

Submission to the Review of the Terrorism and Cyclone Insurance Act 2003

Submitted by: Strata Community Association (Qld)

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Executive Summary

The Strata Community Association Queensland (SCAQ) is the peak industry body representing professional strata managers across Queensland. Our members support bodies corporate representing **68% of all strata lots in Queensland**, including thousands of schemes across Far North Queensland – one of Australia's highest cyclone-risk regions.

Our members have direct, hands-on experience with the cyclone reinsurance pool's real-world impacts on insurance affordability and availability for strata communities in cyclone-prone areas.

Our key findings:

- The cyclone pool has delivered **significant premium reductions** for medium to high-risk schemes, with ACCC data showing a 7% average reduction for strata insurance and material savings in key FNQ locations: Townsville (28%), Karratha (23%), Mackay (19%), and Cairns (17%)
- Industry data shows **39% reduction in average home policyholder premiums** for highest-risk areas following pool commencement
- Our members report **premium reductions of 40-80%** for larger schemes participating in the pool
- The pool has **corrected a market failure** that previously left schemes unable to comply with legislative requirements under the Body Corporate and Community Management Act 1997
- **Strong unanimous support** exists for the pool's continuation among our members and participating insurers like CHU
- **However, smaller schemes (10 lots or less) – which represent the majority of strata schemes in FNQ – have not benefited equally**, with many experiencing premium increases of 30-50% after their primary insurer (Suncorp) became significantly more expensive
- **Island communities face a critical insurance crisis**, unable to access cyclone pool coverage and forced to source expensive international insurance
- The **48-hour coverage period is inadequate** and should be extended to better align with cyclone-related flood patterns and industry standards
- **Critical gaps remain** in residential/commercial definitions, flood coverage, and practical implementation of mitigation discounts

The cyclone reinsurance pool represents a significant public policy achievement that has delivered transformational premium reductions for larger strata schemes in Far North Queensland. For these properties, reductions of 40-80% have provided critical relief and solved a legislative compliance crisis.

However, the pool's benefits have been distributed inequitably, and critical gaps remain that undermine its effectiveness:

The small scheme crisis: The majority of strata schemes in FNQ – those with 10 lots or less – have not benefited from the pool and many have experienced premium increases of 30-50%. These smaller schemes, representing the largest number of individual homeowners, have been left behind. This is a fundamental equity failure that must be urgently addressed.

The island community crisis: Body corporate schemes located on islands throughout Far North Queensland face an acute insurance crisis, unable to access cyclone pool coverage and forced to pay extraordinary premiums to international insurers. Island communities – with some of the highest cyclone risk profiles in Australia – receive no benefit from a cyclone pool designed to help high-risk properties. This is unconscionable and requires immediate intervention.

The coverage period gap: The 48-hour coverage period is inadequate for cyclone-related flooding, as starkly demonstrated by TC Jasper. Extension to 7 days (or minimum 72-96 hours) is essential to align with industry standards and actual cyclone impact patterns.

The trade shortage barrier: Mitigation discounts are well-designed in theory, but implementation is severely constrained by chronic shortage of qualified trades in Far North Queensland. Bodies corporate willing and able to invest in mitigation face 12-18 month delays to complete works, undermining the financial case for mitigation and the pool's risk reduction objectives. This requires policy intervention beyond the insurance sector.

The definitional clarity gap: Inconsistent application of residential vs commercial definitions creates significant premium disparities for schemes with minor short-term letting or ancillary services, penalizing building owners for activities beyond their control.

The pool must continue – this is the unanimous view of our members who manage strata schemes on the ground in one of Australia's highest cyclone-risk regions. The pool should be recognized as a **permanent feature** of the market, not a temporary intervention. The underlying risks are increasing with climate change, not decreasing.

However, **continuation alone is insufficient**. The pool requires **targeted reforms** to ensure its benefits reach all segments of the market:

- Small schemes must receive the same premium relief as large schemes
- Island communities must be included in cyclone pool coverage
- Coverage periods must align with actual cyclone impacts
- Mitigation implementation barriers must be addressed with workforce and financing support
- Definitions must be clarified to ensure equitable treatment

With these reforms, the cyclone pool can achieve its full potential as a cornerstone of Australia's approach to managing cyclone risk and building community resilience in our most vulnerable regions.

The communities we represent – families, retirees, workers, and small businesses in Far North Queensland – deserve insurance they can afford, coverage that protects them when cyclones hit, equitable treatment regardless of scheme size or location, and a system that genuinely encourages and enables resilience investment.

We thank the Treasury for the opportunity to contribute to this important review and remain available to provide further information, clarification, or supporting data.

Yours sincerely



Laura Bos,
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Appendix 1 – Detailed Response

Appendix 2 – Scheme Data

Appendix 1 - Detailed Response

1. About Strata Community Association Queensland

Strata Community Association Queensland (SCAQ) represents professional strata managers who support bodies corporate representing 68% of all strata lots in Queensland – giving us unparalleled insight into the Queensland strata insurance market.

Our members manage schemes across the entire state, from small residential complexes to large mixed-use developments, with particularly significant representation in Far North Queensland where cyclone insurance challenges are most acute.

Our members are on the frontline of cyclone insurance challenges. They:

- Negotiate insurance renewals for thousands of body corporate schemes
- Manage claims processes following cyclone events
- Advise bodies corporate on mitigation measures and insurance requirements
- Ensure compliance with the Body Corporate and Community Management Act 1997, which requires adequate insurance coverage

Far North Queensland experiences some of Australia's highest cyclone risk, with recent major events including Tropical Cyclone Jasper (December 2023) and Tropical Cyclone Alfred (March 2025). Our members' insights are drawn from managing insurance challenges through these events and the dramatic market changes since the cyclone pool's commencement in July 2022.

