About RACQ

The Royal Automobile Club of Queensland (RACQ) is Queensland's largest member owned mutual with more than 1.76m members. RACQ provides motor vehicle roadside assistance across the State, together with insurance and banking. Our insurance offering is aimed at personal customers and has very limited exposure to apartment / strata building insurance across the state. RACQ has roughly 300,000 members in north Queensland.

RACQ has a long-standing history of supporting the north Queensland region, including implementing a cyclone resilience discount in 2016 for our members (up to 20% off the cyclone portion of their premium) – to date saving members more than $1 million. The Australian Competition and Consumer Commission (ACCC) noted that over the 12-year period to 2018-19, insurers in northern Australia, including RACQ, have experienced an estimated aggregate gross loss, across home, contents and strata insurance products of approximately $856 million in real terms.[1]

Given the high cost of cyclonic events, and the prediction of further changes in weather patterns across Australia, RACQ supports the Government's effort to introduce a cyclone reinsurance pool and the creation of the National Recovery and Resilience Agency (NRRA). This is especially important given south-east Queensland lies at a similar latitude to Geraldton, which was impacted by Cyclone Seroja (2021).

RACQ's viewpoint

RACQ represents the voice of our members, and we seek to ensure that their interests are incorporated in the design of the pool. In this respect, RACQ is advocating for a solution that is in the best interest of its members, and not necessarily what would be considered best for the insurance industry.

RACQ is committed to returning any savings from the reinsurance pool to our members through reduced premiums.

The design of the reinsurance pool must increase the affordability and accessibility of insurance for members in high-risk areas and be future proofed against the increasing impacts of severe weather events. It is equally important that none of our members are disadvantaged by the design. The design should aim to achieve a reduction in current levels of underinsurance in the impacted regions.

To this end, RACQ believes that the Government reinsurance pool should be designed to incorporate cyclones, floods, storm surge and bushfire exposures to future proof against a changing climate. RACQ recognises the current policy position is for a reinsurance pool that covers cyclone and cyclone related flood, and if this is the first step, we would encourage Government to consider retaining flexibility to expand the scope of the pool over time.

The pool should cover home and contents, landlords, strata and small business. It is important that landlord policies are included to enable tenants' access to properties and affordable contents insurance. Landlords themselves are often "mum and dad" investors with the same financial constraints as to insurance affordability as home owners.

The pool should also consider including motor vehicles and boats. Current reinsurance arrangements include coverage for all exposures (in RACQ's example, Home, Motor and Boat). Splitting these losses out and the insurer either retaining the exposure and/or covering with reinsurance, introduces a further friction cost.

RACQ's experience is that around 10% of the total claims cost relates to non-home related risk. Whilst this could be covered by the pool, this would be extra capacity required by the pool, and further constrain its ability to assist with home insurance related pricing.

[1] https://www.accc.gov.au/system/files/Northern%20Australia%20Insurance%20Inquiry%20-%20Final%20Report%20-%2030%20November%202020.pdf

RACQ's position summary (mandatory national pool)

Within the context of the policy announcement and questions related to the submission, RACQ believes that a cyclone reinsurance pool should:

- include cyclone related flood and storm surge;
- require the definitions for consumer-facing policies to enable easy interpretation and comparison by consumers, and ensure that any limitations and exclusions are provided in plain language and highlighted to consumers;
- be mandatory for all insurers;
- be implemented after a suitable transition period (at least one year);
- be priced at the individual property level based on the risk profile of the property and that this information be shared with insurers;
- act as a reinsurance pool (i.e. not involved in the claims management process with individual policy holders);
- cover landlords (investment properties for both stand-alone dwellings and strata dwellings);
- be established with the expectation that it will operate on a continuous basis (i.e. no exit date) given the non-site specific nature of the peril; and
- be flexible on the amount of risk retained by insurers to enable the pool to operate efficiently alongside the insurer's reinsurance market program and to ensure that smaller insurers are not disadvantaged.

These parameters will ensure that the reinsurance pool receives the full benefit of its design which will allow the savings to be passed on to property holders.

RACQ's modelling options

RACQ considered three different models for the reinsurance pool when reaching its position:

1. a mandatory national pool;
2. an optional national pool; and
3. a national pool constrained to medium to high risk areas.

