



Australian Government
The Treasury



Review of the Terrorism and Cyclone Insurance Act 2003

Consultation paper

September 2025

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In the spirit of reconciliation, the Treasury acknowledges the Traditional Custodians of country throughout Australia and their connections to land, sea and community. We pay our respect to their Elders past and present and extend that respect to all Aboriginal and Torres Strait Islander peoples.

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Consultation process

Request for feedback and comments

The purpose of this consultation paper is to seek stakeholder input on issues which will assist the Minister to produce a report that determines whether there is a need for the *Terrorism and Cyclone Insurance Act 2003* to continue in operation. Interested parties are invited to provide responses to one or more of the consultation questions outlined in this paper by 11 November 2025.

To help you prepare your response, we recommend that you:

- read the supporting documents
- prepare your response in Word (DOCX or RTF) format, you can also upload PDF files as an alternative
- [read our submission guidelines](#)
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You must agree to our privacy collection statement to submit your response.

If you have any issues submitting your response, you can contact us.

Personal information collection

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- ask you for more feedback or
- invite you to future-related consultations.

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Closing date for submissions: 11 November 2025

Online	https://consult.treasury.gov.au/c2025-688990/consultation
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Enquiries	Enquiries can be directed to the 2025 Australian Reinsurance Pool Corporation Review Team at arpcreview@treasury.gov.au .
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The principles outlined in this paper have not received government approval and are not yet law. As a consequence, this paper is merely a guide as to how the principles might operate.

Review of the Terrorism and Cyclone Insurance Act 2003

Introduction

The *Terrorism and Cyclone Insurance Act 2003* (the Act) (previously named the *Terrorism Insurance Act 2003*) provides the legislative underpinning for the Australian Reinsurance Pool Corporation (ARPC)'s operation of the Terrorism Reinsurance Pool (terrorism pool) and Cyclone Reinsurance Pool (cyclone pool). The Act requires the Minister to prepare a report that reviews the need for the Act to continue in operation as soon as practical after 1 July 2025 and at least once every five years after that day. The Act was previously reviewed on a triennial basis in 2006, 2009, 2012, 2015, 2018 and 2021.

To meet the Minister's requirement under the Act, Treasury has been tasked to undertake a review considering the need for the Act to continue. As part of this, Treasury has drafted this consultation paper, informed by the terms of reference, and is seeking your responses to the questions in this consultation paper by 11 November 2025. When drafting your submission, you may answer all the questions or, the questions relevant to you. The consultation process will inform the final report.

Terms of reference

The review of the Act will consider:

- whether there is a need for the terrorism reinsurance pool to continue
- whether the cyclone reinsurance pool is meeting its purpose of improving insurance access and affordability for households, small businesses, and residential and commercial strata with medium to high cyclone and related flood damage risk
- whether the cyclone reinsurance pool is maintaining incentives to reduce and mitigate the risk of eligible cyclone losses
- whether the governance, administration and resourcing of both reinsurance pools remain appropriate including, but not limited to, the level of payments to the Australian Government for fees for the Commonwealth guarantee and dividends
- with regard to the findings of the above and any other issues raised, whether there is a need for the Act to continue in operation.

Overview of the pools

The Act established the terrorism pool to provide cover for eligible terrorism losses in Australia. This followed the terrorism events in the United States on 11 September 2001, which resulted in significant commercial property insurance claims and the withdrawal of terrorism cover by commercial property insurers.

The Australian Government was concerned the threat of terrorism events would cause a reduction in financing and investment in the Australian property sector, including a substantial reduction in commercial building activity. The terrorism pool was created to ensure businesses could continue to



obtain insurance coverage for terrorism-related risks. The ARPC commenced operations for the terrorism pool on 1 July 2003.

The *Treasury Laws Amendment (Cyclone and Flood Damage Reinsurance Pool) Act 2022* received Royal Assent on 31 March 2022. The Act established a reinsurance pool covering the risk of property damage caused by cyclones and cyclone-related flood damage. This followed several reviews and inquiries that considered the availability and affordability of insurance cover for natural disasters.

From 1 July 2022, the ARPC commenced operating the cyclone pool. The cyclone pool is designed to reduce insurance premiums for households, small businesses and strata, with medium to high cyclone and related flood damage risk, by reducing the cost of reinsurance.

Both pools operate by charging insurers premiums for reinsurance coverage. This allows insurers to transfer portions of their risk portfolios to the ARPC to limit their own risk exposure. Insurers manage claims directly with policyholders in accordance with the terms and conditions of underlying insurance policies. Once insurers pay a claim, they then seek to recover eligible costs from the ARPC.¹

The Australian Government guarantees the ARPC's liabilities through two guarantees – one covering 'cyclone loss liabilities' and the other covering liabilities other than 'cyclone loss liabilities'. This means that if claims to be paid out of the terrorism and cyclone pools exceed the funds available in those pools at the time the payment is required, the ARPC can call on the Australian Government to provide the ARPC with funds to meet those liabilities.

Legally, the terrorism and cyclone pools are not separate pools of money. The ARPC charges premiums for the pools individually, and maintains separate accounts for management purposes, but they are reported on a combined basis in the ARPC's statutory accounts. This increases the reserves available for the ARPC to meet claims and expenses and reduces the likelihood of the ARPC drawing on the Commonwealth guarantees.

¹ ARPC, *Cyclone Pool Consumers*. [ARPC website](#).

Cyclone reinsurance pool

The ARPC began operating the cyclone pool from 1 July 2022. The cyclone pool is designed to lower insurance premiums for households, strata and small businesses with medium to high cyclone and related flood damage risk. This is achieved by reducing the cost of reinsurance, which is a significant cost component of premiums for these policies.²

The cyclone pool is a reinsurance arrangement between insurers and the ARPC. It covers all eligible claims costs for cyclone and related flood damage arising during a Declared Cyclone Event (DCE), which lasts from the time the Bureau of Meteorology (BoM) declares that a cyclone has begun until 48 hours after the cyclone ends.

Under the Act, when setting premiums, the ARPC is to seek to:

- ensure the cyclone pool is cost neutral over the longer term
- keep premiums as low as possible for medium to high levels of exposure to eligible cyclone losses while maintaining incentives to reduce and mitigate the risk of eligible cyclone losses
- keep premiums at levels comparable to what would be charged by other reinsurers for lower levels of exposure to cyclone losses.³

The cyclone pool operates Australia-wide but targets pricing support to cyclone-prone areas which are predominantly located in northern Australia. The cyclone pool covers the following types of property:

- residential home and contents, including landlord insurance and farm residential buildings
- commercial property policies with a maximum sum insured of \$5 million or less across risks covered by the cyclone pool (property, contents and business interruption)
- residential strata, where the insured is a body corporate and 50 per cent or more of floor space is used mainly for residential purposes, including mixed-use strata schemes with owner-occupied, short-term and/or long-term rental apartments.⁴

Participation in the cyclone pool is mandatory under the Act for general insurers operating in Australia with eligible cyclone pool insurance contracts. The Act and the *Terrorism and Cyclone Insurance Regulations 2003* (the Regulations) provide an exception for insurers whose eligible premium income is below \$10 million in the most recent financial year.⁵ Large insurers were required to obtain reinsurance from the cyclone pool by 31 December 2023 and small insurers had until 31 December 2024. On 2 January 2025, the ARPC announced all mandated insurers had joined the cyclone pool within the designated timeframes.⁶

² Parliament of Australia (APH), *Treasury Laws Amendment (Cyclone and Flood Damage Reinsurance Pool) Bill 2022 Explanatory Memorandum*, page 4. [APH website](#).

³ Federal Register of Legislation (FRL), *Terrorism and Cyclone Insurance Act 2003, Section 8D*. [FRL website](#).

⁴ ARPC, *Cyclone Pool - Consumers*. [ARPC website](#).

⁵ ARPC, *Insurer onboarding*. [ARPC website](#).

