



**Actuaries
Institute.**

11 November 2025

Submitted via [Treasury Consultation Portal](#)

Dear Sir/Madam

Response to Treasury's Review of the Terrorism and Cyclone Insurance Act 2003

The Actuaries Institute ('the Institute') welcomes the opportunity to provide feedback on Treasury's review of the Terrorism and Cyclone Insurance Act 2003.

The Institute is the peak professional body for actuaries in Australia. Our members work in a wide range of fields including insurance, superannuation, investments and retirement incomes, banking, enterprise risk management, data science and AI, climate change impacts and government services. The Institute has a longstanding commitment to contribute to public policy discussion where our members have relevant expertise. The comments made in this submission are guided by the Institute's '[Public Policy Principles](#)' that any policy measures or changes should promote public wellbeing, consider potential impacts on equity, be evidenced-based and support effectively regulated systems.

Our response covers the consultation questions on which the Institute has a view, noting some consultation questions are outside of the Institute's expertise. However, we note our members are employed by various general insurance industry participants and will have contributed to these separate submissions. For ease of reference, we have used the numbering as in the consultation paper.

Cyclone Reinsurance Pool

Q1. 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?

As noted in the consultation paper, ACCC monitoring suggests that medium to high-risk policies (approximately 2% of policies nationally) have seen moderate premium reductions, while there have been premium increases or modest reductions for nil and low risk policies. Overall, premium increases for the rest of Australia have been greater than within the pool. The pool would therefore appear to be working as intended within its design constraints; however, insurance premiums remain high.

Q2. Are the ARPC's discounts for mitigation effective? Is pricing the only way the ARPC has encouraged risk mitigation?

ARPC's discounts for risk mitigation are an important positive step, however, discounts alone are not enough to drive the pace of change likely required to ensure the existing building stock is resilient to the

changing climate. The discounts should be seen as part of a much broader, co-ordinated program to encourage risk mitigation - a program which involves all stakeholders, including all levels of government, households, businesses and community organisations.

The Institute encourages Treasury to consider whether the ARPC as part of administering the cyclone pool could encourage other blended finance solutions directed at improving risk mitigation, noting the important role, challenges and opportunities each of banks and other lenders, mortgage insurers, building insurers and investors face for exposure to the risks covered by the cyclone pool. Given the scale of financing required for risk mitigation, solutions that blend together investment from as many stakeholders as possible are required. A general discussion of these ideas is provided in section 5 of the Actuaries Institute Report on [Home Insurance Affordability and Home Loans at Risk](#), published in August 2024, and we will publish a report specifically on Climate Adaptation Finance in the near future.

We note the ARPC's role in supporting blended finance could be through the data insights that it is building being leveraged to support risk mitigation measures delivered by other agencies or stakeholders, including but not limited to the Australian Sustainable Finance Institute and the taxonomy it continues to develop, and initiatives such as the Resilient Building Council's resilience ratings process to support better informed consumers, and various initiatives being delivered by the National Emergency Management Agency.

Q3. Are there any other matters that should be considered when assessing whether the cyclone pool should continue?

In addition to the focus on affordable premiums, the level of under or no insurance is a risk to the resilience of the Australian community. The measurement of change in coverage would be an indicator of the success of the cyclone pool.

We see risk reduction as a longer-term measure of success. We suggest monitoring where new housing is being built, and monitoring whether risk is reducing due to increased investment in adaptation. While outside the scope of this consultation, we further note that the effectiveness of the cyclone pool would need to be considered in the broader context of climate change mitigation and adaptation measures, including land planning laws and building standards that we encourage take account of the multidecade expected life span of buildings and communities. All parts need to work in tandem to achieve the best overall risk reduction outcomes.

Q5. 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?

While the Institute does not have a position on whether the period should be extended, we note there may be some factors that would limit the benefit this could bring to policyholders in terms of premium affordability.

Extending the coverage time-period would likely result in the cyclone pool having greater exposure to cyclone-related flood risk than it currently does. The premiums it collects, including from those households with no or low cyclone or cyclone flood related risk, will need to reflect this, and this may be difficult to achieve within the constraints of the pool design.

The modelling of flood-following-cyclone risk is complex and has high uncertainty. This affects how private reinsurers and insurers assess the flood risk transferred to the pool, and there is some concern that a

portion of costs could be borne twice. Given the uncertainty and range of modelled outcomes, we encourage Treasury to consider more detailed modelling, along with stress testing of scenarios and associated impacts on loss costs and pricing, before considering an extension.

Q8. 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?