The estimated cost and premium reductions related to Queensland and northern NSW exposures for home, contents and landlord policies were determined from each of these models, based on the following parameters:

- Peril definitions
    - Cyclone, cyclone-related flooding and storm-surge;
    - Pool is triggered by the Bureau of Meteorology naming or recognising a cyclone; and
    - Cyclone-related flooding and storm-surge is defined through an hours clause.
- Capital considerations
    - The pool must enable insurers to meet the Australian Prudential Regulation Authority risk and capital requirements (including the 1 in 200 year event) for cyclone and related flood so that insurers do not have to purchase additional reinsurance nor hold incremental capital for the included policies;
    - The pool and government guarantee should operate as an annual aggregate cover for included perils and be sufficient to cover the risk, which is more likely to be in the range of $15 to $20 billion.

RACQ's view is that the inclusion of cyclone related flooding in the pool is unlikely in the short term to generate any saving due to the requirement of new modelling to be created and tested, possibly resulting in an overlap of reinsurance cover leading to loss of efficiency through duplication.

Table 2 details the three options, with Table 1 providing a high level comparison. RACQ's preference is for option 1 (a mandatory national pool), followed by option 3 (a pool constrained to higher risk areas) and lastly, option 2 (an optional national pool).

RACQ has not considered whether or not option 3, a national pool constrained to medium to high risk areas, needs to be mandatory or optional as the design of such a pool will lead to similar outcomes in terms of access.

Table 1 RACQ's modelling options comparison table

Analysis	OPTION 1 Mandatory National Pool (RACQ 1st preference)		OPTION 2 Optional National Pool (RACQ 3rd preference)		OPTION 3 National Pool Constrained to medium to high risk areas (RACQ 2nd preference)	
Government subsidy required to achieve a 20% reduction in medium to high risk areas	No		Yes		Yes	
Design could generate insurance premium reductions	Yes		Yes		Yes	
Design can increase competition	Yes		No		Yes	
No arbitrage opportunities	Yes		No		Minimal	

Table 2 RACQ's table of modelling options for home, contents and landlord policies

Item	OPTION 1 Mandatory National Pool (RACQ 1st preference)	OPTION 2 Optional National Pool (RACQ 3rd preference)	OPTION 3 National Pool Constrained to medium to high risk areas (RACQ 2nd preference)
Description	All policies nationally participate in the pool, with the pool providing complete reinsurance cover for included perils.	The pool offers reinsurance nationally at a policy level with insurers choosing which risks to cede to the pool based on what provides the best price to the customer.	The pool offers reinsurance at a policy level, qualifying eligibility to those determined as having a high affordability risk.
Modelled Premium Reduction in high-risk north Queensland regions	Up to 20% saving in medium and high-risk areas in north Queensland (controllable via the risk rating mechanism).	Unknown. Depends on the take up of the pool. Savings will be less than Option 1 and require a subsidy up to the amount in Option 3 to achieve a 20% savings rate.	A 20% saving for medium and high risk cyclone areas in Queensland could cost up to $141 million per year in subsidies.

Item	OPTION 1 Mandatory National Pool (RACQ 1st preference)	OPTION 2 Optional National Pool (RACQ 3rd preference)	OPTION 3 National Pool Constrained to medium to high risk areas (RACQ 2nd preference)
Pool Exposure	Material risk of exceeding the $10b guarantee in a large event or event resulting in flooding in southern Qld / northern NSW. It's expected the exposure is in the range of $15 to $20 billion based on current inclusions.	Unknown though expected to be close to Option 3, taking in a relatively large share of polices across northern states. The pool exposure may stay within the $10 billion guarantee.	The pool exposure is controllable through an eligibility mechanism which could manage exposure within the $10 billion guarantee.
Mechanism to improve affordability in north Queensland	Pool holds all cyclone and associated flood risk in Australia, operating a national reinsurance programme without a risk margin (assumed cost reduction of 14% on currently reinsured exposures, plus cost of capital savings for direct insurers). Reinsurance is provided at current commercial rates in low cyclone risk areas with the margin saving focused to offer lower reinsurance prices in northern Australia.	Insurers choose on a policy-by-policy basis whether to cede the cyclone risk to the pool or place within their existing programs, choosing the option lowest cost/highest margin for insurer Adoption will likely be limited to northern states, with a relatively poor cyclone risk.	The pool offers reinsurance to those policies with a heightened cyclone risk. Reinsurance premiums for cyclone offered in these areas are subsidised by the Government.
Pros	No subsidy from the Government. Can be more responsive to improvements in resilience/mitigation.	Government achieves price reduction aims in the short term, albeit dependent on maintaining competition and creating exit risks.	Mitigation funding could be similarly targeted at eligible regions, focusing investment to improve the housing stock in high-risk areas.