⁶ ARPC, *ARPC announces full participation of mandated insurers in cyclone pool, 2025*. [ARPC website](#).

Claims

As at 31 August 2025, the ARPC has received 111,860 claims with incurred value of \$1.12 billion. However, for Tropical Cyclone Alfred alone, the ARPC has received 102,636 claims with ultimate costs expected to total \$1.56 billion.

If a consumer has been impacted by a cyclone and they have an existing insurance policy, they can lodge a claim with their insurer. As would be the case for a typical insurance claim, insurers will assess and decide whether to accept or decline the claim based on the provisions in the policy. If the claim is accepted, insurers will offer to either manage a repair or rebuild, or provide policyholders with a cash settlement to arrange repairs themselves.

Insurers with an ARPC cyclone pool Reinsurance Agreement seek recovery for the costs of eligible claims occurring during a DCE from the ARPC, provided the claims are settled in accordance with the original policy terms, conditions and exclusions. The ARPC reviews all insurer requests for reimbursement to ensure they are valid under the terms of its reinsurance agreement with the insurer and the Act. This process occurs between the ARPC and insurers and does not impact policyholders' claims.⁷

Pricing, availability and mitigation

Cyclone pool objectives

The purpose of the cyclone pool is to improve insurance access and affordability for households, small businesses, and residential and commercial strata with medium to high cyclone and related flood damage risk. In doing so, the cyclone pool aims to build the financial capability of affected households and small businesses to recover from natural disasters and support the economic resilience and development of cyclone-prone areas. 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.⁸

The cyclone pool is funded by charging reinsurance premiums to insurers consistent with the cyclone pool's expected claims and operating expenses. The ARPC does not seek to make a profit and does not have regulatory capital holding requirements. This means the ARPC can charge lower reinsurance premiums than the private reinsurance market. The total savings that can be generated by the cyclone pool is finite, and in aggregate is equal to the difference between the ARPC's reinsurance premiums and the premiums private reinsurers would otherwise charge.

The Act requires the ARPC to direct the savings from lower risk properties to higher risk properties. This further reduces the reinsurance cost for policies with medium to high exposure to cyclone risk and keeps premiums at levels comparable to what would be charged by private reinsurers for lower cyclone risk areas. The Act allows the ARPC to determine, via a Notifiable Instrument, certain postcodes where the risk of cyclone loss is negligible.⁹ Policies in postcodes assessed to have negligible cyclone risk are not charged any reinsurance premium.

This means that while the ARPC can offer lower reinsurance premiums to all risk levels, it offers a premium similar to what is offered in the private market for lower risk properties. Finity Consulting's

⁷ ARPC, *Cyclone pool – Consumers*. [ARPC website](#).

⁸ APH, *Treasury Laws Amendment (Cyclone and Flood Damage Reinsurance Pool) Bill 2022 Explanatory Memorandum*, page 4. [APH website](#).

⁹ FRL, *Terrorism and Cyclone Insurance (Areas of Negligible Cyclone Risk) Determination 2023*. [FRL website](#).

2025 premium determination report on the cyclone pool notes the application of the current cross-subsidies achieves overall adequacy while delivering the most benefit to medium and high risk policyholders, based on actual exposure information from insurers. It shows that for properties with minimal risk, the premium is slightly above the technical cost, as would be expected in the private market. Meanwhile, for those with high risk, the cyclone pool premium is substantially below the technical cost.¹⁰

The ARPC redirects the discount the low risk properties could receive to medium to high risk properties. However, the savings received by individual policyholders are dependent on the savings generated by the cyclone pool being passed through to policyholders by insurers.

The Act does not prescribe how the ARPC's reinsurance premiums should be reflected in the retail premiums charged by insurers to customers. There are no requirements in the Act for insurers to pass on any savings from the cyclone pool to policyholders.¹¹ However, insurers are expected to pass on savings in line with the intent of the cyclone pool. The Australian Competition and Consumer Commission (ACCC)'s price monitoring role, expanded on below, is a way to provide transparency on whether and how this occurs.

Price monitoring

On 12 January 2022, the ACCC was directed to monitor the prices, costs and profits relating to the supply of insurance cover before and after the introduction of the cyclone pool. This is in respect of the destruction of, or damage to, a home building, contents of a residential building, a strata title residence, and certain commercial premises and contents of those commercial premises.¹²

The ACCC collects data to evaluate the impact of the cyclone pool and assess whether savings are passed through to policyholders, and whether the cyclone pool is delivering on its intended outcomes.

Under the direction, the ACCC is required to report on its monitoring at least once every calendar year from 2022 until 30 June 2026. The ACCC has published four insurance monitoring reports to date. The most recent report was published on 22 July 2025 and is the first report with all eligible insurers participating in the cyclone pool.

In the most recent report, the ACCC found that the cyclone pool has moderated insurance premium rises for Australian households and small businesses facing medium to high risk of cyclones. However, there continues to be a range of non-cyclone related factors that together are acting to sustain very high premiums. Overall, the ACCC conclude that it is unlikely the cyclone pool itself will achieve affordable insurance premiums for consumers in cyclone risk areas.

In terms of the broader reinsurance market, the ACCC heard from some reinsurance stakeholders that there is a potential for prices to soften in 2025 renewals. In some instances, this was linked to the available capacity in the reinsurance market.¹³

ACCC 2025 report – pricing impacts

The ACCC found that the cyclone pool has moderated rises in insurance premiums for households and small businesses facing medium to high risk of cyclone. In the highest cyclone risk areas, the benefits of the cyclone pool have been more pronounced, with some policyholders receiving large premium

¹⁰ Finity Consulting, *Cyclone Pool – Premium determination applying from 1 April 2026*, page 6. [ARPC website](#).

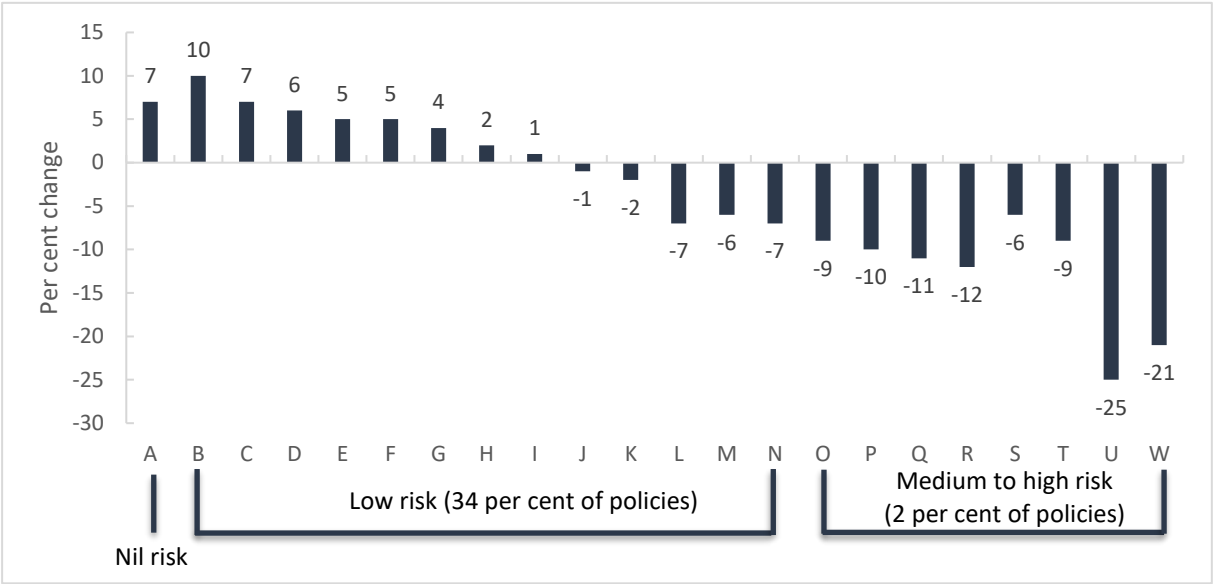
¹¹ ACCC, *Insurance Monitoring*, 2024, page 10. [ACCC website](#).