The FNQ strata landscape is dominated by small schemes. The majority of body corporate schemes in Far North Queensland have **10 lots or less**. These smaller schemes – typically low-rise residential buildings, townhouse complexes, or small unit blocks – represent thousands of individual homeowners across the region. Their insurance experience has been markedly different from larger schemes.

With our members supporting 68% of Queensland's strata lots, the experiences and recommendations in this submission represent the vast majority of Queensland's strata community.

2. Is the Cyclone Pool Meeting Its Objectives? (Consultation Questions 1, 3, 4)

Premium Affordability – Significant Success for Medium to Large Schemes

The cyclone pool has delivered **substantial premium reductions** for medium to high-risk strata schemes in Far North Queensland, confirmed by both industry data and our members' direct experience:

Independent data from ACCC and industry sources:

- **ACCC findings:** 7% average reduction in strata insurance premiums (per \$100,000 sum insured) in medium to high cyclone risk regions
- **Regional data shows material savings** in key FNQ locations:
 - Townsville: 28% reduction
 - Karratha: 23% reduction
 - Mackay: 19% reduction
 - Cairns: 17% reduction
- **Industry data:** 39% reduction in average home policyholder premiums for highest-risk areas following pool commencement

Our members' experience:

- Premium reductions of 40-80% have been observed across participating insurers for larger schemes
- Larger schemes in higher-risk locations have seen the most significant reductions, with some achieving up to 80% decreases
- All participating insurers have applied substantial discounts
- Premium reductions have been broadly consistent across the portfolio, with the level of reduction correlating directly to scheme size and cyclone risk location

One member reported: *"We have seen reductions of up to 80% in some instances on larger schemes. Discounts applied ranged from 40%-80% across all sizes of properties. The larger the premium pool and location, the higher the reduction."*

Another member noted: *"There has been a decrease in policy premiums generally and some quite significant. For the most part it has provided massive relief to the regions."*

These premium reductions have provided critical financial relief to body corporate communities, many of which were facing unsustainable insurance costs that threatened property values and owner equity.

Industry Support for the Pool

Insurers participating in the cyclone pool recognize its importance in addressing affordability challenges. CHU, which joined the ARPC Pool in July 2023, stated: *"CHU welcomes measures that assist property owners with affordability and access to suitable insurance products...CHU understands the financial stress individual householders are under with rising inflation and cost of living pressures, and this is a positive step towards alleviating these pressures in some instances."*

CHU's position remains that they support the pool and the premium relief it can provide customers in some instances. This industry support reflects the pool's success in creating a more sustainable insurance market for cyclone-prone regions.

A Tale of Two Markets: Large Schemes vs. Small Schemes

However, the cyclone pool has created **dramatically different outcomes for different segments** of the FNQ strata market, with larger schemes experiencing transformational benefits while smaller schemes – representing the majority – have been left behind or are worse off. (Refer to Appendix 2).

Small Schemes – The Crisis No One Is Talking About

The majority of strata schemes in Far North Queensland – those with 10 lots or less – have not experienced the same benefits and many are significantly worse off.

The problem:

Prior to the cyclone pool, **Suncorp was the dominant insurer for small schemes** in FNQ. Suncorp offered:

- Competitive pricing significantly cheaper than competitors
- Reliable coverage and service
- Willingness to insure small schemes that other insurers avoided

Small scheme bodies corporate relied heavily on Suncorp, and many had been with them for years or decades.

What changed:

Following the introduction of the cyclone pool, our members report that **Suncorp's premiums for small schemes have increased dramatically:**

- **Premium increases of 30-50%** over the past few years are common
- Small schemes that were paying \$3,000-\$5,000 annually are now paying \$4,500-\$7,500
- **Alternative insurers remain limited** for small schemes

One member stated: *"Not for smaller schemes. SUU, CHU and Sure (via the broker market) are the predominate insurers for smaller schemes."*

While **Strata Unit Underwriters (SUU) has increased capacity**, providing some additional options, the alternatives remain limited and often more expensive than Suncorp's pre-pool pricing.

Why this matters:

Small schemes represent **the largest number of individual homeowners** affected by cyclone insurance in FNQ:

- A 20-lot scheme has 20 owners sharing costs
- A 5-lot scheme has only 5 owners sharing the same or higher premiums

- **Per-owner insurance costs are far higher** in small schemes
- Many small scheme owners are **retirees, first home buyers, or lower-income families** less able to absorb cost increases
- Small schemes have **limited economies of scale** for mitigation investments

The equity problem:

The cyclone pool was designed to help those facing the highest cyclone risks with the least affordable insurance. Yet:

- **Large schemes with significant resources** have received 40-80% premium reductions
- **Small schemes with limited resources** have experienced 30-50% premium increases
- **The pool's cross-subsidy mechanism** is not reaching the schemes that need help most

This is a fundamental equity failure that must be addressed.

RECOMMENDATION: Ensure Small Schemes Benefit from the Pool

We recommend that Treasury and ARPC investigate why small schemes are not benefiting from the cyclone pool and implement targeted measures to ensure the pool's benefits reach this critical segment:

1. **Conduct targeted analysis** of premium outcomes for schemes under 10 lots by insurer, location, and risk band
2. **Engage with Suncorp** to understand their pricing strategy post-pool and whether cyclone pool participation could address their pricing concerns
3. **Encourage new insurer entry** specifically targeting the small scheme market through:
 - Lower minimum premium pool requirements for small scheme specialists
 - Streamlined onboarding processes for insurers focusing on small schemes
 - ARPC reinsurance pricing that recognizes the lower absolute exposure of small schemes
4. **Consider differential pricing structures** within the cyclone pool that provide enhanced cross-subsidy benefits to small schemes
5. **Monitor and report** on premium outcomes by scheme size to ensure the pool is delivering equitable outcomes across all segments

Without action on small schemes, the cyclone pool is failing the majority of FNQ strata owners.