Item	OPTION 1 Mandatory National Pool (RACQ 1st preference)	OPTION 2 Optional National Pool (RACQ 3rd preference)	OPTION 3 National Pool Constrained to medium to high risk areas (RACQ 2nd preference)
Cons	Will likely require an increase to the Government guarantee or the purchase of additional reinsurance over and above the $10 billion guarantee and/or purchase additional reinsurance.	Inflated concentration risk for state-based insurers making it unlikely the scheme can ever end. Requires a subsidy from the Government to achieve savings for medium to high risk areas.	Requires a subsidy from the Government to achieve savings for medium to high risk areas.
Risk Rating Approach	Perils are risk rated by the pool with a reinsurance price offered at an address level nationally. Rates are periodically updated (e.g. quarterly / annually) to load into insurers systems.		
Considerations	Government is taking direct control of the risk pricing and exposure on cyclone nationally. If climate change expands the at-risk regions the reinsurance margin may not be able to sustain meaningful price relief without more direct cross subsidisation within the rating approach.	Government is taking direct control of the risk pricing and exposure on cyclone in high-risk areas. The risk profile of the pool will skew to a heavy concentration risk, making it unlikely to be able to access retrocession.	The pool will hold only the worst risks, so will be unlikely to be able to access retrocession. Potential for the addition of a socioeconomic eligibility overlay.

Item	OPTION 1 Mandatory National Pool (RACQ 1st preference)	OPTION 2 Optional National Pool (RACQ 3rd preference)	OPTION 3 National Pool Constrained to medium to high risk areas (RACQ 2nd preference)
Competitive impacts	Increased competition in north Queensland. Insurers are required to adopt the pool's pricing, normalising subsidised cover at a rate fixed by the pool. The barrier to entry in the region is removed, promoting new entrants to the market and increasing competition.	Limited competition improvement and potential arbitrage opportunities. National insurers will see the smallest incremental savings because cyclone is not a large part of their reinsurance program. State based insurers would see a larger cost reduction and would likely cede all risks to the pool and win most of the cyclone affected addresses. National insurers will likely be uncompetitive compared to state-based operators, limiting participation and increasing market concentration risks especially if an exit is desired.	Increased competition in north Queensland. Savings for both National and State based insurers will be similar, with only those policies in high-risk areas included. State based insurers won't be able to wholly cede their cyclone risk to the pool so won't see incremental benefit over and above larger providers.

1. How should 'cyclone' and 'cyclone-related flooding' be defined for the purposes of defining the reinsurance pool's coverage?

The definition of a cyclone should be set by the Bureau of Meteorology and must include cyclones that form and develop out of Australian waters. RACQ suggests using the definition of "a cyclone that is named or recognised by the Bureau of Meteorology" for the coverage of the reinsurance pool.

RACQ believes that all claims arising from a cyclone should be included, as is currently the case. This would include claims relating to wind damage, water ingress and flooding. Cover for flooding is included in all policies written by RACQ, however, some insurers allow customers to opt out of flood cover; the impact this might have on policy holders and the pool needs further consideration.

Catastrophe reinsurance usually includes a "hours" clause, with each insurer having the flexibility to choose the date and time of commencement, and there should be the potential for two or more occurrences. This could become important if there is a cyclone driven East Coast Low that causes flooding – it is entirely possible that an insurer with exposures in the north would want the seven-day window to commence when the cyclone makes landfall, while an insurer with exposures in NSW would want the window to commence a few days later. This is why RACQ believes the pool should cover flood peril as well. If the pool does not wish to cover flood peril then the contractual design should align to market practice of enabling this flexibility.

RACQ notes that including cyclone related flooding will add a layer of complexity for the pool as the modelling of flooding does not consider the meteorological source of extreme rainfall, be it from cyclonic and non-cyclonic sources. As such, splitting off cyclone related flooding will require new (untested) models to be created, likely resulting in the short-term a loss of reinsurance efficiency and smaller benefits to users of the pool.