¹² FRL, *Competition and Consumer (Price Monitoring – General Insurance Policies) Direction 2022*, 2022. [FRL website](#).

¹³ ACCC, *Insurance monitoring*, 2025, page 29. [ACCC website](#).

reductions. This is consistent with the design of the cyclone pool, which was to direct the biggest savings towards these customers.¹⁴

Figure 1: Change in average premium per \$100,000 sum insured by wind risk band, pre and post pool, combined home building and contents insurance.



Source: ACCC, *Insurance monitoring*, 2025, page 8. [ACCC website](#).

To more clearly understand the impact of the cyclone pool on premiums, the ACCC focused its analysis on changes in average premiums per \$100,000 sum insured (see Table 1). This is to better compare results across regions due to differences in sums insured and to reduce the impact of inflation-driven increases to premiums associated with rising sums insured.

The ACCC found the average home and contents insurance premium per \$100,000 sum insured in medium to high cyclone risk areas decreased by 11 per cent compared to pre cyclone pool levels. In contrast, average premiums for low risk properties and properties at no risk of cyclone increased by 4 per cent and 7 per cent respectively.

¹⁴ ACCC, *Insurance monitoring*, 2025, page 1. [ACCC website](#).

Table 1: Average premiums per \$100,000 sum insured, by cyclone risk, pre and post-cyclone pool.

	Cyclone risk	Pre-cyclone pool average	Post-cyclone pool average	Post-cyclone pool percentage difference
Combined home building and contents	Nil	\$279	\$299	7
	Low	\$340	\$354	4
	Medium to high	\$701	\$627	-11
Strata	Nil	\$274	\$287	5
	Low	\$274	\$285	4
	Medium to high	\$418	\$389	-7
Small business (SME) building and contents	Nil	\$638	\$714	12
	Low	\$661	\$744	13
	Medium to high	\$1,151	\$873	-24

Source: ACCC, *Insurance monitoring*, 2025, page 2. [ACCC website](#).

The cyclone pool is designed to target the cyclone risk component of insurance premiums. The ACCC found that high cyclone risk may not be the only reason that premiums are high. Although average premiums remain much higher in northern Australian regions, the ACCC found premiums again rose more sharply in the rest of Australia in 2023–24.¹⁵

The ACCC continued to find that insurers are making changes to their systems and pricing to pass through savings they have received from the cyclone pool to policyholders. Overall, the ACCC has not seen any approaches used which it would consider to be inconsistent with the intent of the cyclone pool to target savings to consumers at higher risk of cyclone.¹⁶

While the cyclone pool covers 100 per cent of the expected claims costs for all eligible cyclone losses (above the policyholder's excess) for eligible policies, insurers may still need to purchase reinsurance from private markets to cover the part of cyclone risk not covered by the cyclone pool, as well as non-cyclonic risks such as flood or bushfire.

For home insurance, the ACCC found that the average reinsurance cost allocated to a policy fell by 25 per cent in northern Australia between 2022–23 and 2023–24, and total reinsurance costs paid by insurers for policies in northern Australia also fell. By comparison, the average reinsurance cost allocated to a policy in the rest of Australia increased by 11 per cent and total reinsurance costs have also increased. This finding suggests that the cyclone pool is working as intended.¹⁷

Despite reinsurance costs falling for policies in northern Australia, there are a range of other costs associated with the supply of insurance which remain high or rising. Insurers indicated to the ACCC that factors beyond the pool such as building material and labour inflation, and extreme weather events, may also affect the costs incurred by insurers. The influence of these costs is driving the premium rises that the ACCC is seeing more broadly and dampening the benefits of the cyclone pool for consumers in medium to high risk cyclone areas.

The ACCC noted the largest cost to insurers after net claims costs are reinsurance costs which are a substantial factor contributing to higher premiums in northern Australia. Insurers have reported that they can purchase a lower amount of reinsurance from the private market due to reinsuring through the cyclone pool. However, it is difficult for insurers to isolate the impacts of the cyclone pool on their

¹⁵ ACCC, *Insurance monitoring*, 2025, page 3. [ACCC website](#).

¹⁶ ACCC, *Insurance monitoring*, 2025, page 4. [ACCC website](#).

¹⁷ ACCC, *Insurance monitoring*, 2025, page 5. [ACCC website](#).

reinsurance costs due to other factors such as insurers' cyclone pool entry coinciding with the hardening reinsurance market or that the cyclone pool covers 100 per cent of eligible claim costs, unlike traditional reinsurance arrangements.¹⁸

ACCC 2025 report – availability

The initial design of the cyclone pool was intended to encourage insurers to enter or expand into northern Australian insurance markets by providing a stable and lower cost means to manage their cyclone risk exposure. Greater insurer participation in these markets is expected to increase competition between insurers and lower premiums for consumers.

The ACCC observed material increases in quote success rates (the number of times an insurance quote was provided to a hypothetical consumer as a percentage of all quotes sought) in high cyclone risk areas as insurers began joining the pool. However, it noted that there have been minimal changes to quote success rates since then.

The ACCC's fourth report notes that initial improvements in quote success rates were consistent with changes made by insurers already present in northern Australia. That said, the ACCC did observe insurers reduce or remove embargoes, change underwriting guidelines or amend exposure limits that cap the volume or proportion of customers in a particular area or with certain risks. The ACCC concludes that, while positive, these changes have not had a substantial impact, although may have improved choice for some customers.

Despite the cyclone pool providing access to lower-cost cyclone reinsurance, the ACCC found that there remains limited appetite for insurers to expand services or increase their exposure in certain cyclone prone regions. No new insurers have entered northern Australian markets following the cyclone pool's commencement.

Other reports on the cyclone pool

In July 2024, an academic researcher from Massachusetts Institute of Technology found the cyclone pool increased insurance availability and reduced premiums substantially, based on quote data. Specifically, the analysis finds home insurance premiums decreased up to 27 per cent for the highest cyclone risk and the probability of insurance being offered was 11 per cent higher in high risk areas compared to low risk areas. The report also found an increase in competition from insurer entry into the cyclone pool was an important contributor to lower premiums.¹⁹

Additionally, in May 2025, the ARPC released a report analysing insurer quote data to assess the cyclone pool premiums against legislative objectives. Given the ACCC analyses actual premiums paid by policyholders and the ARPC report uses quote data, there are differences between the ACCC's 2025 insurance monitoring report, and the two reports discussed in this section.

The insurer quote data captures online insurer premiums quoted using a consistent set of risk profiles each quarter. Quotes were analysed in groups according to the ARPC Wind Risk Band. The risk band is a premium rating factor developed by the ARPC for the calculation of cyclone pool premiums, with bands running from A (nil cyclone premium) to W (highest risk). In this report, the risk bands have been grouped into five categories (B-F, G-K, L-P, Q-S and T-W). The proportion of Home Building Policies in-force by risk band are shown in Table 2.

¹⁸ ACCC, *Insurance monitoring*, 2025, page 28. [ACCC website](#).

¹⁹ Adam Solomon, *Insuring Correlated Climate Risk: Evidence from Public Reinsurance*, 2024, page 4.

Table 2: Proportion of Home Building policies in-force by risk band.

Risk band	Proportion of Home Building policies in force (percentage)
B-F	64.7
G-K	23.8
L-P	8.2
Q-S	1.7
T-W	1.6

Source: ARPC, Cyclone Reinsurance Pool Premium Assessment, page 10. [ARPC website](#).

Quoted residential Home (Buildings and Contents) policies

The report found average quoted premiums for the highest cyclone risk bands decreased by 39 per cent from pre-cyclone pool premiums to January 2025.²⁰ This is shown in Table 3 which represents the percentage change in average quoted home premiums pre-cyclone pool to January 2025.

