



Mr Jason Lange
Executive Director
Office of Best Practice Regulation
Department of the Prime Minister and Cabinet
1 National Circuit
BARTON ACT 2600

29 October 2021

Dear Mr Lange

Regulation Impact Statement – Cyclone and Related Flooding Reinsurance Pool – Second Pass Final Assessment

I am writing in relation to the attached Regulation Impact Statement (RIS) prepared to inform the Government's decision on whether to proceed with a cyclone and related flooding reinsurance pool.

I am satisfied that the RIS addresses the concerns raised in your letter of 20 October 2021.

- The RIS monetises the costs and benefits where possible. In particular, the RIS monetises the community-wide benefit of establishing a reinsurance pool with mandatory participation (Option 2) and indicates the distribution of savings to different cohorts. Given the uncertain impact of adverse selection on both reinsurance premium savings and insurer participation under a reinsurance pool with voluntary participation (Option 3), the RIS provides additional qualitative analysis of the costs and benefits of this option.
- The RIS provides additional information on regulatory cost assumptions. While the regulatory costings were not directly tested with stakeholders, the assumptions and costs underpinning them were informed by stakeholder consultation as well as analysis from past reviews, including the 2011 Natural Disaster Insurance Review, the 2015 Northern Australia Insurance Premiums Taskforce Report, the 2020 Royal Commission into Natural Disaster Arrangements, and the Australian Competition and Consumer Commission's Northern Australia Insurance Inquiry.
- The RIS provides additional analysis of the likely behaviour of the reinsurance sector in response to the introduction of the pool.
- The RIS provides additional analysis of the response of insurers to Option 3, particularly in relation to the incentives for insurers with higher- and lower-risk portfolios to participate in the reinsurance pool and the impact on reinsurance premium savings.
- The RIS provides a summary of stakeholder feedback, as well as additional discussion on how that feedback was used to shape the options and inform impact analysis.

I confirm the RIS identifies the regulatory costs of each option. The regulatory cost of the best option considered, Option 2, is \$0.44 million per year. Treasury is reviewing whether there are regulatory burden reductions elsewhere in the Mid-Year Economic and Fiscal Outlook process to identify offset measures. Treasury is also seeking to pursue net reductions in compliance costs and will work with affected stakeholders and across government to identify regulatory burden reductions where appropriate.

Accordingly, I am satisfied that the RIS is now consistent with the six principles for Australian Government policy makers as specified in the *Australian Government Guide to Regulatory Impact Analysis*.

I submit the RIS to the Office of Best Practice Regulation for formal final assessment.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'ME Quinn'.

Meghan Quinn PSM
Deputy Secretary, Markets Group
The Treasury, Langton Crescent
PARKES ACT 2600