2. Should storm surge be covered by the pool and included in a definition of 'cyclone-related flooding'?

Storm-surge should be covered by the pool given that cyclones produce larger than normal tide and will need to be incorporated into the coverage. Storm-surge has been defined by RACQ as "*An increase in the sea level that is caused by a tropical cyclone or other intense storm*." RACQ excludes erosion caused by actions of the sea. There is potential for losses due to climate change driven sea level rise and subsequent erosion, so this will be an important exclusion.

3. Is it desirable for the use of standard definitions of 'cyclone' and 'cyclone-related flooding' to be required in policies covered by the pool?

No, RACQ does not believe that definitions within reinsurance contracts and consumer-facing policies need to be aligned. However, the definitions for consumer-facing policies should enable easy interpretation and comparison by consumers, and ensure that any limitations and exclusions are provided in plain language and highlighted to consumers.

4. Are there any difficulties which may arise from including home building, home contents, or residential strata policies in the reinsurance pool and how should the scope of this coverage be clarified?

In order for the reinsurance pool to reduce premiums, either Treasury, the ARPC or the NRRA will need to address the lack of centralised data held on home builds and strata properties. Without key information such as the construction design, building materials, mitigation works such as window coverings, renovation/rebuild data (such as replacement of roofs), there will be variation in price between insurers, and it will be difficult for reinsurers and the pool to accurately assess risk. Not having this data disadvantages smaller and/or new insurance entities as well as disadvantaging potential real estate buyers.

RACQ and the insurance industry have long advocated for federal, state and local governments to fund and capture the codification and databasing of private and public building retrofitting standards for resilience to natural disaster events, in addition to making Geoscape publicly available under Creative Commons 5.

The federal, state and territory Governments currently own PSMA Australia which operates the National Building Database using its own proprietary Geoscape which profiles more than 15 million buildings in Australia. RACQ recommends funding be provided to allow the codification of building retrofitting standards so that the retrofitting of builds can be documented, and thereby allow insurers and other bodies to price these items accordingly.

The Insurance industry can then work with the property dataset to record and share information about updates to buildings. To ensure a competitive playing field, Geoscape should be made publicly available and councils and government agencies and insurers should be required to share any information relevant to the property datasets over five years, ensuring that Australians can get their building insurance competitively priced using all available, relevant information. This could see a potential average premium reduction of 9.9% for cyclone affected properties.[2]

In addition, as the climate changes, the cost of providing cover and the number of properties affected by extreme events is expected to increase. The pool should be aware of this and plan appropriately for change.

RACQ notes that Treasury's assumptions about savings that will arise from waiving the insurance profit margin, potential aggregation benefits from the pooling of risks, and geographic diversification benefits might be modest, and RACQ would like to understand how discounts will be funded. This is especially so as RACQ also notes that the reinsurance pool may need to seek Government approval to get a further extension to the $10 billion mandate or purchase its own reinsurance due to the coverage of home building, home contents, or residential strata and small business property

5. Are insurers able to separately price or estimate the value of the property component of business insurance packages?

N/A – RACQ is a personal lines insurer.

6. Are insurers able to separately price or estimate the value of the residential and small business components of mixed-use strata title policies?

N/A – RACQ is a personal lines insurer.

7. Are there any difficulties which may arise from including mixed-use strata title policies in the reinsurance pool and how should the scope of this coverage be clarified?

N/A – RACQ is a personal lines insurer.

8. How should 'small business' be defined for the purposes of eligibility?

N/A – RACQ is a personal lines insurer.

9. Are there any difficulties which may arise from including small business property insurance policies in the reinsurance pool and how should the scope of this coverage be clarified?

N/A – RACQ is a personal lines insurer.

[2] Mitigation and Policy-in-Force Analysis, Insurance Council of Australia, December 2019

10. What is the current approach used by insurers to assess and measure cyclone, storm surge, and related flood damage risks, to what extent are individual policy level data available, and how are cyclone related risk premiums calculated in insurer pricing models?