Insurance Availability – Mixed Results

Beyond the small scheme crisis, the cyclone pool has improved insurance availability, but benefits have been uneven:

Positive developments:

- Significantly more insurers competing in the FNQ market for larger schemes
- Increased capacity from existing insurers like Strata Unit Underwriters (SUU)

- New market entrants including Chubb entering the large scheme market in 2025
- CHU's entry in July 2023 specifically to support affordability and access
- Supply and demand mechanics working to benefit consumers in the large scheme segment

Ongoing challenges:

- Smaller schemes have not seen the same availability improvements
- Limited insurer options remain for smaller schemes, with SUU, CHU and Sure (via broker market) being predominant
- Challenging schemes with claims history or other risk factors still face obstacles
- Some schemes have seen premiums remain consistent rather than decrease

One member observed: *"There are significantly more competitors which in turn affects premiums simply by the mechanics of supply and demand."*

However, this increased competition is **heavily concentrated in the large scheme segment**, not the small scheme segment where most FNQ owners reside.

Solving Legislative Compliance Crisis

A critical but often overlooked benefit: the cyclone pool has solved a legislative compliance crisis under the Body Corporate and Community Management Act 1997, which requires bodies corporate to maintain adequate insurance.

As one member stated: *"The cyclone pool has naturally corrected a market failure which essentially led to uninsured schemes that were unable to therefore comply with legislative requirements under the BCCM Act."*

Before the cyclone pool, some schemes simply could not obtain insurance at any price, placing them in breach of their statutory obligations and exposing committee members to potential personal liability.

However, this benefit is being undermined by the affordability crisis facing small schemes. While insurance may technically be "available," premiums that increase 30-50% may become effectively unaffordable for small scheme owners, creating a new affordability-based compliance crisis.

Should the Cyclone Pool Continue?

Our answer is an unequivocal YES.

Every member surveyed strongly supported the pool's continuation, describing it as "imperative" and "absolutely" necessary. This support is echoed by industry participants like CHU who recognize the pool's role in addressing affordability challenges.

The cyclone pool should be considered a **permanent feature** of the Australian insurance market, not a temporary intervention. The underlying market dynamics that created the original market failure – concentrated catastrophic risk, climate change increasing cyclone intensity, and limited global reinsurance capacity – have not changed and are unlikely to change.

However, the pool must be reformed to ensure its benefits reach all segments of the market, particularly small schemes and island communities (discussed below).

3. Island Communities – An Acute Insurance Crisis (Consultation Questions 1, 3, 4)

The Problem

Our members manage body corporate schemes located on island communities throughout Far North Queensland, including schemes in the Whitsunday Islands and other island locations. These schemes face a unique and severe insurance crisis that the cyclone pool has not addressed:

Key facts:

- Island schemes cannot obtain insurance from any cyclone pool participating insurer
- No domestic Australian insurers will provide coverage for island properties
- Schemes are forced to source insurance from overseas/international insurers
- International insurance is extraordinarily expensive – often 3-5 times the cost of mainland equivalent schemes
- Coverage terms from international insurers are often more restrictive than Australian policies
- Claims processes are more complex and uncertain when dealing with international insurers

Why this matters:

Island communities in Far North Queensland are not remote uninhabited outposts – they are **established residential communities** with:

- Permanent residents and families
- Essential workers (tourism, marine industries, conservation)
- Retirees who have invested life savings in island properties
- Small businesses and tourism operators
- Community infrastructure and services

These communities face **higher cyclone risk** than mainland locations due to:

- Direct ocean exposure without land mass protection
- Limited evacuation options during cyclone events
- Exposure to storm surge and coastal inundation
- Longer emergency service response times

Yet paradoxically, **they receive no benefit from the cyclone pool** despite having some of the highest cyclone risk profiles in Australia.

The human impact:

One member managing an island scheme reported annual insurance premiums of \$45,000 for a 12-unit scheme –

approximately \$3,750 per unit annually just for building insurance. This is compared to equivalent mainland schemes paying \$15,000-\$20,000 (\$1,250-\$1,667 per unit).

For island residents, many of whom are retirees or working in lower-paid tourism and marine industries, these insurance costs are:

- Unaffordable – consuming 5-10% of household income just for building insurance
- Unsustainable – increasing faster than incomes or property values
- Inequitable – penalizing residents for living in communities that support essential regional industries
- Threatening property values – potential buyers are deterred by insurance costs

The market failure:

The cyclone pool was designed to address market failure in cyclone insurance. Island communities represent the most acute market failure within this broader problem:

- Highest risk properties cannot access the risk pool designed to help them
- Domestic insurers refuse coverage despite government reinsurance backing
- International insurers exploit captive market with premium pricing
- No competitive pressure exists to moderate pricing

Why are insurers refusing coverage?

Our members report that insurers cite various reasons for excluding island properties:

- Perceived higher risk due to ocean exposure
- Lack of actuarial data for island-specific claims experience
- Emergency service concerns – longer response times for claims assessment
- Claims handling complexity – access challenges for assessors and builders
- Concentration risk – entire scheme exposed to same single-point risk

However, many of these concerns are addressed by the cyclone pool's design:

- The ARPC assumes 100% of eligible claims costs during declared cyclone events
- Risk-based premium rating can account for higher-risk locations
- Modern building standards apply to island properties
- Claims handling complexity exists for all remote/regional properties

There is no actuarial or policy justification for excluding island properties from the cyclone pool.

RECOMMENDATION: Include Island Communities in the Cyclone Pool

We strongly recommend that **island properties be explicitly included in cyclone pool eligibility** through amendments to the Act, Regulations, or ARPC reinsurance agreements.

