rating assessments to homes that are the most likely to benefit from risk reduction activities.

Recommendation

3. **The ARPC should partner with the Resilient Building Council to do tailored risk rating assessments for homes and provide homeowners with independent reports about what mitigation works could be done on their property.**

Invest pool reserves into funding mitigation works

Some of the ARPC's pool reserves should be used to provide grants for private mitigation. This will likely require a change to the Act. Currently many of the small proportion of home buildings reinsured by the cyclone pool that have completed mitigation received funding from the Queensland Household Resilience Program. If the ARPC also funded mitigation activities, there would be much greater take-up in Western Australia and the Northern Territory. Resilience grants through the ARPC should be funded by direct investment from Government into the pool.

Another opportunity for using pool reserves is at claims time. The ARPC is brought in by retail insurers at the claims point. If the insurer has a decent size claim they will send out an assessor to the property. At this point the ARPC could pay for the insurer to do a resilience ratings assessment as well as a damage assessment, and that report could go to the household and the insurer to support some build back better investments.

Finally, the ARPC could cover some costs for the insurer so that they do some of the build back better uplifts recommended in a Resilient Building Council rating report.

Recommendations

4. Some ARPC cyclone pool reserves should be used to provide grants for private mitigation activities. Resilience grants through the ARPC should be funded by direct investment from Government into the pool.

5. The ARPC should fund resilience rating assessments to be completed by the Resilient Building Council after a cyclone claim is lodged. These independent reports should be given to the homeowner as well as the insurer to support build back better investments.

6. Some ARPC pool reserves should be used to reimburse insurers for build back better uplifts recommended in resilience rating reports.

Strengthen the mitigation discount mechanism

The Act requires the ARPC to set reinsurance premiums in a way that maintains incentives to reduce and mitigate the risk of eligible cyclone losses for medium to high levels of cyclone risk. The ARPC currently complies with the act by offering reduced reinsurance premiums to an insurer if it confirms that one of the properties that it covers has implemented one of the four recognised mitigation activities (installing a new roof, tying down a roof, bracing a roller door or installing window protection). There are several ways the Government and the ARPC could strengthen how it incentivises risk reduction for eligible properties.

First, the Act should be amended to require insurers to adopt the ARPC's mitigation framework, or some other aligned mitigation framework.

Second, the ARPC should set mitigation targets for insurers (which could be rewarded by Government) to encourage insurers to do more to incentivise households to implement cyclone risk reduction measures. The ACCC has found that insurers have limited communication to consumers about the impact of private mitigation on retail premiums and there is a lack of effective price signalling.

Third, the ARPC has only listed and priced four mitigation activities which will attract a reinsurance premium reduction, and they are all aimed at cyclonic wind risk. There are no recognised mitigation activities for reducing cyclonic flooding risk. The ARPC should expand its list of mitigation activities and be clear with insurers what level of premium reductions they would attract. Better yet, the ARPC should formally partner with the Resilient Building Council to provide resilience ratings for medium to high-risk homes in Northern Australia

and actively encourage insurers and households to action the mitigation works recommended by the RBC in its tailored resilience rating reports.

Recommendation

7. The Act should be amended to require insurers to adopt the ARPC's mitigation framework, or some other aligned mitigation framework.

8. The ARPC should set mitigation targets for insurers (which could be rewarded by Government) to encourage insurers to do more to incentivise households to implement cyclone risk reduction measures.

9. The ARPC should expand its list of mitigation activities to include resilience works related to cyclonic flooding as well as cyclonic wind.

10. The ARPC should formally partner with the Resilient Building Council to provide resilience ratings for medium to high-risk homes in Northern Australia and actively encourage insurers and households to action the mitigation works recommended by the RBC in its tailored resilience rating reports.

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3. Are there any other matters that should be considered when assessing whether the cyclone pool should continue?

No comment.

4. Should the cyclone pool continue to exist? What would be the consequences of ending the cyclone pool?

Yes, the cyclone pool should continue to exist.

The most evident consequence of ending the pool would be that insurers have to go back to the private market for reinsurance. That shift will add 15-30% to the price of reinsurance for consumers in Northern Australia.

The cyclone pool is the first direct Government intervention into the retail home insurance market in Australia. It was never going to be a silver bullet for insurance accessibility and affordability, but it has had a measurable impact on premiums for medium to high-risk households. The ARPC has also learned a lot about cyclone and cyclonic flood risk in Northern Australia down to the household level. These lessons should be built on, not

abandoned. The ARPC should be an incredibly important vehicle for resilience works and extreme weather risk reduction activities in Northern Australia, and possibly beyond.

