25 August 2020

Ms Kate Carnell AO
Australian Small Business and Family Enterprise Ombudsman
GPO Box 1791
CANBERRA ACT 2601

Dear Ms Carnell

SMALL BUSINESS INSURANCE INQUIRY

The Insurance Council of Australia (Insurance Council)[1] welcomes the Ombudsman's small business insurance inquiry, announced on 28 July 2020. The Inquiry provides an opportunity to explain how general insurers support this important sector of the Australian economy. We appreciate the time taken by senior officials from your Office to meet with us on 7 August 2020 to discuss the consultation process, the intended focus of this inquiry and how the Insurance Council can assist. We are also grateful for the additional time provided to make this submission.

The current environment

These are extraordinarily challenging times for many Australian businesses, both small and large. Over the past year, insurers have been at the forefront of responding to widespread disruption caused by the series of natural disasters that wreaked havoc on communities across the nation last spring and summer, as well as the ongoing COVID-19 pandemic. The industry has mobilised swiftly to respond to these events, and in particular to support small business customers.

Following the bushfires, insurers established recovery teams in affected areas to help their customers as soon as roads reopened. The Insurance Council and insurers were present in recovery centres, talking to customers, government agencies and relief workers. Insurers helped customers – many of whom held both personal and business insurance products – find temporary accommodation and provided emergency payments for essential needs. We identified and supported vulnerable customers and prioritised urgent safety-related work.

[1] The Insurance Council is the representative body of the general insurance industry in Australia. Our members represent about 95 per cent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system. Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

March 2020 Australian Prudential Regulation Authority statistics show that the general insurance industry generates gross written premium of $51 billion a year and has total assets of $133.8 billion. The industry employs about 60,000 people and on average pays out about $169.4 million in claims each working day. Over the 12 months to March 2020 the industry's net profit after tax (NPAT) was $1.5 billion – a 56.7 per cent decrease from the prior year's NPAT of $3.5 billion. The industry's underwriting result was also $1.5 billion, falling by 47 per cent from $2.8 billion in the prior year.

At present, the cost of insurance claims from the bushfires, hailstorms and floods declared over the 2019-20 summer is over $5.36 billion[2]. Despite the magnitude of these events, the industry has closed approximately 75% of all commercial claims arising from the summer catastrophes.

The current environment has been described as "a crisis like no other" with substantial uncertainty about its impact on people's lives and livelihoods.[3] Global growth for 2020 has been projected at -4.9 percent, with the negative impact on activity continuing to unfold at an increasing rate and recovery projected to be gradual[4]. Unprecedented support is being provided by governments, including fiscal actions amounting to almost $11 trillion globally to mitigate the economic fallout from the pandemic[5].

It is estimated that the general insurance industry globally is paying out claims to customers amounting to US$107 billion, while also seeing the value of its global assets drop by US$96 billion, together making it the industry's largest ever loss at a projected US$203 billion[6].

Despite the significant impact that COVID-19 is expected to have on the insurance industry, insurers in Australia have implemented a range of small business support measures in response to the pandemic. Unlike the banking sector, these support measurers have been provided by insurers without Government support and will further impact the performance of the insurance industry. Examples of these measures include:

- deferring premium payments for up to six months for small businesses experiencing financial hardships;
- refunding the unused proportion of premiums for small businesses who cancel their insurance, with no administration or cancellation fees;
- offering continuity of insurance for small business policy holders whose business premises are unoccupied due to COVID-19, with no changes to premiums, terms or conditions;
- reducing payment times to SME suppliers and contractors from the standard 30 days to 15 days or less.
- altering landlord insurance policy coverage so that cover is not voided if a landlord negotiates new a new (lower) rent with a tenant; rather the cover is automatically reset to the new rent.

The role of general insurance in the financial system

In evaluating the performance of the general insurance industry in relation to small business, consideration needs to be given to both its unique contribution to the financial system and the limits to the outcomes that it can be expected to facilitate.

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[2]www.insurancecouncil.com.au/assets/media_release/2020/280520%20Insurance%20bill%20for%20season%20of%20natural%20disasters%20climbs%20over%20$5.19b.pdf
[3] International Monetary Fund (IMF), *World Economic Outlook Report*, June 2020.
[4] *Ibid*.
[5] *Ibid.*
[6] Lloyd's of London (***Lloyd's***), Press release *COVID-19 will see historic losses across the global insurance industry*, 14 May 2020. The Lloyd's economic study took account of the current pay out estimates assuming continued social distancing and lockdown measures through 2020, as well as the forecast drop in GDP globally.

General insurers facilitate the transfer of risk among households, businesses (small and large) and the public sector. Sharing a definite overall outcome allows individuals and companies to convert an uncertain loss into a certain outlay by way of a premium paid to the insurer. Through the acceptance and pooling of such risks, general insurance improves economic welfare by reducing the costs of self-insurance and liberating resources for more productive uses. Risks are more efficiently allocated and, at a practical level, individuals and businesses can pursue economic activities that they otherwise would be reluctant to undertake.

Insurable risk is mitigated through pooling and diversification. Pooling aggregates and shares individual risks among a group of similarly exposed individuals and companies. Importantly, given the "law of large numbers", pooling has the advantage of making more certain at the aggregate level what is uncertain at the level of the individual.

Diversification, across different products and geographies, lessens the concentration of risk. Insurers further diversify by investing in assets whose returns are uncorrelated, or by reinsuring to reinsurers (who in turn will diversify). This helps to share and spreads the risk of economic losses across society and regions.