Specific actions:

1. Amend the Terrorism and Cyclone Insurance Regulations 2003 to explicitly state that properties located on islands within Australian territorial waters are eligible for cyclone pool coverage
2. Require participating insurers to offer coverage to island properties as a condition of cyclone pool participation, or face penalties/exclusion from the pool
3. Develop island-specific risk rating within the ARPC premium structure that appropriately prices island risk while ensuring coverage availability
4. Mandate minimum insurer participation for island properties – e.g., require each participating insurer to accept a minimum proportion of island property exposure
5. Consider government-backed claims handling support for island properties to address insurer concerns about assessment and builder access
6. Engage with Whitsunday and other island community stakeholders to understand specific insurance challenges and co-design solutions

Alternative: Island-Specific Pool Mechanism

If including islands in the main cyclone pool proves impractical, consider creating an island-specific reinsurance mechanism modelled on the cyclone pool:

- Mandatory participation for island property insurers
- ARPC or similar entity provides reinsurance
- Premium pricing reflects higher risk but ensures affordability
- Government guarantee backing

The cost of inaction:

Without intervention, island communities face:

- Continued affordability crisis and potential uninsurability
- Declining property values as insurance costs deter buyers
- Economic decline as residents and businesses relocate to mainland
- Loss of essential workers (marine park rangers, tourism operators, emergency services) who cannot afford to live on islands
- Abandonment of established communities that support regional industries
- Increased risk to government as uninsured properties create larger disaster recovery obligations

Island communities are Queenslanders too. They deserve access to the same cyclone insurance solutions as mainland residents.

This is not just an insurance issue – it is an issue of regional equity, economic sustainability, and community viability.

4. Coverage Period – Critical Gap Requiring Urgent Action (Consultation Questions 5, 6)

The 48-Hour Problem

The **48-hour coverage period after a cyclone ends is inadequate** and creates significant coverage gaps. This issue was starkly illustrated by Tropical Cyclone Jasper in December 2023 and has been a constant source of debate since the pool's introduction.

Tropical Cyclone Jasper case study:

- Cyclone pool coverage ended 48 hours after the cyclone was downgraded (16 December 2023 at 12:00am)
- The low-pressure system caused extensive flooding in Cairns two days later
- This flooding damage was not covered by the cyclone pool
- Bodies corporate with flood cover could claim under their policies, but insurers could not recover from ARPC
- This placed additional financial pressure on insurers and reduced the pool's effectiveness

Our members report that cyclone-related flooding commonly extends beyond 48 hours, particularly in Far North Queensland's geography and rainfall patterns.

Industry Standard Misalignment

The 48-hour period also misaligns with standard reinsurance market practice, where event periods typically extend to 168 hours (7 days). This creates complexity and inconsistency when insurers need to coordinate coverage between the ARPC and private reinsurance markets.

RECOMMENDATION: Extend Coverage Period

Our members **unanimously support extending the coverage period**, with clear preference for:

Primary recommendation: Extend to **7 days (168 hours)** after cyclone end, aligning with industry standards

Minimum acceptable compromise: Extend to at least **72-96 hours** to better capture cyclone-related flooding.

One member stated: *"That would be great! However, we appreciate that could potentially put a lot of strain on the pool and question its viability in the future if multiple large events were to occur. We'd like to see it extended, but even if 7 days wasn't feasible perhaps 72 or 96 hours would be a reasonable compromise."*

We acknowledge the ARPC's modelling showing a \$20-35 million increase in expected annual losses from extending to 168 hours. However, we note:

1. **The current 48-hour period undermines the pool's effectiveness** when significant cyclone-related damage occurs beyond this window
2. **Premium impacts would be modest** when distributed across the entire pool (approximately \$10-15 per policy annually based on current pool size)
3. **Better alignment with actual cyclone impacts** would improve scheme outcomes and pool legitimacy
4. **Reinsurers may adjust pricing** if they recognize reduced exposure, potentially offsetting some increased pool costs
5. **The cost of extending coverage is a worthwhile investment** in the pool's integrity and effectiveness

Private Reinsurance Market Response

Regarding whether private reinsurers have adjusted pricing to reflect the ARPC's risk transfer (Question 6), our members have limited visibility into reinsurance pricing mechanisms. However, we note that premium reductions achieved by larger schemes suggest insurers are receiving meaningful reinsurance savings that are being passed through to policyholders in that segment.

For small schemes experiencing premium increases, it appears that insurers have not adjusted retail pricing to reflect cyclone pool benefits, suggesting that either:

1. Insurers are not passing through reinsurance savings to small schemes, or
2. Other cost factors are overwhelming any reinsurance savings, or
3. Small scheme pricing is influenced by factors other than reinsurance costs

This requires further investigation by Treasury and ARPC.

5. Mitigation Measures – Implementation Challenges (Consultation Question 2)

Current Discount Uptake and Insurer Implementation

Since 1 April 2025, when strata mitigation discounts became available, our members report growing awareness and uptake:

- Obtaining building information from plans is challenging but improving with JCU cyclone resilience reporting
- Some insurers actively provide discounts when favourable conditions are identified
- CHU has implemented cyclone mitigation questions in their online quoting portal and provides links to further information at <https://chu.com.au/cyclone-mitigation/>, demonstrating industry commitment to supporting mitigation
- Actual implementation of mitigation measures remains limited by practical and procedural barriers

The fact that insurers like CHU have integrated mitigation assessment into their quoting processes shows the framework is being operationalized. However, bodies corporate face significant challenges in actually implementing the physical works required to qualify for these discounts.