The report also found sample quotes in the lowest risk band increased by 15 per cent over the period. The ARPC noted this is likely caused by market movements in home insurance rates over the past two to three years which are largely unrelated to the cyclone pool. In addition, it stated premium reductions for medium to high risk quotes may have been greater if the cyclone pool was not introduced in an environment of high inflation and increasing reinsurance costs.

Table 3: Change in average quoted Home (Building and Contents) premiums by risk band from pre-cyclone pool to January 2025.

	Lowest cyclone risk band B-F	band G-K	band L-P	band Q-S	Highest cyclone risk band T-W
Average home premium per cent change from cyclone pool entry to Jan 2025	15	-1	-15	-26	-39

Source: ARPC, Cyclone Reinsurance Pool Premium Assessment 2025 (page 5) based on quote data provided by Finity Consulting. [ARPC website](#).

To measure insurance availability, the report includes data on the average quote success rate. This refers to the number of successful quotes as a percentage of the total quotes attempted. From pre-cyclone pool to January 2025, quote success rates increased for all risk bands.²¹ This is shown in Table 4.

²⁰ ARPC, Cyclone Reinsurance Pool Premium Assessment, 2025, page 5. [ARPC website](#).

²¹ ARPC, Cyclone Reinsurance Pool Premium Assessment, 2025, page 7. [ARPC website](#).

Table 4: Percentage point change in quote success rate by risk band from pre-cyclone pool to January 2025.

	Lowest cyclone risk band B-F	band G-K	band L-P	band Q-S	Highest cyclone risk band T-W
Quote success rate percentage point change from pre-cyclone pool to Jan 2025	3	5	15	17	18

Source: ARPC, Cyclone Reinsurance Pool Premium Assessment 2025 (page 7) based on quote data provided by Finity Consulting. [ARPC website](#).

SME buildings and contents policies

From pre-pool to January 2025, the report finds significant reductions across the highest risk bands for SME buildings and contents cover and an increase for the lowest risk bands.²² This is shown in Table 5.

Table 5: Change in average quoted SME (Buildings and Contents) premiums by risk band from pre-cyclone pool to January 2025.

	Lowest cyclone risk band B-F	band G-K	band L-P	band Q-S	Highest cyclone risk band T-W
Average SME building and contents premium per cent change from pool entry to Jan 2025	11	-3	-13	-20	-31

Source: ARPC, Cyclone Reinsurance Pool Premium Assessment 2025 (page 8) based on quote data provided by Finity Consulting. [ARPC website](#).

Business Interruption

From pre-pool to January 2025, average business interruption premiums were higher than pre-cyclone pool premiums for all risk bands, with a 33 per cent increase for the highest risk bands.²³ This is shown in Table 6.

Table 6: Change in average quoted SME (Business Interruption) premiums by risk band from pre-cyclone pool to January 2025.

	Lowest cyclone risk band N-P	band Q-S	Highest cyclone risk band T-W
Average SME Business Interruption premium per cent change from pool entry to Jan 2025	39	47	33

Source: ARPC, Cyclone Reinsurance Pool Premium Assessment 2025 (page 9) based on quote data provided by Finity Consulting. [ARPC website](#).

²² ARPC, *Cyclone Reinsurance Pool Premium Assessment*, 2025, page 8. [ARPC website](#).

²³ ARPC, *Cyclone Reinsurance Pool Premium Assessment*, 2025, page 9. [ARPC website](#).

Risk reduction incentives and mitigation discounts

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 exposure to eligible cyclone losses.²⁴

The ARPC's pricing formula includes incentives for risk reduction and offers discounts on reinsurance premiums for home and strata properties that have undertaken mitigation. Insurers may receive discounts on their reinsurance premiums from the cyclone pool if the properties they cover have implemented the recognised mitigants and they report this to the ARPC. The insurer decides how this is then passed on in the retail premium they charge the policyholder.

The ARPC implemented mitigation discounts for residential property at inception of the cyclone pool and strata mitigation discounts were announced in 2024 and are reflected in the ARPC's premium rates from 1 April 2025. The introduction of premium discounts for SME properties that have undertaken risk mitigation activities will be the same as those for strata and apply from 1 April 2026.²⁵ As at 31 March 2025, the ARPC has applied \$7.3 million of annual discounts to Home properties for property level mitigation activities.²⁶

Table 7: ARPC mitigation discounts for homes.

Mitigation	Discount applied to wind component of the cyclone pool premium (per cent)
New roof	30
Roof tied down	20
Roller door braced	8
Window protection	10

Source: ARPC, Cyclone pool – consumers. [ARPC website](#).

Table 8: ARPC mitigation discounts for strata.

Mitigation	Discount applied to wind component of the cyclone pool premium (per cent)
Roof mitigation – full retrofit	10
Window protection – permanent protection	3
External doors – cyclone resilient	3
Vehicle access doors – compliant with current standards on low rise buildings	3
Gutter overflows – installed for boxed eaves and gutters	3

Source: ARPC, Cyclone pool – consumers. [ARPC website](#).

²⁴ FRL, *Terrorism and Cyclone Insurance Act 2003*, Section 8D(b). [FRL website](#).

²⁵ ARPC, *ARPC publishes Cyclone Reinsurance Pool Premium Rates*, 2025. [ARPC website](#).

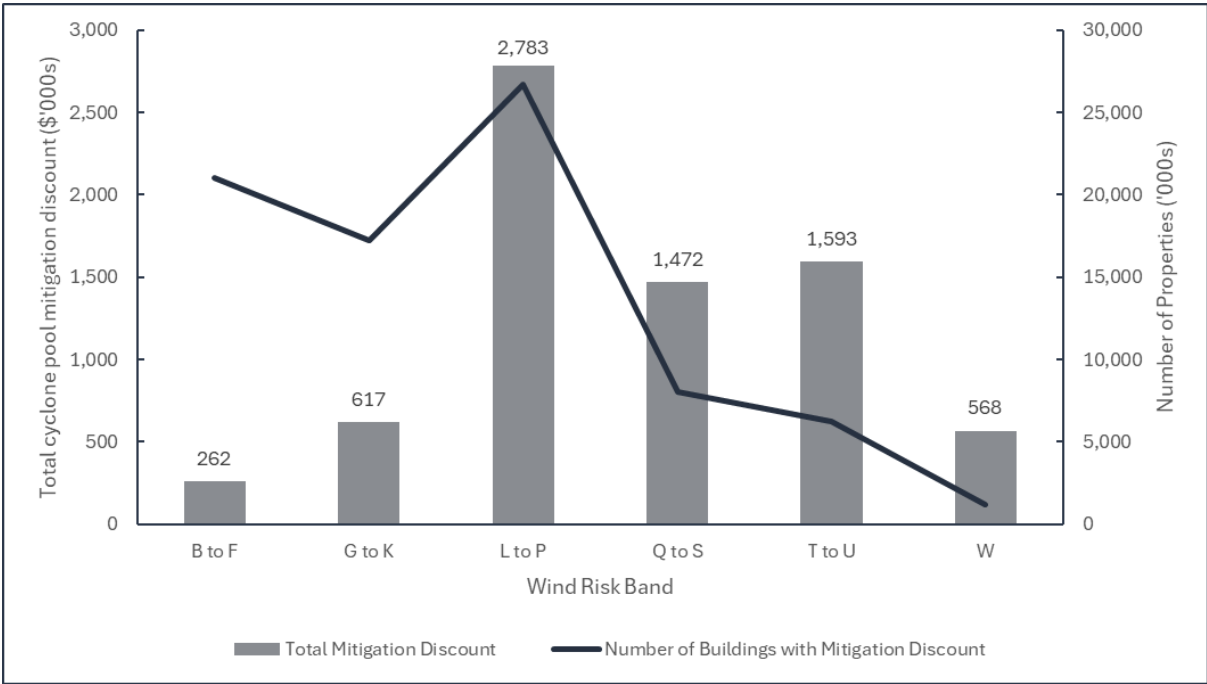
²⁶ ARPC, *Cyclone Reinsurance Pool Statistics Report March 2025*, 2025, page 10. [ARPC website](#).