Ongoing Price Monitoring

In addition to the cyclone pool, the ACCC's general insurance price monitoring function should continue to exist. Financial Rights has been calling for a permanent *national* general insurance pricing monitor for many years. An independent pricing monitor improves consumer confidence in the fairness and accuracy of insurance premium pricing.

Under Part VIIA of the *Competition and Consumer Act 2010* (Cth), the ACCC may undertake price monitoring, as directed by the Minister. The ACCC currently has a limited role in monitoring insurance pricings in relation to the cyclone pool. The *Competition and Consumer (Price Monitoring—General Insurance Policies) Direction 2022* directs the ACCC to monitor general insurance prices before and after the introduction of a cyclone and related flood damage reinsurance pool until 30 June 2026. [5]

The ACCC's price monitoring direction powers should be expanded and it should be armed with appropriate powers of investigation. It should be given authority and resources to undertake research, particularly about insurance pricing and disclosure more broadly than just within the confines of the cyclone pool. Professor Alan Fels, in his report "Inquiry into Price Gouging and Unfair Pricing Practices" (February 2024),[6] made a recommendation about naming and shaming in relation to the ACCC's current price surveillance powers.

Governments have previously used the power of naming and publicising overcharging to help regulate prices. When the Coalition Government introduced the GST in 2000, it enacted legislation giving power to the ACCC to declare that particular prices of industries were overcharging in relation to GST related prices that existed for three years.

A similar power has applied under legislation both by the Victorian and NSW Coalition Governments in recent times in relation to ensuring that insurance prices were lowered in line with reduced taxes on insurance.

The ACCC does not currently have this power and it prevented from naming the kind of overcharging this report has found concerning including in early childhood education and

[5] 'Covered insurance policies' under the Direction is defined as meaning 'insurance cover in respect of the destruction of, or damage to one or more of the following:
(a) a home building; (b) contents of residential building; (c) a strata title residence; (d) commercial premises, and contents of those commercial premises, if the sums insured do not exceed $5 million.'

[6] InquiryIntoPriceGouging_Report_web9-1.pdf

care and by NDIS providers. This power should be reinstated with appropriate procedures and safeguards to govern the exercise of this power.[7]

This expanded direction power would promote effective competition and accountability for general insurance consumers.

Recommendation

11. **The ACCC's general insurance price monitoring function should continue to exist and should be expanded to be a permanent national general insurance pricing monitor, armed with appropriate powers of investigation and the power of naming and publicising overcharging to help regulate prices.**

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5. Should the damage period be extended, for example, to seven days after a cyclone event rather than two days after an event? If so, why, and what steps could be taken to ensure any benefits are passed through to policyholders?

Yes, we support the damage period being extended to seven days after a cyclone event rather than two days after an event.

We appreciate that this would transfer additional risk to the ARPC, and that modelling shows the expected average annual loss of the cyclone pool would increase from $20 million to $35 million. Nevertheless, this means there is more risk that insurers can transfer out of the private reinsurance market, so a greater amount of risk will be reinsured without a profit margin. Even if insurers pass on additional ARPC premiums to their customers, they would be offsetting those with reinsurance costs from the private market. Climate science indicates that cyclones are tending to move more slowly, bringing a higher total rainfall and water ingress into buildings.[8] This extension will support the ARPCs mandate to improve insurance access and affordability to eligible properties.

If the Government wants more data on whether this would make a difference to the risks facing consumers in cyclone prone areas it should conduct a review of Cyclones Alfred and

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[7] InquiryIntoPriceGouging_Report_web9-1.pdf, p 64.

[8] Bruce Buckley, James M. Done, Robert Henson, Kathryn Turne1, Peter Chan, Sebastian McKenna, Cindy L. Bruyère, Sarah Elsey, Mark Leplastrier, Severe Weather in a Changing Climate, 3rd Edition November 2025 IAG.

Jasper. At the centre of this review would be identifying what the impact on retail premiums would have been if the pool was extended to cover cyclonic flooding for 7 days instead of 2.

Recommendation

12. **The damage period should be extended to seven days after a cyclone event rather than two days after an event.**

6. Has the private reinsurance market adjusted pricing to reflect the risks the ARPC has taken? If not, would extending the coverage period address this issue?

