

# Submission

13 November 2025

2025 Australian Reinsurance Pool Corporation Review Team  
The Treasury  
Langton Crescent  
Parkes ACT 2600

## **NIBA Submission – Review of the Terrorism and Cyclone Insurance Act 2003**

The National Insurance Brokers Association (NIBA) welcomes the opportunity to provide this submission on the review of the Terrorism and Cyclone Insurance Act 2003, including the operation of the Australian Reinsurance Pool Corporation (ARPC) and the Australian Competition and Consumer Commission (ACCC) oversight.

### **About NIBA**

NIBA is the peak representative body for the general intermediated insurance profession. NIBA serves as the collective voice of approximately 450 member firms and 15,000 individual brokers. Our membership encompasses a diverse range of entities, including large multinational insurance brokers, Australian broker networks, as well as small and medium-sized businesses located in cities and regional areas around Australia. NIBA advocates for the interests of general insurance brokers and their clients, ensuring that the general industry operates with integrity and professionalism.

NIBA's work is guided by our core pillars: community, representation, and professionalism. NIBA's mission is to enhance the professional standing of insurance brokers through robust advocacy, education, and adherence to ethical standards. By fostering a collaborative and innovative environment, NIBA aims to elevate the quality of service provided to consumers, thereby strengthening trust and confidence in the insurance broking profession.

NIBA members handle approximately 85 per cent of brokered general insurance and have direct operational experience with both the cyclone and terrorism reinsurance pools. As professional advisers who place insurance on behalf of clients and manage claims, insurance brokers occupy a unique position in the market. Our members witness firsthand the impacts of both pools on insurance availability, premium affordability, and consumer outcomes, particularly in cyclone-prone regions where broker penetration significantly exceeds the national average.

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## Executive Summary of NIBA Positions

Issue	NIBA Position	Priority
Coverage period extension (48hr→7 days)	Strongly Support Extension	Critical
Cyclone pool continuation	Support	High
Terrorism pool as permanent	Support	High
SME limit (\$5m→\$10m + indexation)	Support	Medium
Government fees review	Independent Review Required	Medium
Premium pass-through investigation	Investigation Required	Medium
Mitigation framework mandate	Mandate Implementation	Medium
New buildings exclusion	Oppose	Medium

### 1. Cyclone Pool Coverage Period: Urgent Extension Required (Q5-6)

**NIBA strongly supports the Government extending the cyclone pool coverage period from 48 hours to 168 hours (7 days) after a declared cyclone event ends.**

#### The Problem: Critical Coverage Gaps

The current 48-hour limitation creates significant gaps in coverage, which undermines the cyclone pool's policy objectives. Tropical Cyclone Jasper starkly demonstrated this failure:

- Coverage ended 16 December 2023 at midnight.
- Major flooding and damage occurred between December 16 and 18.
- ARPC covered only \$91 million of \$420 million total insured losses (22%).

The 48-hour window is meteorologically arbitrary. Ex-tropical cyclones routinely cause flooding and significant damage for 3-7 days after the Bureau of Meteorology downgrades them. This coverage gap contradicts consumer expectations and industry catastrophe definitions, which typically extend to 168 hours (7 days).

#### Professional Liability Exposure

This creates unacceptable professional indemnity exposure for brokers. NIBA members who operate in Northern Australia, for example, must explain to clients that flood cover operates differently during versus after a cyclone, a distinction consumers cannot reasonably understand given the real-world experience when events occur. When clients discover cyclone-caused flood damage occurring days after the event isn't covered by the "cyclone pool," brokers face PI claims despite providing appropriate advice under current settings.

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## Recommendation

**NIBA strongly supports the Government extending the Cyclone Pool coverage period to better align with meteorological reality.**

Extension to 168 hours would:

- Align coverage with meteorological reality and industry catastrophe definitions.
- Eliminate the pool's most problematic feature.
- Prevent hundreds of millions in uninsured losses.
- Remove professional liability exposure for brokers.
- Meet consumer expectations about cyclone-related coverage.

NIBA acknowledges that some insurers have raised concerns about the pool budget's neutrality and the need for a comprehensive analysis. However, the demonstrated coverage failure in Tropical Cyclone Jasper (78% of losses outside pool coverage), combined with broker professional liability exposure and consumer protection imperatives, necessitates urgent action. ARPC's modelling demonstrates manageable cost implications (\$20-35M annually) relative to the benefits delivered.

**Furthermore, NIBA recommends that this measure be implemented immediately before the 2025-26 cyclone season.**

## 2. Pool Continuation and Permanence (Q4, Q9)

### Cyclone Pool Must Continue

After three years of operation, the cyclone pool demonstrates apparent effectiveness:

- ACCC data show an 11% premium reduction for medium- to high-risk properties.
- Quote success rates increased by 18% in the highest-risk areas.
- Tropical Cyclone Alfred claims (\$1.56 billion) were managed without a Commonwealth guarantee call.
- Market penetration is complete with all mandated insurers participating.

NIBA supports the pool as essential ongoing infrastructure. While we recognise that successful large-scale mitigation programs could reduce long-term pool dependency, premature sunset would be catastrophic given current risk profiles and limited mitigation uptake (1-7%). Any sunset consideration should be conditional on achieving measurable, sustained risk reduction across northern Australia.

**NIBA supports the continuation of cyclone pools as essential infrastructure for northern Australia.**

### Terrorism Pool Must Be Recognised as Permanent

After 22 years and six consecutive reviews recommending continuation, treating the terrorism pool as "temporary" lacks credibility. The evidence is overwhelming:

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- Private market capacity remains approximately \$6.5 billion, compared to ARPC's \$13.7 billion, resulting in a \$7 billion gap.
- Every comparable economy (UK, US, France, Germany) maintains permanent terrorism pools.
- The structural market failure persists: terrorism risk has catastrophic loss potential that private markets cannot efficiently manage.
- Only one declared incident (Lindt Café, 2014) with zero Commonwealth guarantee calls demonstrates effective risk management.