However, insurance is not the only mechanism for managing risk. Risk can be mitigated by preventive action, sold into capital markets, absorbed by government or simply borne by individuals themselves. Risks are efficiently allocated in an economy when the parties best placed to bear those risks actually do so.

Insurable risk

Not all risks can be mitigated through insurance nor can be absorbed solely by the insurance industry. The characteristics of insurable risk include:

- The exposure to loss must be random (in particular, not subject to adverse selection), i.e. the loss must be accidental or the result of pure chance;
- The loss must be definable and measurable;
- There should be a large number of similar risk exposures so that individual losses can be aggregated and shared;
- The premium paid for insurance must be affordable relative to the gain from risk mitigation; and
- The risk of catastrophically large losses must be low.

Risk mitigation through insurance is unlikely to be effective where:

- the loss is inevitable;
- there is insufficient past experience to assess risk;
- the person seeking insurance does not have an insurable interest (giving rise to moral hazard); or
- too many factors influence the outcome making it difficult or impossible to predict, e.g. the risk that a newly established business will fail.

The difficulty of general insurance responding to pandemic related claims

As explained more fully in Attachment B, pandemic risk violates most principles of insurability. A pandemic causes systemic and large scale economic and societal losses given the widespread impact on businesses and individuals that occurs across uncertain and potentially long periods of time. This, to date, has made a traditional private sector insurance risk transfer solution impossible. APRA in 2006 conducted a stress test, asking all life and general insurers to consider their potential claims exposure to pandemics in order to understand the possible financial impacts following escalating concerns from the avian flu which arose shortly after the SARS outbreak in 2002.

The stress tests conducted by APRA identified costs arising from closure of businesses due to infection on premises. APRA observed that the bulk, and by far the largest amount, of additional gross claims arose from business interruption and Industrial and Special Risk (ISR) policies (including business interruption coverage). The percentage increase in claims for business interruption averaged more than 400 percent, with ISR policy claims increasing about 120 percent over the base claims level.

As a result of the analysis conducted by APRA in 2006, most general insurers moved to reduce or exclude coverage for claims arising from infectious disease pandemics in products that highly exposed to the risk of infectious diseases with pandemic potential (such as travel insurance).

The Insurance Council and its members are currently exploring several frameworks to manage the financial risk of future pandemics. We look forward to discussing these with stakeholders when this project is further advanced.

Affordability and availability

Even where risks are insurable, the Insurance Council and its members recognise that the affordability and availability of key insurance products including those raised by the Ombudsman (professional indemnity; business interruption; and trade credit insurance) are real concerns for small businesses at this time.

Addressing some of these challenges will require open collaboration between the insurance industry, governments and businesses to create innovative solutions for strengthening protection and resilience against such risks at this time and in the future.

For pandemic risks, short-term solutions could focus on measures that provide critical support for the flow of credit in the economy. The Australian Government is supporting the provision of credit by banks to small businesses through the Coronavirus SME Guarantee Scheme. Many overseas jurisdictions – including France, Germany and the United Kingdom –have provided Government support or backstops to enable the provision of trade credit insurance to small businesses to continue during the pandemic. Medium to longer term solutions may involve public-private partnerships to better protect society through pandemic insurance coverage in future.

The solution for other issues typically requires the underlying risk to be reduced. Insurers price premiums based their view of the particular risk, so risks with a higher level of frequency or severity are allocated a higher price. One way to reduce risk, for example, may be with rigorous government regulation and enforcement. It is widely recognised for instance, that the difficulties which many building professionals have in obtaining the professional indemnity insurance they need at an affordable premium, are due to years of inadequate regulation and compliance failures. This means the risk for insurers has risen to a level that is unacceptable and significant reform is needed to reduce underlying risk. The Insurance Council and its members are committed to help identify and remedy these issues.

Attachment C outlines some of the types of general insurance commonly used by small business together with further detail on the issues affecting availability and affordability.

As you will be aware, many small businesses unfortunately are underinsured. Industry consumer research has found that underinsurance stems primarily from affordability concerns.

Taxes on insurance contribute significantly to affordability issues, and despite numerous reviews recommending that insurance taxes be abolished, governments continue to place significant levies on small business insurance premiums. For example, a small business owner in New South Wales insurance premium can comprise more than 70% in taxes. These taxes are also calculated on top of the risk premium charged by the insurer, which means those with higher risks, will pay commensurately higher taxes. Attachments D and E provide further detail.

Competition

The affordability and availability of small business insurance is closely tied to the level of competition between insurers. While noting the relatively small number of major insurers in the Australian market, the Productivity Commission (PC) in its 2018 Review of Competition in the Financial System did not identify a lack of competition. The recommendations of the PC were instead primarily directed at improving the understanding of insurance and market transparency. The PC acknowledged that new entrants, or even the threat of entry can increase competition and that over the decade since 2007, 30 insurers had entered the general insurance sector, including foreign entrants, insurers with links to banks and other large retailers and niche providers which specialise in particular insurance lines.[7]

Market contestability is impacted by the regulatory barriers that potential insurers face[8]. However, this is the necessary price of the rigorous regulation by APRA needed to maintain a prudentially sound and financial stable general insurance sector.

The PC concluded that recent premium increases and regional price differentials appear to reflect industry-wide cost increases, and hence are not indicative of weakening competition.[9] Similarly, the PC found that despite growth in premiums, insurers' returns from underwriting activities have not grown over the past 15 years and aggregate profitability has fallen since the global financial crisis of 2007.[10]

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[7] PC, Competition in the Australian Financial System, Final Report, 2018, page 412.
[8] New entrants must obtain authorisation from and regularly report to APRA, must obtain and maintain an Australian Financial Services licence from ASIC, and must hold adequate capital to commence their operations. For a new entrant with a small customer base, the minimum capital requirement of $5 million may prove challenging.
[9] PC, Op.cit. page 415.
[10] PC, Op.cit., page 416.