Table 9: Proportion (per cent) of Buildings in the cyclone pool eligible for mitigation discount by region as at 31 March 2025.

Region	Roller door bracing	Window protection	Roof tied down	New roof	Ground floor elevated > 1m
Northern New South Wales	0.0	0.0	0.0	0.1	1.1
South East and Mid Coast Queensland (QLD)	2.2	0.8	1.0	1.2	3.1
Inland QLD	1.2	0.4	0.4	0.6	3.2
Far North QLD	8.6	5.7	6.9	6.3	4.1
Northern Territory	0.4	2.6	0.3	0.4	0.8
Northern Western Australia (WA)	1.4	4.1	1.3	1.2	0.7
Southern WA	0.0	0.0	0.0	0.0	0.2
Total	1.4	0.7	0.8	0.9	1.9

Source: ARPC, Cyclone Reinsurance Pool Statistics as at 31 March 2025 (page 10). [ARPC website](#).

Figure 2: Breakdown of total premium discount by wind band as at 31 March 2025.



Source: ARPC, Cyclone Reinsurance Pool Statistics as at 31 March 2025 (page 10). [ARPC website](#).

ACCC 2025 report – private mitigation

The ACCC found the majority of insurers in the cyclone pool have a mitigation framework in place and many have adopted the ARPC mitigation framework. However, a small number of insurers are yet to implement a mitigation framework in their pricing. For policyholders with these insurers, this means premiums will not reflect any cyclone mitigation measures they have implemented.

The ACCC found that insurers could be doing more to incentivise households to implement cyclone risk reduction measures. The ACCC’s findings also included that insurers have limited communication to consumers about the impact of private mitigation on retail premiums and that there is a lack of effective price signalling. For example, the ACCC heard that insurers could be providing information on mitigation actions and more certainty on the expected impact on premiums.

However, the Act does not require insurers to adopt the ARPC mitigation framework or any mitigation framework. Overall, the ACCC consider additional measures are needed to support investment in private mitigation to meaningfully improve risk reduction and affordability over time.

Cyclone pool reserves

The ARPC is required to set reinsurance premiums at a level that results in the cyclone pool being cost neutral to the Australian Government over the longer term. Given that cyclone events causing large insured losses tend to occur infrequently, it is expected that in most years the ARPC would accumulate a surplus. The ARPC then builds up a pool of reserves that can be drawn down when a large cyclone event occurs. As such, the accumulation of reserves over the short to medium term is not evidence that the scheme is overpriced but rather reflects the operation of the cyclone pool over time.

Similarly, the cyclone pool entering an accumulated deficit position – where its liabilities exceed its assets – is not necessarily an indication that the scheme is underpriced. Following Tropical Cyclone



Alfred in March 2025, the cyclone pool is expected to incur \$1.56 billion of claims from this cyclone alone. This occurred only three months after the last mandated insurer joined the cyclone pool and has resulted in the cyclone pool entering an accumulated deficit position. However, the cyclone pool is likely to be able to meet its future liabilities from assets already held and future premium income. As such, it has not needed to either call on the Commonwealth guarantee or transfer funds from the terrorism pool.

The ARPC estimates it will return to a positive net asset position in early 2026. However, this is highly dependent on the occurrence or otherwise of another large cyclone event.

Questions

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?
2. Are the ARPC's discounts for mitigation effective? Is pricing the only way the ARPC has encouraged risk mitigation?
3. Are there any other matters that should be considered when assessing whether the cyclone pool should continue?
4. Should the cyclone pool continue to exist? What would be the consequences of ending the cyclone pool?

Coverage

Coverage period

The cyclone pool's coverage period was intended to support the intent of the cyclone pool, to target the highest cyclone risks, predominantly located in northern Australia. The coverage period has been subject to scrutiny, particularly following the significant rainfall from Tropical Cyclone Jasper (see Box 1).

Australia's weather agency, the BoM, observes when a cyclone begins, intensifies and ends. If the BoM observes that a cyclone exists, and is likely to affect any part of Australia, it must notify the ARPC within 24 hours of making the observation. The ARPC must declare the start of a cyclone event within 24 hours of receiving the BoM's advice.

Relying on the BoM's advice that a cyclone has ended, the ARPC must make a subsequent declaration to note the end of a cyclone event. The cyclone event, and with it the claims period, will conclude 48 hours after the cyclone ends. This means the ARPC will cover eligible claims for losses that commence during a cyclone and 48 hours after. If a cyclone was declared to have ended but then re-intensifies based on the BoM's advice, the ARPC must declare a new cyclone event.²⁷

Generally under private market reinsurance contracts, insurers can choose to recover the cost of event claims from reinsurers that occur during a maximum period of 168 hours from a point they choose as the start of an insured event. Therefore, depending on the cyclone duration, the ARPC's coverage may be shorter or longer than the industry standard. For example, Tropical Cyclone Alfred's

²⁷ ARPC, *Declarations*. [ARPC website](#).

cyclone pool claims period was 237.5 hours and Tropical Cyclone Jasper's was 128 hours from the beginning of the cyclone events.

Box 1: Tropical Cyclone Jasper and the coverage period

The claims period for Tropical Cyclone Jasper began at 4pm on 10 December 2023 and ended 48 hours after the cyclone ended (12am on 14 December 2023) at 12am on 16 December 2023.²⁸ Two days later, the low-pressure system over Cairns (Tropical Cyclone Jasper having been downgraded to a low-pressure system) caused extensive flooding and other damage.

The length of the coverage period has no effect on the ability of policyholders to claim under their individual insurance policies. Rather, the effect of the coverage period for Tropical Cyclone Jasper was that insurers were unable to make reinsurance claims under their reinsurance agreements with the ARPC for losses caused by flooding outside of the coverage period.

If policyholders held flood cover, insurers were liable to pay eligible claims in line with the terms and conditions of policyholders' policies. Insurers themselves could make reinsurance claims in accordance with any private reinsurance agreements they held for losses not covered by the ARPC.

The ARPC incurred \$91 million in reinsurance claims related to Tropical Cyclone Jasper. By contrast the total insured losses associated with Tropical Cyclone Jasper was \$420 million according to Insurance Council of Australia (ICA) data.²⁹

However, some insurers had not joined the cyclone pool before Tropical Cyclone Jasper, as small insurers had until 31 December 2024 to join. Further, the difference between the ICA's estimate and ARPC's paid claims is not directly comparable. The ACCC's 2024 price monitoring report notes that the ICA estimate includes classes of business the cyclone pool does not cover such as motor vehicle and commercial property claims. The ACCC also pointed to damage not covered by the cyclone pool such as the flooding outside of the coverage period.³⁰

The Joint Select Committee on Northern Australia (Joint Select Committee) published its first report on the cyclone pool in 2023. Among other recommendations, the report recommended the Australian Government review the impact of the 48-hour clause on the cost of insurance premiums for northern Australians, and the availability of insurance in the region as part of the 2025 review, and to adjust this clause if necessary.³¹

In September 2024, the ARPC published modelling on the potential impacts of increasing the coverage period to 168 hours after a DCE. The modelling indicated that extending the coverage period would increase the expected average annual loss of the cyclone pool by \$20 million to \$35 million. As the cyclone pool is required to be cost neutral over the long term, these additional expected losses would need to be covered by an equivalent increase in aggregate premiums, such as by increasing premiums or by charging premiums to policies in postcodes currently not levied.³²

The impact of increasing the coverage period on aggregate savings is uncertain, as it would depend largely on how insurers and reinsurers respond. Currently, the risk of damage from an ex-tropical cyclone that occurs more than 48 hours after the cyclone is downgraded is either retained by the insurer or privately reinsured. Extending the coverage period would transfer this risk to the ARPC.