Critical Barriers to Implementation

Our members identify **five major barriers** preventing bodies corporate from implementing ARPC-recognized mitigation measures:

1. Timing Misalignment

- Insurance renewals typically provide **4 weeks or less notice** before expiry (often much less)
- Body corporate decision-making requires:
 - Obtaining quotes (difficult in current labour market)
 - Preparing EGM notices
 - Holding meetings (minimum notice periods apply)
 - Obtaining owner resolutions
 - Contracting and completing works
- This process **cannot be completed within renewal timeframes**

One member stated: *"Discounts generally relate to full roof replacements which are not practical, particularly in context of the timelines required to seek and receive quotes in a labour shortage market, prepare and hold EGM's to resolve and then timeline for minutes. This does not align with the minimum notice provided for take up of discounts when policy renewals are received no earlier than four weeks prior to expiry, and in most cases much less."*

2. Trade Availability Crisis – The Critical Bottleneck

Far North Queensland faces a **severe shortage of qualified trades** capable of performing cyclone mitigation works. This is the single biggest barrier to implementing mitigation measures, and it deserves detailed examination because **it fundamentally undermines the cyclone pool's mitigation incentive framework**.

The scope of the problem:

- Chronic shortage of licensed roof plumbers, carpenters, and building contractors in FNQ region
- Extreme competition for available trades from multiple sources:
 - Post-cyclone reconstruction work (Jasper reconstruction still ongoing, Alfred work just beginning)
 - General building and renovation work in growing region
 - Infrastructure and commercial projects
 - New residential construction
- Long waiting lists for cyclone-related works – 6-12 months is common, with some contractors booking 18+ months in advance
- Difficulty obtaining competitive quotes when few contractors are available or interested in quoting
 - Many established contractors have full books and are not taking new work

- Some contractors won't quote on strata projects due to complexity
- Body corporate procurement requirements (multiple quotes, meeting approvals) deter some contractors
- Premium pricing by trades due to high demand – quotes are 30-50% higher than pre-cyclone levels
- Quality and qualification concerns:
 - Inexperienced contractors entering the market to meet demand
 - Some contractors lack proper licensing or insurance
 - Quality of cyclone mitigation work is variable
 - Risk that substandard work doesn't actually improve cyclone resilience

Real-world timeline example:

Consider a body corporate that wants to implement roof tie-down improvements to qualify for ARPC mitigation discounts:

- **Month 1:** Insurance renewal notice received (4 weeks before expiry), committee begins seeking quotes
- **Month 2-3:** Attempting to obtain quotes from contractors
 - First 5 contractors contacted decline to quote (fully booked)
 - Next 3 contractors say they'll quote but never provide one
 - Finally obtain 2 quotes after 8 weeks, but need 3 for proper procurement
- **Month 4:** Present quotes to EGM, but only have 2 quotes, EGM defers decision to get third quote
- **Month 5:** Finally obtain third quote, call new EGM
- **Month 6:** EGM approves work, committee signs contract with chosen contractor
 - **Contractor's earliest availability: 9 months from contract signing**
- **Month 15:** Work finally scheduled
- **Month 16:** Work completed and certified

Total elapsed time: 16 months from insurance renewal notice to completed mitigation work.

During this entire period, the scheme pays full premiums without mitigation discounts despite having made the decision to implement mitigation and allocated funding for it.

The compounding problem:

This timeline issue compounds with each insurance renewal:

- **Year 1:** Renewal notice April, work not completed by renewal, no discount received
- **Year 2:** Renewal notice April, work still not completed (waiting for contractor), no discount received
- **Year 3:** Renewal notice April, work finally completed March (just in time!), but documentation not yet submitted to insurer, no discount received
- **Year 4:** First renewal where discount is actually received

By Year 4, the body corporate has paid 3 years of full premiums while waiting to implement and document mitigation they committed to in Year 1.

Impact on mitigation investment decisions:

This timeline reality fundamentally changes the economics of mitigation investment:

Example calculation:

- Roof tie-down improvement cost: \$50,000
- Expected annual premium savings with 20% mitigation discount: \$4,000
- Theoretical payback period: 12.5 years
- **Actual payback period accounting for 3-year implementation delay: 15.5 years**

When the payback period extends beyond 15 years, body corporate committees reasonably conclude that mitigation investments are not financially viable, particularly when:

- Building may require other major capital works within that timeframe
- Committee members may not own units for that duration
- Sinking fund has competing demands
- Risk that insurer or ARPC discount policies change in future

Why this matters for the cyclone pool:

The ARPC and insurers like CHU have designed and implemented sound mitigation incentive frameworks with generous discounts and accessible information. However, **if the real-world delivery mechanisms don't work, the incentives become theoretical rather than practical.**

The trade shortage means that:

- Bodies corporate cannot respond to mitigation incentives even when willing
- The cyclone pool's risk reduction objectives are not being achieved
- Premium savings that could fund mitigation are not materializing
- Cyclone risk in the pool is not decreasing as intended
- Government and community resilience goals are not being met

This is not an insurance design problem – it is a workforce and implementation problem that requires policy intervention beyond the cyclone pool.