APRA noted that profitability (measured by return on net assets) rose marginally in 2016-17 but remains below the industry's ten-year average. It attributed the lower profitability of the last several years to:[11]

> … a deterioration in the underwriting results in the property classes of business, with higher net loss ratios resulting from subdued premium growth and increased claims costs from severe weather events, including Cyclone Debbie in March 2017. The low interest rate environment has also contributed to the decline in profitability, with the interest income generated on insurers' substantial interest rate investment portfolios steadily falling in recent years. [12]

Competition therefore is playing its expected role in a market economy, helping small businesses obtain the insurance they need at a price that they can afford.

Small business satisfaction

Some policies used by small business, such as motor vehicle and travel insurance, are classed as retail insurance products under the Corporations Act and General Insurance Code of Practice and reported within this category. Other policies, commonly used by small business, such as Business Packs and Contractors All Risk, are classed as wholesale insurance products (i.e. commercial) and reported within this category. Consequently, there is limited data which can be used to obtain an accurate, comprehensive picture of the level of small business satisfaction with insurance.

Within these limitations, data for wholesale insurance can be looked at to gauge an indicative level of small business satisfaction with general insurance as wholesale insurance aligns more closely with the commercial interests of small businesses. (Retail insurance data is dominated by policies taken out by individual consumers.)

Data from the General Insurance Code Governance Committee's (CGC) Annual Report for financial year 2018-19 states a total of 2,753,292 wholesale individual and group policies were sold that year. During the same period, claims lodged were 553,663; claims declined were 6,607; and claims withdrawn were 26,070, giving a claims acceptance rate of 94.1%[13]. In total in financial year 2018-19, insurers received and dealt with as stage 2 internal disputes 1,893 complaints, representing 0.7% of total wholesale policies[14].

The Insurance Council understands AFCA may soon publish its most recent complaints statistics, which may include a breakdown for small business complaints involving general insurance. In its snapshot of complaints for financial year 2019-2020, AFCA reports that, of the 80, 546 complaints it ***received in total*** (across all financial service sectors, not just general insurance), 3,385 were from small business.

The relatively high level of claims paid and the low level of complaints received by insurers from small businesses are a good indication that their insurance needs are being met.

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[11] PC, Op.cit. page 402.

[12] Following the PC report, profitability as measured by return on net assets rose briefly to 13.6% and 13.1% in the years to March 2018 and 2019 respectively (partly reflecting a significant increase in investment income due to unrealised gains in fixed interest investments which resulted from falling bond yields) but came back down to 5.7% in the year to March 2020 reflecting large falls in investment income mainly from the impacts of COVID-19 in the March quarter: see APRA quarterly insurance statistics for March 2019 and March 2020.

[13] GICGC, Insurance Review 2018-19, Annex 2 page 78.

[14] GICGC. Op.cit. Page 80

However, the Insurance Council acknowledges that recent events will have impacted the level of small business satisfaction. This is likely to be reflected in the most recent statistics when they are published. As explained above, this has made the general industry keen to develop policies to better protect the interests of small businesses during a pandemic.

Background information for the Small Business Inquiry

By way of additional information which may be useful for your inquiry, we have provided the following which includes topics that your Office expressed interest in further exploring at our meeting of 7 August 2020:

- **Attachment A:**
  - Legislative protections for small business;
  - General Insurance Code of Practice Protections for small business; and
  - Insurance industry information services available to small business.
- **Attachment B:** Why the private sector alone cannot currently insure pandemics.
- **Attachment C**: Common types of insurance used by small business.
- **Attachment D**: The impact of taxation on insurance premiums and the case for reform.
- **Attachment E:** The Insurance Council's most recent report on the levels of non-insurance in the small to medium sized enterprise sector.[15]

  In particular, you may be interested to note the finding that the rate of non-insurance in the small business sector appeared to have fallen; the Insurance Council's 2015 survey reporting a non-insurance rate of 12.8% compared with 25.6% in the previous 2007 survey.

  We hope that the report may assist by providing broader context to the issues being considered and by highlighting matters of interest to small business.

We are keen to work closely with your Office to better understand any concerns that are being raised by small businesses regarding insurance products at this time, and we look forward to actively participating in the consultation process.

[15] The report is also available on the Insurance Council's website: https://www.insurancecouncil.com.au/assets/report/2015%20-%20non-insurance%20in%20the%20small%20to%20medium%20sized%20enterprise%20sector.pdf.

If you have any questions or comments in relation to our submission, please contact John Anning, the Insurance Council's Head of Regulatory Policy, on telephone: [redacted] or email: [redacted]

Yours sincerely

Robert Whelan
Executive Director & CEO

ATTACHMENT A

LEGISLATIVE PROTECTIONS FOR SMALL BUSINESS

Small businesses, when purchasing general insurance, benefit from robust protection provided by the detailed provisions of the Insurance Contracts Act 1984 (Cth). The key protections in this Act include:

- *Sections 13 and 14* – requires a contract of insurance to be based on "…the utmost good faith", which in effect renders any unfair clause void;
- *Sections 21, 21A, 22 and 28* – places significant limits on when an insurer can rely on non-disclosure by an insured to reduce or refuse a claim;
- *Sections 23, 24, 26 and 28* – places significant limits on when an insurer can rely on misrepresentation to refuse to pay a claim;
- *Section 35* – applies to home, motor, consumer credit insurance, travel and most relevantly to small businesses sickness and accident insurance, and requires insurers to clearly inform customers upfront as to how their contract terms differ from standard contract terms which are outlined in the Regulations to the Act. For other insurance, section 37 requires the insurer to notify the insured of terms that are not usually included in contracts of insurance that provide similar cover;
- *Sections 39* – states that an insurer cannot refuse to pay a claim by reason of non-payment of an instalment of the premium unless the instalment has remained unpaid for a period of at least 14 days and before the contract is entered into, the insurer clearly informed the insured of this right;
- *Section 46* – restricts the ability of insurers to rely on certain terms in their policy where there was a defect or imperfection in property and the insured was not aware of the defect or imperfection;
- *Section 53* – makes void a term of an insurance contract that seeks to authorise or permit the insurer to vary, to the prejudice of the insured, the contract; and
- *Section 54* – limits the ability of the insurer to rely on terms of the policy to refuse to pay claims in relation to acts or omissions of the insured.

Apart from the Insurance Contracts Act, there is also a variety of additional protections available to insurance policyholders. In particular, under the Corporations Act, there is an overarching obligation on general insurers as the holders of an Australian Financial Services Licence (AFSL) to do all things necessary to ensure that financial services covered by their licence are provided efficiently, honestly and fairly[16].

Further, section 991A of the Corporations Act states, "A financial services licensee must not, in or in relation to the provision of a financial service, engage in conduct that is, in all the circumstances, unconscionable." If a person suffers loss or damage because a financial

[16] Section 912A(1).

services licensee contravenes this provision, they may recover the amount of the loss or damage against the licensee.

The Ombudsman would also be aware that a number of reforms given impetus by the Financial Services Royal Commission have already been legislated, with others expected to become law by the end of the year. Changes relevant to small businesses include:

- the extension of Unfair Contract Terms protections to insurance policyholders with effect from 5 April 2021;
- the commencement of the Product Design and Distribution Obligation regime on 5 October 2021; and
- claims handling being regulated as financial service;

Also relevant are:

- The recently updated ASIC regulatory guidance RG 271 on internal dispute resolutions which provide additional protections for small businesses through "enforceable paragraphs".
- The Motor Vehicle Insurance and Repair Industry Code of Conduct provisions to resolve disputes between insurers and smash repairers (as one example).

GENERAL INSURANCE CODE OF PRACTICE PROTECTIONS FOR SMALL BUSINESS

About the Code

The General Insurance Code of Practice 2014[17] (the Code) covers small businesses that purchase retail insurance.

Small businesses that are retail customers are provided the same Code protections as an individual customer, so the key components of the Code, such as claims handling, apply equally to small businesses as they do to individuals.

With respect to buying insurance, the Code provides at clause 4.8 that if insurers cannot provide insurance to a consumer, including a small business, in addition to giving reasons, an insurer will refer the consumer to the Insurance Council or the National Insurance Brokers Association (NIBA) for information about alternative insurance options, and provide the consumer with details of the insurer's complaints process if they are unhappy with the decision.

The Code applies the same definitions of retail insurance and small business as in the Corporations law[18].

In addition, the Code sets out how it applies to wholesale insurance. Wholesale insurance means a general insurance product covered by the Code which is not retail insurance. Products such as professional indemnity insurance are classified as wholesale, both in the Corporations Act and the Code. Sections 4 (Buying insurance), 6 (Standards for our Service Providers), 7 (Claims), 9 (Catastrophes) and 10 (Complaints and disputes) apply to retail

[17] *General Insurance Code of Practice 2014*
[18] See the 2014 Code's definitions

insurance only. All other sections of the Code, including financial hardship, apply to both retail and wholesale insurance.

It should also be noted the Code does not cover reinsurance and certain general insurance products that are commonly required by small businesses, such as workers compensation, medical indemnity insurance and motor vehicle injury insurance. These types of insurance are regulated through statutory schemes.

New protections for consumers experiencing vulnerability and enhanced financial hardship standards

At the start of this year the Insurance Council published an updated Code[19], following an extensive review[20]. The review considered the submissions of many stakeholders including consumer representative organisations, legal aid services, the Australian Securities and Investments Commission, the then Financial Ombudsman Service (predecessor scheme to the Australian Financial Complaints Authority (AFCA)), the General Insurance Code Governance Committee (CGC), members of the community and the general insurance industry. As part of the review, the Insurance Council also engaged with the Office of the NSW Small Business Commission.

Subscribers are currently transitioning to the new Code for implementation by 1 July 2021.

The updated Code introduces a range of new and enhanced protections for customers who purchase retail insurance products - including a small business - such as a motor vehicle, home building, home contents, or a travel insurance policy for use in connection with their small business.

The updated Code includes for the first time, a new Part 9 to support customers experiencing vulnerability as well as enhanced provisions in Part 10 for those experiencing financial hardship. While Part 9 only applies to retail insurance products, Part 10 extends to cover both retail and wholesale insurance products. This means insurer's commitments with regard to supporting customers with urgent financial needs and in financial hardship also extend to small business irrespective of the type of general insurance product they purchase.

In response to COVID-19 and so insurers could focus on assisting those customers in greatest need, insurers fast-tracked by 6 months (from 1 July 2020) or earlier if possible, the commencement of the vulnerability and hardship provisions in Parts 9 and 10 of the Code[21]. Full technical compliance with Parts 9 and 10 will be in place by 1 January 2021, with general insurers implementing the 2020 Code in its entirety by 1 July 2021. In addition to these fast-tracked Code provisions, general insurers are offering specific COVID-19 assistance to individual and small business customers.