RACQ has the ability to price at an individual address level. The approach to pricing for cyclone has employed a combination of outputs from cyclone reinsurance models, historic RACQ cyclone claims experience and advice from external experts on the historical development in cyclone building codes and how the attributes of a property impact its likelihood of damage from a cyclone. Key attributes determining the cyclone damage risk for a property include:

- distance to coast;
- slope/exposure of block;
- construction year;
- roof type; and
- wall type.

Flood damage risks are assessed by RACQ at an address level using terrain data and simulated water flows. Models are updated when new information becomes available, or mitigation activities are completed such as the construction of levees.

As noted in Questions 4 and 19 there is a need for a centralised database to capture the key details of each property and any structural or mitigation measures made. This is essential to accurately and correctly price insurance for property holders. Currently insurers must either procure the data at great cost or take an extensive inventory of attributes at underwriting in order to accurately price the insurance of customers.

11. How should the reinsurance pool design a risk rating system for cyclone and related flood damage risks, and what are the trade-offs associated with using risk tiering and with the level of granularity used?

RACQ believes it is important that the reinsurance pool does not incentivise poor building and urban planning outcomes to reduce the risk of unnecessary loss suffered by communities from natural disasters. In the extreme, a design that approached the community rating structure of health insurance could lead to sub-optimal decisions at state and local government level that result in increased losses being forced on the pool.

It is likely the reinsurance pool will need to purchase/procure/develop building and event modelling information to develop a risk-rating model for individual properties. This will facilitate risk tiering and allow individual properties to be priced accurately and fairly in-line with the risk profile of the property.

It is very important to risk rate flood at address level, because small changes in elevation can have a significant impact on potential loss. In addition, building attributes such as roof type, wall type, construction year and built form mitigation have a significant impact on potential loss.

The reinsurance pool will need to adopt an aggregate cover model to cover all events to ensure that smaller players are not disadvantaged as limiting the pool to significant events only with a high attachment point would disadvantage smaller players, reducing their relative return from the pool.

12. How much risk exposure should primary insurers retain?

Given the catastrophic nature of a cyclone, the pool should be mandatory to maximise efficiency and therefore savings to be passed on to consumers. The risk exposure retained by insurers should be flexible to enable the pool to operate efficiently alongside the insurer's market program and to ensure that smaller insurers are not disadvantaged. For example designing a pool that activates once an industry loss exceeds a catastrophic level (e.g. $1 billion, a 1 in 30 year event) would likely disadvantage smaller insurers who may be carrying lower retentions to protect against volatility, and would therefore need to retain open market purchases to the close this gap.

RACQ also notes that the reinsurance pool may need to seek Government approval to get a further extension to the $10 billion mandate or purchase its own reinsurance due to the coverage of home building, home contents, or residential strata and small business property.

13. Would implementing a reinsurance pool have any effect on the claims management process, and how could this be addressed in the reinsurance pool's design?

Implementing a reinsurance pool will have no effect on the claims management process if it is setup as a reinsurance body such as FloodRe (UK) or the Terrorism reinsurance pool run by the ARPC as the reinsurance operates through the backend of the insurer i.e. the insurer compiles claim figures and claims against the reinsurer for the costs of the event without the active involvement of individual claimants simplifying the process and leading to quicker and more efficient outcomes.

RACQ recommends against Treasury adopting the New Zealand Earthquake Commission (EQC) model whereby the Government entity directly insures the property and assesses damage before passing on any over cap amount to the relevant insurer. This process led to delays in claims handling and processing. Indeed, the Insurance Council of New Zealand noted that when insurers (under a partnership model in 2016 for the Kaikoura earthquake) handled and managed all claims, 83% were settled a year on whereas under the EQC direct assessment model, three years on after the Canterbury earthquake only 34% of claims had been fully settled.[3]

14. What is the appropriate level of participation in the pool, and how should considerations of coverage and the amount of risk to be ceded be addressed?

There should be mandatory participation in the pool to ensure that the benefits of the pool are received by all Australians who face cyclone risk. It will also mean that the full savings from not producing a commercial return will be achieved by the pool.

Unlike most other insurers' cyclone drives the top of RACQ's reinsurance program, which has implications for RACQ compared to most other insurers. Other insurers may not see a reinsurance saving through participation whereas RACQ will. This could lead to a scenario where RACQ's price becomes best in market driving an inflated share and increasing concentration risk putting RACQ at material financial risk if the pool were to close.