The absence of major claims in 22 years does not indicate the pool is unnecessary. This reflects successful risk management and, fortunately, the absence of major terrorism events, not the absence of terrorism risk. The consequences of removing the pool and subsequently experiencing a significant terrorism event would be catastrophic for the commercial property sector, construction activity, and broader economic stability.

NIBA recommends recognising the terrorism pool as permanent infrastructure and removing the five-year existence review requirement, while maintaining operational reviews of coverage, pricing, and efficiency.

### 3. SME Sum Insured Limit and Government Fees (Q7, Q13)

#### Increase SME Limit to \$10 Million with Annual Indexation

The current \$5 million threshold has eroded significantly since pool commencement:

- Construction costs have increased by 15-25% since 2022.
- The threshold no longer captures genuinely small businesses.
- Light industrial, tourism accommodation, and larger retail operations routinely exceed \$5 million when combining building, contents, and business interruption coverage.

NIBA supports increasing the limit to \$10 million with annual CPI indexation. Members encounter genuinely small businesses (5-20 employees, local ownership) that exceed \$5 million in policy needs and face disproportionately high premiums. Additionally, without indexation, any threshold becomes rapidly obsolete.

#### Commission Independent Review of Government Fees

The Commonwealth charges \$90 million annually (\$55 million guarantee fee + \$35 million capital holding fee) plus periodic surplus extraction. These fees have not been independently reviewed since 2015, a period during which:

- The cyclone pool commenced, providing diversification benefits to the terrorism pool.
- Combined reserves exceeded \$1.5 billion.
- Twenty-two years have passed without a call for a terrorism guarantee.
- Material changes occurred to risk profiles and pool structures.

NIBA is concerned that the combination of annual fees and surplus extraction may exceed the actuarially justified compensation for the government for tying up capital in the pools. NIBA supports fair government compensation, not profit from catastrophe risk pooling. However, a decade without an independent actuarial review is too long.

**NIBA recommends:**

1. Commission the Australian Government Actuary or an external actuary to assess whether current fees remain appropriate.
2. Establish a five-year review cycle for ongoing fee assessment.
3. Publish a transparent methodology for fee calculation and surplus extraction.

## **4. Transparency, Mitigation, And Implementation (Q1-2, Q8)**

### **Premium Pass-Through: Investigation Required**

ACCC data demonstrate aggregate reinsurance savings (a 25% reduction in northern Australia reinsurance costs); however, members' feedback to NIBA revealed significant variation in consumer experiences. While aggregate data demonstrates reinsurance savings and the Insurance Council reports premium reductions in high-risk regions, feedback to NIBA revealed significant variation in consumer experiences. Enhanced ACCC monitoring and transparent pass-through reporting would assure that pool benefits are consistently reaching consumers across all insurers and markets.

### **Mitigation: Mandate Framework Implementation**

ARPC's mitigation discount framework is evidence-based and appropriate (8-30% residential discounts). The problem lies in implementation; some insurers have not adopted the framework, communication with consumers is poor, and brokers lack the tools to advise clients effectively. After three years, a 1-7% uptake demonstrates market failure.

**NIBA recommends:**

1. Mandate insurer adoption of the ARPC mitigation framework.
2. Insurance Brokers Code of Practice requirements for transparent communication of premium impacts should be extended to insurers adopting the ARPC migration framework.
3. Consumer financing support to address upfront cost barriers where there is evidence of consumer need.

### **New Buildings: Oppose Exclusion**

The Joint Select Committee's recommendation to exclude new buildings represents poor policy. It would:

- Create perverse incentives (penalising resilient construction)
- Undermine pool cross-subsidisation design (the pool needs low-risk properties)
- Increase operational complexity for insurers and brokers

The concern about "subsidising poor development decisions" is legitimate, but it is better addressed through enhanced risk-based pricing, strengthened building standards, and improved land-use planning, not through eligibility exclusions that fragment the risk pool.

Furthermore, NIBA supports calls for greater clarification of cyclone pool eligibility for mixed-use strata schemes, particularly the distinction between assessments for residential and commercial use.

## 5. ARPC Operations (Q12, Q15)

### Claims Process

NIBA feedback from members reports that the ARPC's cyclone claims process operates effectively, though the Tropical Cyclone Alfred event (102,636 claims, \$1.56 billion) provides the first major operational test. We defer to insurers' direct operational experience on detailed process improvements, but note that no significant member concerns have been raised.

### Scheme Actuary

NIBA supports the consideration of a dedicated scheme actuary position to provide independent pricing recommendations and financial viability assessments, consistent with similar schemes such as the National Disability Insurance Scheme. Enhanced independence would strengthen scheme integrity and public confidence.

### Conclusion

The cyclone and terrorism reinsurance pools provide essential infrastructure for the Australian insurance market. Both pools address genuine market failures, protect consumers and businesses, and align with international best practice.

NIBA's key recommendations are:

1. Extend cyclone coverage period to 7 days before the next cyclone season
2. Affirm both pools as permanent infrastructure
3. Increase SME limit to \$10 million with annual indexation
4. Commission an independent actuarial review of government fees
5. Investigate premium pass-through at pool commencement
6. Mandate insurer adoption of the mitigation framework
7. Reject the exclusion of new buildings

NIBA welcomes the opportunity to collaborate with the Treasury to implement these reforms. Should you have any queries regarding this submission, please do not hesitate to contact us.

Yours sincerely,

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