The Institute has for a long time strongly supported a strengthening and future-proofing of both building codes and land use planning rules to consider the multi-decade lifespan of building structures and the uncertainty of climate change scenarios, and noted government has a particularly strong role to lead in these areas.

In principle, the Institute therefore supports changes to eligibility for new builds, in particular the exclusion of new builds in high-risk areas. Exclusion of new-builds in high-risk areas would also be in line with the pool's existing legislated principles for setting reinsurance premiums (s.8D) to maintain incentives to reduce and mitigate the risk of losses for higher risk exposures, and keep premiums as low as possible for lower risk exposures. However, we acknowledge the practicality of this exclusion may be difficult and will be influenced by individual insurer risk appetite and underwriting guidelines, as well as objective definitions of what would constitute "high risk" and changes to this over time.

Terrorism Reinsurance Pool

Q9. Should the terrorism pool continue to exist and if so, should it be considered a permanent feature of the Australian insurance market?

Yes. Terrorism risks could be considered as a black swan event, which can be rare, difficult to predict and have a significant impact, making them difficult to model and price. The ability of individuals or businesses to take preventative action is limited, with much of the expertise, influence and control sitting with governments. We therefore support the continuation of the terrorism pool.

Q10. Is there still a need to encourage greater involvement of the commercial sector in providing terrorism risk cover?

Given the difficulty of modelling and pricing, and the potential for significant costs on the rare likelihood of an event, we believe significant levels of cover are unlikely to be offered through the commercial sector.

ARPC operations

Q14. Should the ARPC be able to share additional data with stakeholders, in and out of government, and why?

This is an important question. With the limited comments in the consultation paper, we provide high level, in principle comments.

A rich data set is being created as part of the establishment of the cyclone pool. The data set provides insights not available through other sources on the characteristics of the built environment in the area covered by the pool. It is an important national asset.

There have been several substantial public policy developments since the cyclone pool commenced, including the publication of Australia's first National Climate Risk Assessment and the National Adaptation Plan. These developments highlight the importance of effective resilience and adaptation initiatives being

delivered at scale, well in excess of the current initiatives in train. We also note the important work continuing to be undertaken by financial system regulators to monitor for financial system resilience, particularly in the Climate Vulnerability Assessment process.

Against this backdrop there is a strong public interest case for reflecting on whether the ARPC's current data sharing provisions effectively support the pace of change required. If a wider range of stakeholders had access to the data set, or access to suitably aggregated data and insights, would it better support risk mitigation and adaptation to the changing climate in an orderly manner? This includes potentially uplifting the modelling of climate risk and understanding of financial sector resilience to climate risks and opportunities to support risk mitigation and adaptation. We acknowledge that suitable protections for individual insurers' commercial interests and individual policyholders' privacy must continue to be part of any data sharing arrangements.

Q15. Should the ARPC have a dedicated scheme actuary?

The Institute supports the appointment of a dedicated scheme actuary.

Embedding a Scheme Actuary within ARPC could be expected to strengthen its analytical foundation, improve transparency, and support Treasury's oversight responsibilities in managing contingent liabilities and national resilience funding. The role would mirror actuarial governance structures in other Commonwealth schemes such as the National Disability Insurance Scheme (NDIS).

As noted in the consultation paper, the ARPC already utilises actuarial staff. We agree that a scheme actuary role, whether from formalising the head of actuarial position or through another structure, could provide more independence through embedding the role into the core structure of ARPC, rather than purely as a matter of practice.

The Scheme Actuary (supported by actuarial staff) would provide Treasury and ARPC with:

- **Independent actuarial oversight** of scheme liabilities, capital adequacy and risk exposure;
- **Robust modelling** of terrorism and cyclone-related risks, supporting premium setting and reinsurance pricing;
- **Regular financial sustainability reporting**, enabling early identification of cost pressures or emerging risks; and
- Enhanced capability to support **evidence-based policy decisions** and fiscal planning.

Actuaries are well placed to be able to provide independent advice due to both professional training and standards, that are designed to ensure we consider all important financial and risk issues in the operation of insurance. Members of the Actuaries Institute are also subject to a Code of Conduct, which consists of principles Members are expected to observe in the public interest and in order to build and promote confidence in the services provided by actuaries and in the actuarial profession. The Institute is committed to holding its members accountable to those standards and the Code. Further information is available [here](#).

We would support similar provisions from the NDIS Act that the ARPC has to consider actuarial advice from the scheme actuary to ensure that decisions are made with full understanding of the technical elements of the insured risks.

The Institute would be pleased to discuss this submission. If you would like to do so, please contact us on (02) 9239 6100 or public_policy@actuaries.asn.au.

Yours sincerely

(Signed) Elayne Grace
CEO