²⁸ ARPC, *Tropical Cyclone Jasper Ends*. [ARPC website](#).

²⁹ ICA, *Catastrophe 232: Tropical Cyclone Jasper*. [ICA website](#).

³⁰ ACCC, *Insurance Monitoring*, 2024, page 18. [ACCC website](#).

³¹ Joint Select Committee on Northern Australia, *First Report on the Cyclone Reinsurance Pool*, 2025, page 59. [APH website](#).

³² ARPC, *ARPC publishes modelling of Cyclone Pool coverage period*, 2024. [ARPC website](#).



If reinsurers share the ARPC's view of the redistribution of risk, then a small increase in the cyclone pool's aggregate savings could be expected. However, if reinsurers form a different view of risk coverage to the ARPC, they may not adjust their reinsurance premium rates. For example, reinsurers may view the amount of risk being taken by the ARPC as insignificant in the context of their overall flood risk, or that there remains significant uncertainty around risk at the revised boundary of the ARPC's coverage. Either scenario could result in insurers paying more in aggregate for reinsurance. Ultimately, insurers are likely to pass these costs to customers.

In addition, the distribution of aggregate cyclone pool savings may be affected. The introduction of more flood risk may see more properties move into higher risk bands and receive greater discounts. These discounts would need to be achieved by redistribution of savings from lower risk properties. The ARPC commissioned modelling for a scenario where insurers do adjust pricing to reflect the additional risk taken by the ARPC in comparison to current savings from the cyclone pool. The modelling showed 96.1 per cent of properties could expect an average \$4 increase to premiums, with the remaining 3.9 per cent receiving an average \$134 reduction. Amid this redistribution, it is likely that some policyholders with high wind risk pay more to achieve reductions for those with high flood risk.

Small business sum insured limit

The cyclone pool covers SME policies up to a maximum of \$5 million sum insured. The \$5 million threshold was chosen as the relevant amount based on data from insurers provided during targeted consultation. The data confirmed that a \$5 million threshold would capture most businesses. The Joint Select Committee's first report recommended future reviews of the cyclone pool consider this sum insured limit.³³

Building date eligibility

In addition, the Joint Select Committee's first report recommended the Australian Government's 2025 review of the cyclone pool should consider evidence and data on whether to 'sunset' the coverage of policies for new builds past a certain date. The Joint Select Committee considered it vital that the implementation and ongoing operation of the cyclone pool avoid unintended consequences. It said governments should not be subsidising poor market decisions, whether about the location of a new development or poor building design and materials.³⁴

Excluding new builds may reduce the cyclone pool's exposure over time. However, newer properties are generally built to higher standards of cyclone resilience and could be expected to perform better in cyclone events. The higher reinsurance premiums charged by the cyclone pool for properties built prior to 1982 reflect this.

Noting that an objective of the cyclone pool is to not charge low risk properties more than they would otherwise in the private market, the inclusion of new build properties provides the pool with a source of lower risk policies that can be used to distribute savings to those at higher risk. If the cyclone pool were to be concentrated with older, higher risk properties, it is not clear that savings could be distributed in the way that is intended.

³³ Joint Select Committee on Northern Australia, *First Report on the Cyclone Reinsurance Pool*, 2025, page 63.

[APH website.](#)

³⁴ Joint Select Committee on Northern Australia, *First Report on the Cyclone Reinsurance Pool*, 2025, page 61 and 62. [APH website.](#)

Further, excluding new builds may increase complexity and costs for insurers which would then likely require additional reinsurance coverage from the private market. Insurers may also require two processes to assess premiums for buildings built before and after the cut-off date, and for assessing claims from each.

Questions

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?

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?

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

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?

Terrorism reinsurance pool

The terrorism pool was introduced in 2003 to alleviate the market failure of global reinsurers withdrawing from providing insurance for commercial property against terrorism events, which occurred following the terrorist attacks in the United States on 11 September 2001.

Once a Declared Terrorism Incident (DTI) is declared, the Act operates by overriding terrorism exclusion clauses in eligible insurance contracts.³⁵ An eligible insurance contract is a contract that provides insurance coverage for:

- loss of, or damage to, eligible property owned by the insured
- business interruption and consequential loss arising from loss of, or damage to, eligible property that is owned or occupied by the insured or an inability to use all or part of such property or
- liability of the insured that arises from the insured being the owner or occupier of eligible property.³⁶

Further, the Act defines 'eligible property' as the following property located in Australia:

- buildings (including fixtures) or other structures or works on, in or under land
- tangible property that is located in, or on, such property, and
- property prescribed by regulation.³⁷

In practice, this means that insurers have an obligation to insure for the risk of terrorism, which encourages them to seek reinsurance. Reinsurance is available through the ARPC. However, insurers may choose to reinsure through the scheme, through the private reinsurance market, or retain the risk.

³⁵ FRL, *Terrorism and Cyclone Insurance Act 2003*, Section 8. [FRL website.](#)

³⁶ FRL, *Terrorism and Cyclone Insurance Act 2003*, Section 7(1). [FRL website.](#)

³⁷ FRL, *Terrorism and Cyclone Insurance Act 2003*, Section 3. [FRL website.](#)

Schedule 1 of the Regulations sets out exclusions to the definition of an 'eligible insurance contract', including a contract for insurance that provides cover for destruction or damage to a 'mainly residential building'.³⁸ Accordingly, the Act primarily applies to commercial property. However, following a recommendation in the 2015 triennial review, the terrorism pool was extended to insurance cover for mixed-use and high value buildings.³⁹

Schedule 1 also provides that a contract of insurance to the extent that it provides cover for loss arising from computer crime is not an eligible insurance contract.⁴⁰ The terrorism pool does not provide cover for personal injury or death caused by a terrorist incident. Claims from conventional forms of terrorist attack and attacks involving biological and chemical materials are covered by the terrorism pool, but terrorist incidents involving nuclear or radiological material are excluded.

The 2021 triennial review estimated the global commercial market capacity available for Australian terrorism reinsurance as short of the level required to cover against large, but possible, terrorism incidents. Further, stakeholders including reinsurers and brokers indicated in the 2021 triennial review that they would find it difficult to participate in the Australian terrorism insurance market without a mechanism like the ARPC.⁴¹

The terrorism reinsurance market remains largely unchanged since 2021. The private market is providing \$2.15 billion in capacity to the terrorism reinsurance pool. The private market likely could provide further capacity but would not be able to provide the aggregate \$13.7 billion in claims funding capacity the ARPC provides.

Claims

A claim on the terrorism pool may be made for eligible terrorism losses arising from any DTI covered by an eligible insurance contract where the insurer has a reinsurance agreement with the ARPC. The scheme will not be triggered unless the Minister, who has administrative responsibility for the Act, declares that a terrorist incident has occurred for the purpose of the Act.

There has been one declared terrorist incident in the history of the terrorism pool, with 92 claims recorded for the Lindt Café siege in 2014, totalling \$2.3 million from 20 insurers. This was within the insurer retentions under the terrorism pool, explained further below. As such, there has never been a call on the Commonwealth guarantee.

How a claim is funded

Insurers that reinsure their terrorism risks with the ARPC retain part of the cost from a terrorist incident. The retention, similar to an excess or deductible, requires the insurer to pay the first part of any claim. Annual aggregate retentions for individual insurers are calculated as 5 per cent of fire and industrial special risk premiums collected by the insurer, with a minimum retention of \$100,000 and a maximum retention of \$12.5 million. These amounts have been in place since 2017.⁴²

The ARPC's reinsurance agreement also provides for a maximum industry wide retention of \$200 million. If the sum of the retentions of maximum individual insurers in respect of all eligible terrorism

³⁸ FRL, *Terrorism and Cyclone Insurance Regulations 2003*, Schedule 1. [FRL website](#).

³⁹ Treasury, *Terrorism Insurance Act Review*, 2015, page 25. [Treasury website](#).