Having a voluntary pool will also lead to insurers considering arbitrage opportunities between the reinsurance offered by the pool and the commercial market which could lead to distorted markets and perverse outcomes such as the pool taking on the high-risk policy holders leading to an unsustainable business model.

It is important that landlord policies are included to enable tenants access to properties and affordable contents insurance. Landlords themselves are often "mum and dad" investors with the same financial constraints as to insurance affordability as home-owners.

The pool should also consider including motor vehicles and boats. Current reinsurance arrangements include coverage for all exposures (in RACQ's example, Home, Motor and Boat). Splitting these losses out and the insurer either retaining the exposure and/or covering with reinsurance, introduces a further friction cost. RACQ's experience is that around 10% of the total claims cost relates to non-home related risk. Whilst this could be covered by the pool, this would be extra capacity required by the pool, and further constrain its ability to assist with home insurance related pricing.

[3] https://www.icnz.org.nz/natural-disasters/canterbury-earthquakes

15. How should industry transition be managed and what is the best format and timeframe for it to take place?

RACQ suggests a year for transition which is aligned to the Australian financial year i.e. a transition period of 12 months beginning 1 July 2022 (or 12 months after the next 1 July, subsequent to the announcement of the design).

Having a clear pool design is important to enable insurers to set their capital frameworks around the pool, arrange internal processes and ensure pricing is modelled to provide the benefits to policy holders. The transition should be managed with a consideration given to the fact that reinsurance contracts are often 12 months or more and with terms that could penalise insurers should they be broken. This timeframe would allow for reinsurance programs to be redesigned, negotiations to take place resulting in the most efficient and cost-effective outcome for policy holders. A shorter, rushed timeframe could result in stranded costs that do not add value to insurers or policy holders and could lead to higher premiums.

The solution chosen should create a level playing field, or at least not disadvantage those insurers who are the first adopters.

16. What should be the key goals for a regular review of the reinsurance pool and what would be the optimal timeframe?

The key goals for a regular review include:

- Comparable cost of obtaining reinsurance through the pool vs commercial providers;
- Aggregate cost savings for policy holders compared to the previous period;
- Functioning of the reinsurance pool i.e. cost to run the pool vs commercial providers;
- How the reinsurance has encouraged mitigation measures on existing home and new home builds, including both quantitative and qualitative data;
- Levels of underinsurance within communities covered by the pool; and
- Extent of industry participation in the pool (if optional).

The optimal timeframes for review should be:

1. One year on from the first implementation date (i.e. 1 July 2023);
2. One year on from end of the transition date (e.g. 1 July 2024); and
3. A review that times with the National Recovery and Resilience Agency's review, perhaps every three years to ensure a regular review that tracks the progress of the pool in encouraging mitigation measures and promoting resilience.

17. Should the reinsurance pool have a planned exit date?

Given that the effects of cyclone and its associated perils are determined by a wide geographical area and not necessarily site-specific like flood, it makes sense for the reinsurance pool not to have a planned exit date. Investment in cyclone mitigation measures can be motivated through other measures.

If the pool is effective, it will draw previously uninsured risks into the market. If there is a planned exit date, there is the prospect that a small number of insurers will be left with most of the cyclone risks at exit especially if it is an optional pool. This would be difficult to manage from a capital/reinsurance perspective due to the aggregation risk and would result in further price increases being passed on to consumers or exit from the market. Even with the moderate benefits of mitigation, an end date will imply large premium increases.

Unlike most other insurers' cyclone drives the top of RACQ's reinsurance program, which has implications for RACQ compared to most other insurers. Other insurers may not see a reinsurance saving through participation whereas RACQ will. This could lead to a scenario where RACQ's price becomes best in market driving an inflated share and increasing concentration risk putting RACQ at material financial risk if the pool were to close.

Not having a planned exit date will also give Governments of all persuasions the opportunity to consider whether other perils should be considered for a reinsurance pool, given Australia's changing climate and its effect of peril frequency and intensity.

18. Which mechanisms will ensure the pass-through of reinsurance premium savings to insurance policyholders?

RACQ is committed to returning any savings from the reinsurance pool to our members through reduced premiums.

To ensure pass through of premium savings from the reinsurance pool, RACQ advocates for Public commitments from insurers to pass on the savings to policy holders, making them subject to the Australian Competition and Consumer Commission (ACCC) and the relevant Office of Fair Trading with a requirement to show aggregate savings being passed through to policy holders.