Other changes which will assist small business include streamlining the internal complaints process, which will remove the existing two staged process, for an enhanced customer experience.

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[19] *General Insurance Code of Practice 2020*
[20] See: http://codeofpracticereview.com.au/
[21] ICA Media Release *Insurance Council fast-tracks new Code of Practice vulnerability and hardship provisions* (7 May 2020); ICA Media Release *Insurers boost support for customers experiencing family violence financial hardship and vulnerability* (1 July 2020)

Code subscribers are also members of the independent external dispute resolution scheme administered by AFCA. AFCA is available to customers and third parties who fall within AFCA's remit. Under AFCA's remit, AFCA can consider complaints about 'small business' and 'small business insurance products' which are defined more broadly than the Corporations law. This provides wide access for small businesses to an impartial and free dispute resolution service that binds an insurer to its finding/determination. For a small business, this is can be a much more efficient and cost-effective process than court.

ASIC's newly released regulatory guide RG 271 *Internal Dispute Resolution* applies AFCA's definition of small business complainant to internal dispute resolution for complaints received from 5 October 2021.

INSURANCE INDUSTRY INFORMATION SERVICES AVAILABLE TO SMALL BUSINESS

Understand insurance

Understand Insurance is an Insurance Council financial literacy initiative to help Australians better understand general insurance. http://understandinsurance.com.au/.

In creating Understand Insurance, the Insurance Council consulted widely with consumer groups, consumer legal services, disability advocates, regulators and government agencies to make the website as accessible and accurate as possible.

Find an insurer

The Find an Insurer is a referral service provides information over the phone and via a dedicated website. The Customer Referral Service (CRS) call centre provides information to customers who are unable to access the online service. The team refers callers to insurers that offer the general insurance products the caller wishes to research or purchase. However, the team does not give advice. The Find an Insurer website allows customers to search for an insurer or type of insurance product. http://www.findaninsurer.com.au/

Statistics on Usage

Over the 2019-20 financial year the Business Insurance section (alone) of the **Understand insurance** website had 9,906 pageviews with an average read time of 3mins 53 seconds.

The Business section of the **Find an Insurer website** had over 64,000 page views and the **Customer referral service (CRS) call centre** have received over 380 consumer calls regarding small business over the same period.

ATTACHMENT B

GENERAL INSURANCE AND MANAGING PANDEMIC RISKS

Pandemic risk violates most principles of insurability, the main issues being:

- the magnitude of the risk is significant, well in excess of insurance sector capital;
- global aggregation of loss means risk cannot be diversified;
- the premiums would be so high as to be unaffordable;
- the losses are hard to define; and
- the losses are currently not calculable prior to a pandemic occurring.

These issues make a traditional private sector insurance risk transfer solution to address pandemic risk impossible at this time. In these circumstances, government policy plays an important role in structuring solutions where principles of insurability are not satisfied. The type of intervention best suited will need to be specific to the type of risk involved; an example of this is the development of the Australian Reinsurance Pool to support coverage for the risk of terrorist attacks.

Reinsurance

A key part of funding extreme events is the global reinsurance system. Given the nature of pandemic risk, reinsurers face similar challenges. The issues listed above differentiate pandemic risk from other extreme events such as natural disasters and render it impossible to reinsure. This has led reinsurers to also implement pandemic exclusions. Expert advice to the Insurance Council is that there is no prospect in the foreseeable future for significant private sector reinsurance support for widespread pandemic coverage. Given this, Australian insurers will not be able to offer such coverage without an alternative way to secure protection.

Insurability will improve with research and mitigation

In order to function, insurance mechanisms require a way to quantify potential losses. In the case of extreme events where stable loss data is unavailable, simulation models are used. While pandemic modelling is developing rapidly, it is unlikely that sufficient modelling tools will exist in the near future to allow for the type of risk quantification required to support tens of billions of risk capacity (in the form of capital and reinsurance) necessary to underwrite pandemic risk in the same way that is available for bushfire, flood or earthquake.

The economic disruption from COVID-19 is likely to trigger a large increase in funding for mitigation measures from both the private and public sectors. Responses to the current pandemic such as investments in vaccine research, new technologies, and stronger pandemic response plans may change the nature and size of the threat posed by future pandemics. In due course, this may reduce the risk of pandemic and make private insurance solutions more viable. This has occurred to some extent with the risk of terrorist attacks.

Possible government led solutions

Public sector involvement in a pandemic solution could overcome roadblocks to private sector coverage, including risk modelling difficulties, size of potential losses, lack of geographical diversification and the lack of secondary markets. There are several ways that an insurance based solution (whether by government or in partnership with the private sector) could add value, including risk assessment, pre-funding and helping to quantify risk to inform decisions on mitigation investment. Involving the private sector could allow government to utilise existing insurer infrastructure, such as claims settlement. The private sector can play an important role in any future framework, including in an advisory capacity.

A solution involving government would need to address a number of important factors in its design: including defining its objectives and participants, whether participation is compulsory, the definition of coverage afforded, time horizon, funding and financing mechanism, whether coverage /terms are uniform across the market, the scope of coverage and a scheme's flexibility to adapt to changing conditions. Key overall considerations include a scheme's cost, its capacity and its potential to disrupt otherwise healthy insurance markets.

A government backed insurance solution to pandemic risk:

- would provide predictable coverage for future events;
- would provide a price signal to inform risk mitigation investments;
- could create a way for government to charge a premium or levy on the beneficiaries of government support to either pre or post fund the loss; and
- would allow existing insurance infrastructure to be utilised to collect premiums or levies, define coverage, and target government payments based on a contractual agreements.