3. Cost vs. Benefit Uncertainty

- Full roof replacements (which attract highest discounts) cost hundreds of thousands to millions of dollars
- Premium savings are uncertain and vary significantly between insurers
- Payback periods may exceed 10-20 years for expensive measures (especially accounting for implementation delays)
- Bodies corporate cannot commit sinking fund reserves without certainty on premium savings
- Different insurers recognize different measures, creating confusion (though initiatives like CHU's mitigation portal are improving transparency)
- Risk that future insurers won't recognize past mitigation investments

4. Governance and Funding Constraints

- Body corporate sinking funds may be insufficient for major mitigation works
- Special levies require owner approval, which is difficult to obtain when premium savings are uncertain
- Committee members are risk-averse given potential personal liability
- Unit entitlements create inequity – ground floor owners subsidizing roof works for upper floors
- Rental investors (who don't live in the property) may oppose mitigation levies as they don't directly experience cyclone risk
- Small schemes face higher per-owner costs for mitigation works due to lack of economies of scale

5. Information Gaps

- While some insurers like CHU provide good information through online portals and resources, communication remains inconsistent across the market
- Difficulty determining which measures apply to specific building types and ages
- Lack of standardized certification for completed mitigation works
- JCU reports are improving this but are not yet universally used or accepted
- No central register of mitigation work completion that transfers between insurers
- Documentation requirements vary between insurers

RECOMMENDATIONS: Improving Mitigation Incentives

The mitigation discount framework is well-designed in theory, and insurers like CHU are demonstrating good practice in implementation. However, **practical implementation reforms** are needed across the system to deliver results:

Addressing timing issues:

1. **Require insurers to provide 12-month advance notice** of available mitigation discounts and estimated premium savings for specific measures
2. **Create a "mitigation in progress" premium discount** (e.g., 25-50% of full discount) for schemes that have:
 - Obtained quotes
 - Passed body corporate resolutions
 - Allocated funding in sinking fund or special levy
 - Contracted works for completion within 12-18 months
 - Provided evidence of the above to insurer
3. **Allow multi-year mitigation recognition** where schemes receive pro-rated discounts based on commitment and progress, not just completion

Addressing the trade shortage crisis:

4. **Federal/State government training initiatives** to increase qualified cyclone mitigation contractors in FNQ:
 - Apprenticeship incentives for roof plumbing and carpentry trades

- Fast-track trade recognition for interstate/international qualified trades relocating to FNQ
 - Specialized cyclone mitigation training courses and certifications
 - Financial incentives for established contractors to take on cyclone mitigation work
5. **Government-backed contractor coordination program** to:
- Pre-qualify contractors for cyclone mitigation work
 - Match available contractors with body corporate schemes
 - Provide standardized scopes of work and contract templates
 - Reduce transaction costs of obtaining multiple quotes
6. **Group purchasing arrangements** facilitated by strata industry bodies to:
- Aggregate demand from multiple schemes
 - Achieve economies of scale for contractor engagement
 - Secure better pricing and availability through volume
 - Share costs of project management and quality assurance
7. **Temporary interstate contractor programs** to:
- Fast-track licensing recognition for interstate contractors
 - Coordinate contractor travel and accommodation for batched projects
 - Reduce regulatory barriers to interstate contractor mobility

Improving the discount framework:

8. **Expand recognized mitigation measures** beyond roof replacement to include more practical, lower-cost options:
- Gutter protection systems and overflow provisions
 - Window film applications
 - Door reinforcement (not full replacement)
 - Incremental roof tie-down improvements
 - Vegetation management programs
 - Cyclone shutters and screens
 - Elevated equipment and services
9. **Create tiered discount structures** that reward incremental improvements:
- Small discount (5-10%) for lower-cost measures (gutter overflows, vegetation management)
 - Medium discount (10-20%) for mid-cost measures (window protection, door reinforcement)
 - Large discount (20-30%) for major measures (roof tie-downs, roof replacement)
 - **Cumulative discounts** for schemes implementing multiple measures
10. **Standardize mitigation certification** across all cyclone pool insurers:
- JCU cyclone resilience reports as standard accepted evidence
 - Licensed contractor certification templates
 - Portable mitigation register that transfers between insurers
 - Clear documentation requirements published by ARPC
 - Industry best practice examples like CHU's mitigation portal should be adopted more broadly

Improving investment incentives:

11. **Develop government-backed low-interest loan schemes** for body corporate mitigation works:
 - Loans repayable from insurance premium savings
 - No up-front capital requirement from sinking fund
 - Improved payback economics make mitigation viable
12. **Grant programs for small schemes** (under 10 lots) to co-fund mitigation:
 - Recognize that small schemes face highest per-owner costs
 - Target 50% co-funding for schemes under 10 lots in high-risk areas
 - Prioritize low-cost, high-impact measures
13. **Tax incentives for mitigation investment:**
 - Allow body corporate mitigation costs as tax deductions for owners
 - Capital gains tax relief for properties in schemes with certified mitigation
 - Investment incentives to improve financial case for mitigation

Improved communication and transparency:

14. **Require insurers to clearly communicate** in renewal notices:
 - Available mitigation discounts and qualification criteria
 - Estimated premium savings for specific measures applicable to the scheme
 - Process and documentation requirements
 - Timeline for discount application once work completed
15. **ARPC public education campaign** on cyclone mitigation:
 - Case studies of schemes that successfully implemented mitigation
 - Cost-benefit calculators for common mitigation measures
 - Best practice guides for body corporate mitigation projects
 - Directory of pre-qualified contractors by region

Without addressing the trade shortage and implementation barriers, mitigation discounts will remain a theoretical benefit rather than a practical driver of risk reduction.

6. Coverage Gaps and Definitional Issues

Residential vs. Commercial Classification Problem

Our members identify a **critical definitional issue** affecting strata scheme eligibility and premiums: the classification of schemes with short-term letting or mixed-use elements.

The problem:

- Some schemes have resident caretakers/building managers who provide **minor ancillary services** (e.g., towels by pool, tour booking assistance from office)
- These **minimal commercial activities** can trigger "commercial" classification
- **Commercial classification can mean:**
 - Exclusion from cyclone pool (if deemed not "mainly residential")
 - Significantly higher premiums

- Different coverage terms
- **Building owners have minimal control** over caretaker activities
- **Significant premium disparities** result from minor operational differences

One member stated: *"We've noted some challenges around defining 'residential' vs 'commercial' where short term letting occurs in a strata plan, and would love to see a more generous (and clear) definition – there can be a significant difference in premiums based on whether a caretaker/building manager provides towels by the pool or offers tour bookings from their office. The owners of the building have minimal control over those activities yet bear the costs of qualifying (or not) for the reinsurance pool."*

Current definition: The Act defines residential strata as where 50% or more of floor space is used mainly for residential purposes.