RACQ is against the creation of a new body to ensure pass through, given the costs associated with creating such an entity, and because it would duplicate the ACCC's capabilities.

19. To what extent do insurers price in discounts into insurance premiums for mitigation action undertaken by or affecting policyholders?

Since 2016 RACQ has offered a discount of up to 20% on insurance premiums for specific mitigation measures such as:

- the installation of roofing options such as over batten systems and/or strapping;
- the installation of opening protection such as roller door bracing and installing window shutters;
- a complete roof replacement; and/or
- a complete retrofit - to the current building code.[4]

The lack of a centralised data repository for these types of mitigation measures means that policy holders are required to inform insurers of the mitigation measures they have implemented in order to get their discount, either at the initial insurance quote stage or through a follow-up conversation after being insured.

As mentioned in Question 4, RACQ and the insurance industry have long advocated for federal, state and local governments to fund and capture the codification and databasing of private and public building retrofitting standards for resilience to natural disaster events, in addition to making Geoscape publicly available under Creative Commons 5.

The federal, state and territory governments currently own PSMA Australia which operates the National Building Database using its own proprietary Geoscape which profiles more than 15 million buildings in Australia. RACQ recommends funding be provided to allow the codification of building retrofitting standards so that the retrofitting of builds can be documented, and thereby allow insurers and other bodies to price these items accordingly.

[4] https://www.racq.com.au/insurance/learn-more-about-insurance/be-prepared/storms-and-cyclones/cyclone-mitigation

The insurance industry can then work with the property dataset to record and share information about updates to buildings. To ensure a competitive playing field, Geoscape should be made publicly available and councils and government agencies and insurers should be required to share any information relevant to the property datasets over five years, ensuring that Australians can get their building insurance competitively priced using all available, relevant information. This could see a potential average premium reduction of 9.9% for cyclone affected properties.[5]

Further investment in the James Cook University Cyclone Testing Station to conduct additional research into designs, materials and their implications would further assist insurers such as RACQ to determine what additional mitigation discounts may be appropriate. Whilst insurers have financially supported the Cyclone Testing Station, the Government is the most appropriate body given public benefits outweigh private benefits.

20. How might mitigation be encouraged by the reinsurance pool's design?

- Introduce a national, government run mitigation program offering subsidised mitigation, with insurance discounts linked to completion of work;
- Rates provided by the reinsurance pool be based on a centralised private and public built form dataset that accounts for cyclone resilience;
- Update the risk profile of each property on a regular basis i.e. every x year/s incorporating any updates and research on cyclone mitigation measures and designs, and any public mitigation measure;
- Require properties to be assessed for compliance with the existing National Construction Code with an ongoing audit and target of properties to be assessed.
- Provide open transparency on the reinsurance risk pricing model to encourage better land use planning and construction; and/or
- Provide incentives for insurers to encourage mitigation retrofits through significant discounts on the risk profile pricing of buildings with mitigation measures installed.

21. How should the pool's design seek to discourage any increase in risky behaviour?

- Require all newly built constructed homes to be audited for compliance with the existing National Construction Code to be eligible for insurance through the reinsurance scheme; and/or
- Require all land rezoning/new property developments to be assessed for their natural risk profile prior to consideration of them being eligible for the reinsurance pool.

22. To encourage further action by states and territories on insurance affordability

- Agree with the states and territories on a timeframe to abolish stamp duty on general insurance (in line with the original GST agreement);
- Provide financial incentives for states and territories to provide public mitigation measures;
- Encourage states and territories (where appropriate) to consider replacing the requirement for body corporates (strata) to insure the full replacement value of the building and instead the rebuild with consideration of the most appropriate, resilient and cost-efficient design to build an equivalent modern building;
- Ensure a fair price signal is retained in direct pricing; and
- Implement a nation-wide land use planning standard for flood affected properties.

[5] Mitigation and Policy-in-Force Analysis, Insurance Council of Australia, December 2019

23. What are the potential interactions between the terrorism reinsurance pool and the new cyclone and related flood damage reinsurance pool?

It is RACQ's opinion that there should not be any other correlation as both pools would have been set up to provide for very different, specific purposes.

It is expected however that the utilisation of the existing claims management process and technology platforms would be utilised.