ATTACHMENT C

COMMON TYPES OF INSURANCE USED BY SMALL BUSINESS

Professional indemnity: building and construction industry

Insurers play a crucial role in the building industry, but systemic deficiencies within the building industry and with compliance and regulation as identified by the Shergold-Weir *Building Confidence Report* [22] have impacted the availability and affordability of insurance coverage for this sector. This is particularly so for professional indemnity insurance for building certifiers and other building professionals.

A report by PwC in 2019, showed the professional indemnity insurance market for building surveyors and certifiers has been unprofitable since 2011, with more than $3.40 paid in claims for every dollar collected in premiums. This situation is unsustainable for insurers. As a result, building surveyors, engineers and architects are struggling to obtain the insurance they need to do their job, which in turn could seriously affect future building or construction activity.

A number of high-profile compliance failures in some states and territories, coinciding with use of non-conforming and potentially dangerous external cladding on modern and some refurbished buildings has led to a crisis in confidence for insurers who provide professional indemnity coverage for building professionals.

This is also impacting the insurance of physical buildings, once construction has been completed. Maintaining adequate construction standards in Australian buildings is a primary mechanism to reduce the risk of building failure. Poorly constructed buildings will at a minimum suffer more damage from exposures, such as extreme weather.

The Insurance Council has called for significant reform across the nation in order to improve the built environment and how it is perceived by all stakeholders. The insurance industry has advocated for reform, in line with the recommendations of the Shergold-Weir Report. Whilst a national agreement has been established on implementation of the recommendations of the Shergold-Weir Report to address future risk, there remains key differences in how each state is pursuing rectification of current cladding and building defects.

Enduring solutions, that reduce the risk and therefore the cost of insurance for building industry practitioners and ensure protection for consumers, must be underpinned by the systemic reforms that are being implemented through the national work on the Building Confidence recommendations.

Governments, the insurance sector and professionals in the construction industry all have a critical role to play in developing solutions to address the underlying issues, that have led to the current crisis in confidence. The insurance industry seeks to continue to work cooperatively with governments to rebuild that confidence.

Property (including business interruption)

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[22] Shergold P and Weir B (February 2018) "Building Confidence – Improving the effectiveness of compliance and enforcement systems for the building and construction industry across Australia"

INSURANCE COUNCIL OF AUSTRALIA

What coverage is available for business interruption

Business interruption cover typically provides cover for disruption to trade following property damage events. Commercial property insurance or Industrial Special Risks (ISR) policies available to small and medium businesses, have evolved to include closure of premises from infectious diseases to be considered "property damage" for the purposes of triggering cover. That is, business interruption cover is generally only triggered where the insured's business is interrupted by physical damage to insured property at the business premises.

Business interruptions that occur for reasons other than physical damage to the business premises are also available. This can include a limited form of cover for infectious diseases and applies where part or all of a business premises is closed by order of a government authority due to the presence of an infectious disease at or near the premises.

Pandemic exclusions

In 2006, APRA conducted a stress tests, asking all life and general insurers to consider their potential claims exposure to pandemics to understand the possible financial impacts following escalating concerns from the avian flu which arose shortly after the SARS outbreak in 2020.

The stress tests conducted by APRA identified costs arising from closure of businesses due to infection on premises. APRA observed that the bulk, and by far the largest amount, of additional gross claims arose from business interruption and ISR policies (including business interruption coverage). The percentage increase in claims for business interruption averaged more than 400 percent, with ISR policy claims increasing about 120 percent over the base claims level.

As a result of the analysis conducted by APRA in 2006, most general insurers moved to reduce or exclude coverage of pandemic infectious disease for products that were highly exposed to the risk of infectious diseases with pandemic potential, considering such risks to be so systemic as to be uninsurable.

Impacts of COVID-19

In Australia, approximately $5.5 billion of premium is underwritten in respect of property insurance (comprised of fire and industrial special risks (ISR) policies), of which approximately 10% would be allocated to coverage relating to business interruption.

Without pandemic exclusions, losses would be devastating for the insurance industry with Finity estimating the total business interruption losses would be around $5-10 billion for an initial 3 month period.

Future opportunities

Most businesses operated without cover for non-damage (i.e. property) business interruption for communicable disease prior to COVID-19, but the demand for cover that includes protection against a second wave of the pandemic is expected to now be significant[23].

[23] Lloyd's of London, *Supporting global recovery and resilience for customers and economies*, July 2020.

There is an opportunity for collaborative solutions between the insurance industry and government to provide pandemic-related non-property damage business interruption coverage.

Trade credit insurance

Trade credit is a specialist insurance line offered by only a small number of providers globally. In trade credit insurance, the 'supplier' is a business that provides goods or services on credit to other businesses (the supplier is the insurer's customer and takes out the trade credit policy). The 'purchaser' is a business that purchases goods or services on credit from the supplier, such as a manufacturer, distributor or retailer. The purchaser is the 'risk' the insurer is assessing.

Where suppliers sell goods or services on credit terms, there is a risk that purchasers will become insolvent, or for other reasons, fail to pay their debts – this is a 'trade credit' risk. Trade credit insurance protects suppliers from this risk by covering both domestic and offshore debts that are unpaid in certain circumstances.

How does a trade credit policy work?

Most trade credit policies are arranged by trade credit brokers with specialist expertise, who will generally negotiate the terms and conditions of the policy with an insurer on behalf of their clients.