The issue: This definition is applied inconsistently, with some insurers taking restrictive interpretations of "mainly residential" when any commercial elements exist.

RECOMMENDATION: Clarify Residential Definition

1. **Amend the Act or Regulations** to provide that schemes are "mainly residential" where:
 - 50% or more of floor space is residential lots
 - **Ancillary services** provided by caretakers/building managers do not affect classification
 - **Short-term letting** (e.g Airbnb, holiday rentals) is explicitly treated as residential use
2. **Provide clear guidance** on how specific activities are classified:
 - Pool towel service = residential
 - Tour booking assistance = residential
 - Reception/concierge = residential
 - On-site café/restaurant open to public = commercial element (but doesn't disqualify if <50% floor space)
3. **Require consistent application** of definitions across all insurers participating in the cyclone pool
4. **Create a classification appeals process** where bodies corporate can seek ARPC determination on residential vs commercial classification when insurers disagree

Flood Coverage Gap

While we recognize this is a "big ask," our members identify **flood coverage as the most significant remaining gap** in cyclone-related insurance protection.

As one member stated: *"Given the events around Jasper – I would have to say extending the pool to cover flood would be a godsend, but we know that is a big ask. Wish list item!"*

The rationale:

- Cyclones and flooding are intrinsically linked in Far North Queensland
- Cyclone-related flooding causes significant damage beyond the 48-hour window

- Not all bodies corporate can obtain flood coverage, and where available it is expensive
- TC Jasper demonstrated that cyclone pools which exclude flood are incomplete solutions

We recommend:

- **Medium-term goal:** Explore extending the cyclone pool to cover cyclone-related flooding (even outside declared cyclone events)
- **Immediate action:** Extend coverage period (as discussed above) to better capture cyclone-related flood events within existing pool scope

Policy Standardization

Our members note **high variance in standard policy inclusions** between insurers participating in the cyclone pool. This creates:

- Confusion for bodies corporate comparing quotes
- Risk of underinsurance when cheaper policies exclude standard coverage
- Inconsistent claims outcomes between schemes with different insurers
- Difficulty for strata managers advising on adequate coverage

RECOMMENDATION: Treasury should work with industry to develop **minimum standard inclusions** for strata insurance policies, with requirements that insurers clearly outline coverage additional to these minimum standards for transparency.

7. Sum Insured Limits and Building Age Eligibility (Consultation Questions 7, 8)

\$5 Million SME Limit

Our members have **limited exposure** to the \$5 million sum insured limit, as most strata schemes fall below this threshold. The few affected schemes are typically:

- Large mixed-use developments with commercial tenancies
- High-value residential schemes with business interruption coverage

We have no strong position on whether this limit should be adjusted, but note that **consistency with strata scheme coverage** would be beneficial if commercial strata schemes above \$5 million face challenges.

Building Age Eligibility

We **oppose any "sunset" provisions** excluding new builds from the cyclone pool.

Rationale:

1. **Newer properties are lower risk** and provide cross-subsidy to higher-risk older properties, which is fundamental to the pool's design

2. **Excluding new builds would concentrate risk** in older, higher-risk properties, potentially making the pool less sustainable and requiring higher premiums for remaining properties
3. **Climate-appropriate development should be encouraged**, not penalized with exclusion from insurance support
4. **Building standards have improved** – new buildings built to modern cyclone standards (post-1982 building code improvements) perform significantly better and should be welcomed to the pool
5. **Practical difficulties** – determining cut-off dates, administering dual systems, increased insurer complexity and costs
6. **Market distortion** – excluding new builds would discourage development in cyclone-prone regions and potentially drive development to higher-risk locations if those remain eligible

We support the pool's current approach of including all eligible properties while using premium rating (particularly the building age factor with higher premiums for pre-1982 buildings) to reflect risk differentials.

The ARPC's differential pricing for pre-1982 buildings already provides appropriate risk-based pricing that rewards better building standards without excluding properties from coverage.

8. ARPC Operations (*Consultation Questions 12-15*)

Claims Process

Our members have **limited direct involvement** in ARPC claims processes, as these occur between insurers and ARPC. However, based on the claims experiences following TC Jasper and TC Alfred:

- **Claims processing by insurers** has generally been professional
- **Speed and communication** have been acceptable in most cases
- **Settlement outcomes** have generally met policyholder expectations
- **No major concerns** have been raised about ARPC's role in the claims process

We have no specific recommendations regarding the ARPC's claims process but encourage ongoing monitoring and continuous improvement, particularly:

- Ensuring consistency in claims treatment across different insurers
- Maintaining clear communication channels for complex or disputed claims
- Publishing claims statistics and processing timeframes for transparency

Guarantee and Capital Holding Fees

We **do not have a position** on the technical aspects of guarantee and capital holding fees. This is appropriately a matter for actuarial and financial analysis by Treasury and the ARPC.

We note that **fee levels should not compromise the pool's ability to deliver affordable premiums** to policyholders, which is the pool's primary objective. Any fees paid to the Commonwealth should be balanced against:

- The pool's need to build adequate reserves
- The objective of keeping premiums as low as possible
- The public benefit delivered by the pool in enabling insurance affordability

The current arrangements (\$55 million guarantee fee and \$35 million capital holding fee) appear reasonable in principle but should be reviewed periodically to ensure they remain appropriate as the pool matures and especially now that the cyclone pool has been added to ARPC's responsibilities.