⁴⁰ FRL, *Terrorism and Cyclone Insurance Regulations 2003*, Schedule 1. [FRL website](#).

⁴¹ Treasury, *Terrorism Insurance Act Review*, 2021, page 5 and 6. [Treasury website](#).

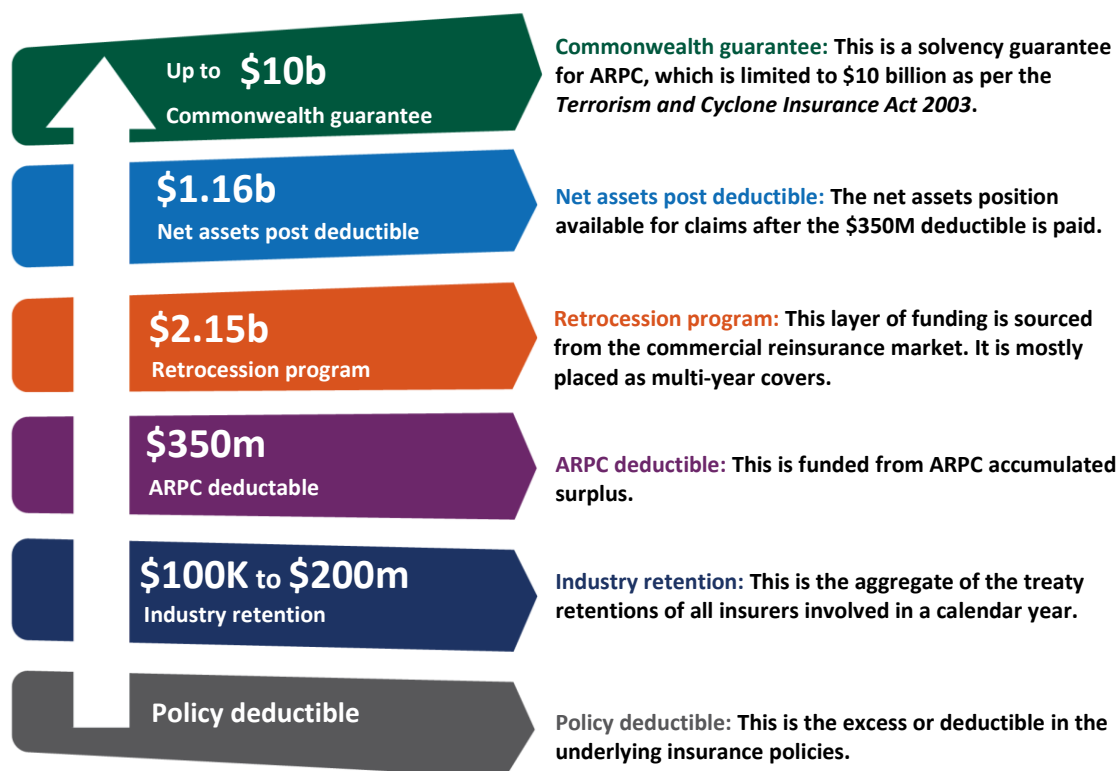
⁴² Treasury, *Terrorism Insurance Act Review*, 2018, page 3, [Treasury website](#) and ARPC, Annual Report 2016-17, page 6. [ARPC website](#).

losses caused by a single terrorist incident exceeds the maximum industry wide retention of \$200 million, then each insurer's retention is reduced proportionately to meet the industry wide retention.⁴³

In the event of a declared terrorist incident for the purposes of the Act, claims would progress along the following sequence as demonstrated in Figure 3:

- losses would be met first by industry up to the level of each insurer's retention, then
- from the ARPC assets up to the value of the deductible on the retrocession cover, then
- from the retrocession program (with any ARPC co-contribution being made from the ARPC capital and then through the Commonwealth guarantee),
- from remaining ARPC assets and finally,
- through the Commonwealth guarantee.

Figure 3: Funding layers for terrorism claims as at September 2025.



Source: The ARPC.

The need for the terrorism reinsurance pool to continue

The terrorism pool was established as an interim measure to address a specific market failure in the private provision of terrorism insurance and was originally intended to only operate while terrorism

⁴³ Treasury, *Terrorism Insurance Act Review*, 2018, page 3, [Treasury website](#)



cover is unavailable commercially on reasonable terms. Previously the Act required that at least once every three years the Minister was to prepare a report that reviews the need for the Act to continue. Previous reviews of the terrorism pool were completed in 2006, 2009, 2012, 2015, 2018 and 2021, which all concluded the terrorism pool should continue.

Despite the terrorism reinsurance pool being called on only once, several factors suggest it is still required.

- The scheme greatly improves access to terrorism reinsurance for commercial property and the rates charged by the ARPC are likely lower than would be charged by the private reinsurance market in the absence of the terrorism pool.
- Previous reviews have noted there is limited private market capacity, and that capacity is less than the ARPC provides, meaning not all currently covered properties could access terrorism reinsurance.
- Successive reviews have found there would likely be market failure if the terrorism pool did not continue.
- Recent market estimates suggest that around \$6.5 billion in capacity is available for terrorism reinsurance from the private market. \$2.15 billion of this is deployed through the ARPC. Industry has told previous reviews there is scarce terrorism cover available outside the ARPC and the cover that is available is often unaffordable.
- The removal of the terrorism pool would likely cause significant disruption to the Australian commercial property insurance market, which has the potential to impact the commercial property sector and negatively impact construction activity.

Given these reasons and the time the terrorism pool has been in operation, there is a case to consider the terrorism reinsurance pool as no longer a temporary intervention, but rather a permanent feature of the market.

As part of the 2015 triennial review, Treasury engaged Pottinger, an external consultant, that recommended making the terrorism pool permanent given the apparent ongoing need for the Act and suggested the reviews happen once every five years. However, the 2015 review considered that triennial reviews should remain in place to ensure that the ongoing need for the terrorism pool is closely monitored.

Retrocession program

The 2006 triennial review sought a staged reintroduction of private market capacity and to encourage private sector involvement to the greatest extent possible. This is consistent with the Explanatory Memorandum to the Terrorism Insurance Bill 2003 which reinforces the desire for private sector involvement. Retrocession, which is reinsurance for reinsurers, is a way to encourage the private market to provide terrorism reinsurance.

The 2006 triennial review suggested that once the terrorism pool reaches \$300 million in assets, the ARPC should have discretion to determine whether to use premiums to build the pool further, purchase reinsurance or a combination of the two. Following the 2006 triennial review, the ARPC commenced its first retrocession contract on 31 December 2008.

The terrorism pool provides a geographically diverse pool and can provide nationwide data on performance. Private reinsurers can also provide retrocession for the ARPC at a higher attachment

point – that is the ARPC retains more risk – than may be desirable among private market insurers. These factors mean the rate and availability of terrorism retrocession is likely more favourable for the ARPC than the private market.

The ARPC has been supported by a large number of reinsurers throughout its history of retrocession, with 45 reinsurers providing support for their 2025 retrocession program. Retrocession cost the ARPC \$65.6 million in each of the 2022–23 and 2023–24 financial years for \$3.5 billion of cover with a deductible of \$225 million.⁴⁴ For the 2025 calendar year, the ARPC purchased a smaller limit with an increased deductible to reflect ARPC’s current view of risk for the portfolio and value for money in the risk transfer. As such, the ARPC paid \$53.6 million for approximately \$2.15 billion of retrocession with a deductible of \$350 million.⁴⁵

Despite the long history of retrocession, successive reviews have found that there is insufficient terrorism reinsurance available commercially on reasonable terms suggesting a need for the terrorism reinsurance pool to continue.

The retrocession program also reduces the likelihood of the terrorism pool reporting an accumulated deficit after a moderate sized claim over \$1.5 billion. Retrocession provides some protection for the Commonwealth guarantee.