The extent of cover taken out by suppliers varies widely and is generally tailored. For example, a supplier may opt for whole of turnover (or comprehensive) cover, or cover for specific purchasers or transactions.

Insurers continuously evaluate the commercial risk of non-payment by purchasers – this may be purchaser specific (such as the failure of a parent company) or industry-wide (such as political or economic circumstances). Credit limits are, therefore, dynamic and may be increased or decreased by insurers during the life of the policy to reflect changing circumstances and risks. Given the potentially volatile nature of the insured risk, legislation allows the insurer to reduce or withdraw cover with immediate prospective effect, or in line with specific policy provisions.

What are the benefits to businesses from trade credit insurance?

Trade credit insurance provides protection against non-payment, giving businesses access to funds in the event of payment default to facilitate continual cashflow. Trade credit insurers specialise in assessing the risk that purchasers will not pay their debts – this supports credit risk management by providing an early warning system for bad payers or poor trading risks, supporting business growth.

Impacts of COVID-19 on businesses and trade credit insurance coverage

The impact of COVID-19 is unprecedented. Governments globally have provided extensive financial support to stimulate economies and keep businesses operating during the pandemic. Despite this, the global downturn has rapidly altered the level of risk associated with many business transactions.

As a result, trade credit insurers are seeing businesses curtail or shut down their operations, and delay payments or fail to meet payment deadlines for goods supplied on credit. This significantly alters insurers' assessment of the risk associated with both individual purchasers, and broader industry sectors.

As a result, insurers are removing unused capacity and amending policy limits to reflect the current trading environment. By reducing risk associated with some sectors, insurers can also continue to support essential industries, such as supermarkets, pharmaceuticals and health businesses.

In many countries, governments have provided a financial backstop to allow trade credit insurance to continue to operate more broadly, however this has not yet occurred in Australia.

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ATTACHMENT D

THE IMPACT OF TAXES ON INSURANCE

Most States impose stamp duty on insurance contracts, typically at a rate of around 10%. Some States provide stamp duty exemptions for small businesses and the ACT does not impose any special taxes on insurance contracts. However, NSW also imposes an Emergency Services Levy (ESL) which fluctuates in accordance with emergency services funding needs. The effect of laying on top of premiums an ESL, then GST, then stamp duty means that small businesses in NSW currently pay more than 70% in taxes on top of the premium charged by the insurer.

As recognised in the Draft Report of the NSW Review of Federal Financial Relations chaired by David Thodey AO, taxes on insurance have been consistently acknowledged by a long series of inquiries to be inefficient, inequitable, regressive and administratively burdensome. The Insurance Council therefore welcomes the strong recommendations in the Draft Report and agrees that:

> "There is no principled case for applying a special tax on insurance" [24].

The Insurance Council also supports the draft recommendations in the Draft Report that:

> "All specific taxes on insurance products, including the Emergency Services Levy in New South Wales, **should be abolished** and **replaced by more efficient and broad tax bases**, to improve the affordability and uptake of insurance.
>
> To reduce the cost of insurance and enable fairer ways to fund the fire and emergency services, the Government **should reconsider applying a levy on property owners** and should also consider combining this with any future broad-based land tax. The reform should follow a detailed consideration and modelling process to carefully consider the impacts on different taxpayers." (**emphasis added**)
>
> The consequences of the blunt application of taxes on insurance - their unfairness, their inefficiency, their regressive nature which leaves low-income households more exposed to loss in adverse circumstances, are all noted in the Draft Report. Given this, there is no apparent reason why insurance taxes should not be replaced with a broad-based land tax as the Draft Report recommended for transfer duties on real property[25]."

Given the universally acknowledged harmful impact of taxes on insurance we would have thought an equally strong final recommendation for their replacement was merited.

The Insurance Council submits that the Review's initial finding that:

> "A broad-based land tax is the best instrument for this task, and a transfer duty to land tax switch would establish the right settings for fiscal recovery and long-term growth[26]."

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[24] Page 85, the Draft Report
[25] Page 49, the Draft Report.
[26] Page 43, the Draft Report.

equally applies to stamp duties on insurance and the emergency services levy.

With the Australian economy needing to regain momentum after being hit by COVID-19, Australian Governments at all levels need to take account of the economic impact of removing stamp duties and other levies from the cost of insurance.

As noted in the Insurance Council's submission to the Thodey review, research has found that the removal of all insurance-based taxes in all states and territories and replacing them with commensurate increases in municipal land rates/property taxes would lead to: a net increase in real private consumption across Australia of $5.52 billion; and a net increase in tax revenue collected by state, territory and local government of $575 million after five years if this reform were implemented Australia-wide. [27]

The Insurance Council notes that the recently released NSW Productivity Commission Green Paper - *Continuing the Productivity Conversation* has also strongly endorsed the need for taxation reform.

[27] Comparative static computable general equilibrium model of the Australian economy with a representative household to model the impact of these changes on private consumption (as a proxy for welfare) and government budgets is recent best practice of modelling the impact of taxes in Australia, according to Cao, L. et al. *Understanding the economy-wide efficiency and incidence of major Australian taxes*. The Treasury, Australian Government. 2015; KPMG, *CGE analysis of the Current Australian Tax System*. Canberra. 2010; and Deloitte Access Economics, *Analysis of state tax reform: Report for Insurance Council of Australia*. 2011.