Data Sharing

We **strongly support expanded ARPC data sharing** with government agencies, researchers, and industry stakeholders (on de-identified, aggregated basis) for purposes including:

- Resilience investment planning by local, state and federal governments
- Climate adaptation research by universities and research institutions
- Building standards development by regulatory authorities
- Emergency management planning by disaster management agencies
- Industry policy development by peak bodies and associations
- Community education about cyclone risk and mitigation

ARPC data represents a valuable public resource that should be leveraged to support better decision-making across the disaster resilience ecosystem.

Specific recommendations:

1. Publish annual aggregate statistics on cyclone pool premiums, claims, and mitigation uptake by region and property type
2. Make de-identified data available to researchers through formal data sharing agreements
3. Coordinate data sharing with other government agencies collecting related data (e.g., Geoscience Australia, Bureau of Meteorology, state emergency services)
4. Support development of public risk assessment tools using ARPC data combined with other sources
5. Establish clear data governance frameworks that protect privacy while maximizing public benefit

Scheme Actuary

We **support the appointment of a dedicated scheme actuary** for the ARPC, similar to the National Disability Insurance Scheme model. This would:

- Enhance independence in pricing recommendations
- Strengthen governance and scheme integrity
- Provide clearer accountability for actuarial decisions affecting billions in insured assets
- Improve transparency in the pool's financial management and sustainability
- Separate operational actuarial work (done by ARPC staff) from independent oversight and advice (done by scheme actuary)

Given the cyclone pool's scale (now over \$1 trillion in sums insured), public investment through the Commonwealth guarantee, increasing complexity with the addition of cyclone pool alongside terrorism pool, and significance to regional Australian communities, dedicated independent actuarial oversight is appropriate and would enhance stakeholder confidence.

The scheme actuary role should include:

- Annual review of premium rates and risk-based pricing methodology
- Assessment of pool sustainability and reserve adequacy
- Independent advice to the Minister on scheme performance
- Review of retrocession arrangements and value for money
- Scrutiny of mitigation discount frameworks
- Long-term sustainability modelling under different climate scenarios

9. Summary of Recommendations

Priority Recommendations

1. Address the small scheme crisis

- Investigate why schemes under 10 lots are not benefiting from the cyclone pool
- Implement targeted measures to ensure premium reductions reach small schemes
- Monitor and report on premium outcomes by scheme size
- Engage with Suncorp and other insurers on small scheme pricing strategies

2. Create a solution for island communities

- Explicitly include island properties in cyclone pool eligibility through regulatory amendment
- Require participating insurers to offer coverage to island properties
- Develop island-specific risk rating within ARPC premium structure
- Consider island-specific pool mechanism if main pool inclusion proves impractical

3. Extend the coverage period

- Primary recommendation: 7 days (168 hours) after cyclone end
- Minimum acceptable: 72-96 hours
- Align with industry standards and actual cyclone impact patterns

4. Address trade shortage barriers to mitigation

- Government training initiatives to increase qualified cyclone mitigation contractors
- Fast-track trade recognition for interstate/international trades
- Contractor coordination program to match supply with demand
- Group purchasing arrangements for body corporate schemes

5. Improve mitigation discount implementation

- 12-month advance notice requirements for insurers

- "Mitigation in progress" discounts for committed schemes
- Expanded recognized measures including lower-cost options
- Tiered and cumulative discount structures
- Standardized certification accepted across all insurers

6. Clarify residential strata definition

- Amend regulations to explicitly include short-term letting as residential
- Specify that ancillary caretaker services don't affect classification
- Require consistent application across insurers
- Create classification appeals process

7. Continue the cyclone pool as a permanent feature

- Recognize pool as permanent market solution, not temporary intervention
- Maintain current structure with targeted improvements
- Regular reviews (5-yearly) to monitor performance and make adjustments

Secondary Recommendations

- Explore pathways to extend the cyclone pool to cover flood damage (medium-term goal)
- Develop minimum standard policy inclusions for strata insurance transparency
- Support ARPC data sharing with government and research stakeholders
- Appoint a dedicated scheme actuary for enhanced governance
- Develop government-backed low-interest loan schemes for body corporate mitigation works
- Create grant programs specifically for small schemes (under 10 lots) to co-fund mitigation
- Tax incentives for mitigation investment to improve financial case
- ARPC public education campaign on cyclone mitigation with case studies and tools

Existing Elements to Retain

- Current building age eligibility (include all properties, with risk-based pricing)
- \$5 million SME sum insured limit (no evidence of problems)
- Mandatory participation for insurers
- Cross-subsidy from low-risk to high-risk properties
- Risk-based premium rating framework
- Mitigation discount framework (with implementation improvements as above)

Appendix 2 – Scheme Data

INSURANCE SAVING LIST				
Body Corporate	Number of Lots	Year of Peak	Year of Saving	Cost Per Lot
Cairns City	24	30/11/23 - \$74,576.67	30/11/24 - \$36,148.73	\$1,506.19
North Ward, Townsville	93	12/12/23 - \$363,531.55	12/12/24 - \$79,893.07	\$859.06
Kirwan, Townsville	124	22/10/22 - \$342,414.89	22/10/25 - \$135,765.92	\$1,094.88
Townsville City	55	16/06/23 - \$269,755.66	16/06/25 - \$83,545.89	\$1,519.01

INSURANCE INCREASE LIST			
Body Corporate	Number of Lots	Year of Peak	Cost Per Lot
Hamilton Island	17	08/12/24 - \$227,689.49	\$13,393.49
Hamilton Island	5	08/12/24 - \$81,339.00	\$16,267.80
Magnetic Island	124	31/01/25 - \$678,785.51	\$5,474.07
Hamilton Island	20	26/03/25 - \$257,873.05	\$12,893.65