No comment.

7. Is the $5 million SME sum insured limit appropriate?

The $5 million SME sum insured limit should be indexed with building cost inflation. The sum insured limit should be indexed annually with advice from the Australian Bureau of Statistics (**ABS**) as to the appropriate amount. This change will need to be made in the Act.

Recommendation

13. **The $5 million SME sum insured limit should be indexed with building cost inflation.**

8. Should there be changes to the eligibility for new builds? If so, how would this be achieved, which specific properties and how would this impact cyclone pool pricing and insurer costs?

No comment.

ARPC operations

12. Is the ARPC's claims process fit for purpose?

No comment.

13. Should the annual guarantee and capital holding fees continue and at what level?

No comment.

14. Should the ARPC be able to share additional data with stakeholders, in and out of government, and why?

Yes.

Households and SMEs should be given more information about their risk. The Government should also be able to use this household level data to target resilience measures appropriately.

Recommendation

14. **The ARPC should be able to share its additional data with stakeholders.**

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15. Should the ARPC have a dedicated scheme actuary?

No comment.

Additional Comments

Expanding the cyclone pool to cover flood

Under the Act, the current design of the cyclone pool must seek to be cost neutral and must seek to keep premiums at levels comparable to what would be charged by other reinsurers for lower levels of exposure to cyclone losses. Unfortunately, this model will not work for flood. There is an insufficient number of consumers to share the cost of flood if only those who have some flood exposure are included in the pool.[9]

The ARPC model depends on having a lot of people with low cyclone risk who subsidise the medium and high cyclone risk households. When it comes to flood risk, there are very few

[9]Bible, K. (2025). Reinsurance Explained: A Pillar of Strength for General Insurers. Actuaries Institute.

people with low flood risk, and a lot of people with extreme flood risk. In 2023 the Actuaries Institute concluded that:

> *"Flood risk in Australia is highly localised and disproportionately affects a relatively small number of households which are the most affordability-stressed, while cyclone risk is more geographically widespread with little differentiation between affordability-stressed and non-affordability-stressed households. Unlike cyclone, the majority of policyholders with little or no flood risk pay no flood premium, meaning it is not possible to fund a flood solution from low-risk policyholders without their costs increasing, which would be a breach of the design rules that apply to the Cyclone Pool."*[10]

But **changes to the ARPC model could be made** which would make it appropriate for reducing flood insurance premiums in Australia. First, the pool should not be cost neutral over the longer term. Second, the ARPC could charge flood reinsurance premiums to properties without flood risk to spread the cost society-wide. Extensive modelling would need to be done to see what level of reinsurance premiums would need to be charged to people with no flood risk to appropriately subsidise those that have high flood risk. This is not a new idea however, wide-spread pooling of risk takes place in health insurance, compulsory third party car insurance and workers compensation insurance.

Financial Rights agrees with the available research that risk mitigation will be crucial in reducing the impact of the increasing cost of flood (and other extreme weather) in Australia. Investments can be made into risk reduction and mitigation at the same time as subsidising the pool to cover a peril like flood.

As is discussed above, the ARPC could be developed into a resilience funder for mitigation against cyclone damage and against flood damage. If the pool shows success at sustainably funding cyclone and cyclonic flood mitigation activities, the ARPC could become a world-leading mechanism for mitigation funding. While this new role for the ARPC would require extensive funding and backing from Government by directly assisting the small group of people with extreme flood exposure to reduce their risk, the ARPC would be sustainably reducing the underlying flood risk for the country as a whole.

[10] Chow, E., Barnes, D., Blunden, J., Davidson, J., Pang, E., Turvey, W., & Manton-Hall, J. (2023). Funding for flood costs: Affordability, availability and public policy options. Actuaries Institute. Sydney. 8

Recommendation

15. Changes should be made to the existing ARPC model in order to make it appropriate for reducing flood insurance premiums in Australia, including:

a. No longer requiring the cyclone pool to be cost neutral in the longer term,

b. Charging flood premiums to households with negligible flood risk in order to subsidise those with medium to high flood risk, and

c. Targeting funds from the pool reserves to invest in mitigation activities.

Concluding Remarks

Thank you again for the opportunity to comment. If you have any questions or concerns regarding this submission please do not hesitate to contact Financial Rights on (02) 9212 4216.

Kind Regards,

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