However, absent arguments for encouraging private market participation, the Commonwealth Guarantee reduces the need for retrocession because it ensures the ARPC can meet its liabilities. Further, the annual fee that is currently used to pay for retrocession, could be used instead to further build terrorism pool assets, thus providing funds that could be used to pay any claims except in the case of a severe event.

Further, the establishment of the cyclone pool increases the reserves available for the ARPC to meet claims and expenses in the event that the assets of the terrorism pool are exhausted, and therefore further reduces the likelihood of the ARPC calling on the Commonwealth guarantee.

If the terrorism pool becomes a permanent fixture, retrocession may serve a limited purpose in seeking to rebuild a market for which the ARPC is permanently providing reinsurance.

In previous reviews, the private market has consistently stated its preference for the terrorism pool to continue. The purchase of retrocession does not appear to have developed the market sufficiently to replace the terrorism pool. Given the ongoing cost of purchasing retrocession and the implied permanence of the terrorism pool, it should be considered whether the ARPC should continue to purchase terrorism retrocession.

Questions

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

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

11. Should the ARPC continue to purchase retrocession with a view to encouraging the growth of the private market? Does the existence of the cyclone pool and its diversification benefit impact the need for the retrocession program? Are there any other reasons for the ARPC to continue purchasing retrocession?

⁴⁴ ARPC, *ARPC Annual Report 2023–24*, page 28 and 31. [ARPC website](#).

⁴⁵ ARPC, *ARPC finalises 2025 terrorism retrocession program*, 2025. [ARPC website](#).

ARPC operations

Cyclone pool claims process

The ARPC cyclone claims process has seven steps: cyclone declaration, claims submission, claims data validation, claims processing, claims approval, claims payment and claim files audits.

Following an event, insurers submit policy level claims reports, unallocated expenses (which are eligible claims handling expenses) reports and summary event reports into the ARPC's reinsurance system, known as Protecting Australians for Catastrophic Events (PACE). PACE then performs a data integrity validation process to ensure mandatory data is provided and in the correct format. If validations are not passed, the file is not processed.

Claims processing then takes place, with PACE checking various fields such as postcodes, sums insured and claims data against records maintained in the system. An ARPC claims officer completes off system checks and resolves any errors generated in the automated processing. A policy level claims report checklist and claim approval template is then prepared for claims approval. Claims approval is then undertaken by the Executive Manager of Claims and the Chief Claims Officer (CCO). Once the CCO has approved payment of the claim in PACE, the payment is then released to insurers.

The ARPC has a process in place to recover monies from insurers for any over payment, or to rectify any underpayment.

Guarantee and capital holding fees

On 3 June 2025, the Hon Dr Daniel Mulino MP, Assistant Treasurer and Minister for Financial Services, directed the ARPC to pay the Commonwealth an annual \$55 million guarantee fee and a \$35 million capital holding fee.⁴⁶ These annual fees compensate the Commonwealth for the terrorism guarantee and allow the ARPC to retain capital to fund potential claims from the terrorism pool. Consideration should be given as to whether these arrangements continue to be appropriate.

The 2015 triennial review considered whether and to what extent the Commonwealth should be compensated for the financial benefits it provides to the ARPC. At the time of the 2015 triennial review, the ARPC had been paying a \$55 million annual fee for the guarantee and \$57.5 million dividend as retrospective compensation for the years prior to the 2012–13 financial year when the ARPC was not required to compensate the Commonwealth for the guarantee.⁴⁷ The dividend was initially set to cease after 2017–18.⁴⁸

The 2015 triennial review recommended that the ARPC pay the Commonwealth a \$55 million guarantee fee and a \$35 million capital holding fee each year.⁴⁹ These amounts were recommended by the 2015 triennial review after considering estimates provided by Pottinger and the Australian Government Actuary (AGA) of what the ARPC would pay for retrocession in the private market.

Pottinger estimated that, if the ARPC was to replace the Commonwealth guarantee with private retrocession of \$10 billion (if it was available), this would cost around \$200 million annually. This estimate assumed the premium paid by the ARPC would be equal to the marginal rate online for the ARPC's retrocession program in 2014.

⁴⁶ FRL, *Terrorism and Cyclone Insurance (Payments) Direction 2025*, 2025. [FRL website](#).

⁴⁷ Treasury, *Terrorism Insurance Act Review*, 2015, page 19, [Treasury website](#).

⁴⁸ Treasury, *Terrorism Insurance Act Review*, 2015, page 20, [Treasury website](#).

⁴⁹ Treasury, *Terrorism Insurance Act Review*, 2015, page 20, [Treasury website](#).



The AGA provided a more conservative estimate of the value of the guarantee to the ARPC of around \$55 million. The AGA's estimate assumed the first dollar of cover provided under the guarantee could be priced at the marginal rate online of the retrocession program, but that reasonable fee falls for each additional dollar of the guarantee provided. The AGA's valuation implied zero charge for the last \$3 billion of the guarantee. The result was a fee below the private sector charge as the government does not have to achieve 'market returns'.⁵⁰

Pottinger estimated that the cost to the ARPC to reinsure the first \$360 million of losses in the private market would be between \$30 million and \$70 million. At the time of the 2015 review, this would have been funded using the capital retained by the ARPC. A similar value of \$35 million was obtained by the AGA based on the ARPC holding a capital pool of \$500 million. Both calculations drew on actual premiums paid by the ARPC for retrocession. The 2015 review considered a fee or dividend consistent with the AGA's more conservative estimate of \$35 million was more appropriate than a full commercial rate given the principle that the government should be fairly compensated for taking on the risk.

Data sharing

The ARPC collects data in its course of business that is valuable to government and other stakeholders in planning for resilience investment and other policy development.

The ARPC's ability to share data with other Australian Government agencies and departments relies on the reinsurance agreement which reflects the policy intent of the cyclone pool.

The ARPC only shares data provided by insurers on a de-identified and aggregated basis for the specific purpose of supporting services, policies, programs, analysis and research that relate to natural hazard management (including emergency management) and resilience.

Scheme actuary

The ARPC utilises actuarial staff for day-to-day work of the reinsurance pools. However, the head of actuarial is not a statutory position. A dedicated scheme actuary could have more independence to help ensure scheme integrity.

Agencies with similar actuarial complexity, such as the National Disability Insurance Agency (NDIA), have a scheme actuary. The *National Disability Insurance Scheme Act 2013* includes provisions that the NDIA has to consider actuarial advice from the scheme actuary and reviewing actuary.

The National Disability Insurance Scheme actuary is nominated by the Board and has its responsibilities specified in legislation. The scheme actuary must be separate to the reviewing actuary.

A dedicated scheme actuary for the ARPC could help administer the reinsurance pools, including by providing independent pricing recommendations and managing the ongoing financial viability of the schemes.

⁵⁰ Treasury, *Terrorism Insurance Act Review*, 2015, page 21, [Treasury website](#).



Questions

12. Is the ARPC's claims process fit for purpose?
13. Should the annual guarantee and capital holding fees continue and at what level?
14. Should the ARPC be able to share additional data with stakeholders, in and out of government, and why?
15. Should the ARPC have a dedicated scheme actuary?

Consultation questions

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?
2. Are the ARPC's discounts for mitigation effective? Is pricing the only way the ARPC has encouraged risk mitigation?
3. Are there any other matters that should be considered when assessing whether the cyclone pool should continue?
4. Should the cyclone pool continue to exist? What would be the consequences of ending the cyclone pool?
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?
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?
7. Is the \$5 million SME sum insured limit appropriate?
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?

Terrorism Reinsurance Pool

9. Should the terrorism pool continue to exist and if so, should it be considered a permanent feature of the Australian insurance market?
10. Is there still a need to encourage greater involvement of the commercial sector in providing terrorism risk cover?
11. Should the ARPC continue to purchase retrocession with a view to encouraging the growth of the private market? Does the existence of the cyclone pool and its diversification benefit impact the need for the retrocession program? Are there any other reasons for the ARPC to continue purchasing retrocession?

ARPC operations

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