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ATTACHMENT E

INSURANCE COUNCIL OF AUSTRALIA

NON-INSURANCE IN THE SMALL TO MEDIUM SIZED ENTERPRISE SECTOR

JULY 2015

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Summary findings

- The rate of non-insurance in the small business sector appears to have fallen over recent years with the ICA's 2015 survey reporting a non-insurance rate of 12.8%, compared with the 25.6% rate reported in the 2007 survey.
- The Manufacturing, Construction, Retail trade, Finance & Insurance and Property & Business Services sectors recorded *statistically significant* falls in the non-insurance rates.
- The Health and Community Services sector had the lowest rate of non-insurance at 6.3% while the Education sector had the highest rate of non-insurance at 25%.
- Similar to the 2007 findings, Sole traders had the highest rate of non-insurance, at 24.0% while small businesses operating from home had a rate of non-insurance of 21.4%.
- Only 1.9% of the firms that reported having insurance reported being inadequately insured. The most commonly cited reasons for being inadequately insured were;
    - "I cannot afford to pay for more insurance",
    - "Premiums are too high" and a belief that
    - "You can never be adequately insured".
- Respondents were asked to nominate the insurable risks that were applicable to their business and which of these risks they were covered for. On this basis the non-insurance rates by product type ranged from as low as 1.6% for Public and Product Liability to 14.6% for machinery breakdown. In general, the greater the proportion of respondents that nominated a particular risk as being applicable to their business the lower was the rate of non-insurance for that product type.
- The most commonly cited reasons for not insuring against an identified risk were;
    - "Too busy to arrange"
    - "Too expensive" or
    - "Risk too low/not worth it".
- Around 10% of small businesses admit to being underinsured with respect to the value of their business assets.
    - 15% were over insured (Asset Value < Sum Insured)
    - 63% were adequately Insured (Asset Value = Sum Insured)
    - 10.4% were under insured (Asset Value > Sum Insured)
- The average number of claims over past year was 1.9 per business.
- The average claim size was $6,764 with Wholesale Trade having the largest average claim size of $15,314 and Personal and Other Services the smallest at $2,337

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- Excluding NSW small businesses, 65.7% of businesses were aware the state Government imposed a stamp duty charge on insurance premiums. If stamp duties were removed
  - Around 25% indicated they were very to somewhat *likely* to increase insurance cover
  - Around 25% were *neutral* and
  - 50% indicated they were somewhat to very *unlikely* to increase insurance cover.
- In NSW only 53% of small businesses were aware the Government charged ESL and Stamp duty on premiums. If both of these were removed
  - Around 34% indicated they were very to somewhat *likely* to increase insurance cover
  - 18% were *neutral* while
  - 48.0% indicated they were somewhat to very *unlikely* to increase cover
- Combining all the responses, if state government taxes and charges were removed from insurance premiums across Australia then,
  - 50.0% of small business would be somewhat to very *unlikely* to increase their insurance cover
  - Of the remaining 50%, a similar proportion of businesses would be very to somewhat *likely* to increase cover or be neutral.
- Covering risk not currently insured was the most preferred option of increasing insurance cover with
  - 56% of respondents selecting this option.
  - A third indicated they would increase the sum insured and
  - 11% preferred to decrease the excess level.
- Just over 70% of respondents indicated they purchased insurance via a broker while 21% purchased directly from a company.

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About the survey

The Insurance Council of Australia commissioned Woolcott Research and Engagement to conduct a survey of small businesses (businesses with less than 20 employees) to determine the rate of non-insurance, gauge the degree of underinsurance and investigate other aspects of small businesses insurance behaviour.

The survey was conducted by phone interview in May 2015 with a sample size of 1,000 covering 13 industry groups across all states and territories. The 2015 survey follows of a similar survey undertaken in 2007, with the only significant difference being the inclusion of the communications sector as a separate industry in the 2015 survey.

Rate of non-insurance fall across industry

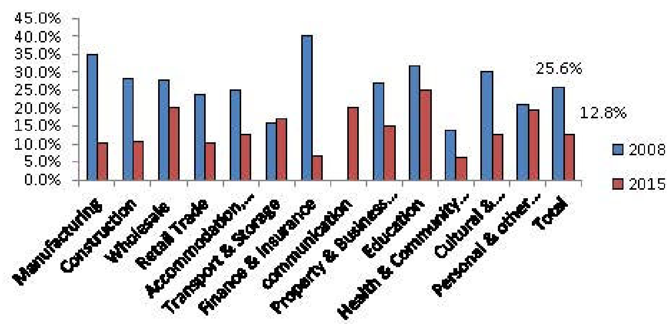
The 2015 survey reported a non-insurance rate of 12.8% compared with 25.6% in the 2007 survey. 85.7% of businesses reported being insured while 1.5% did not know if they were insured.

Of the twelve industry groups covered in both surveys only five; Manufacturing, Construction, Retail trade, Finance & Insurance and Property & Business Services, recorded *statistically significant falls in the rate of non-insurance.* While six of the remaining seven industry groups surveyed recorded lower rates of non-insurance the sample sizes were insufficiently large to discount the likelihood that the lower rate was due to chance.

Only one industry group, Transport and Storage, reported an increase in the rate of non-insurance. Figure 1 summarises the rates of non-insurance on an industry basis for the 2007 and 2015 surveys.

To investigate the possibility that the large fall in the non-insurance rate was due to a significant change in the demographics of the sample these were considered in some detail. Overall the large fall in the non-insurance rate reported in the 2015 survey reflects a decline across the board. (Refer to discussion at the end of this paper)

Figure 1
Small Business non-Insurance rates by Industry



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Under or inadequate insurance (by Insureds) appears minor.

Of the companies that had insurance, only 1.9% (38) believed they were inadequately insured. Figure 2 shows the distribution of insured companies reporting inadequate insurance by industry group.

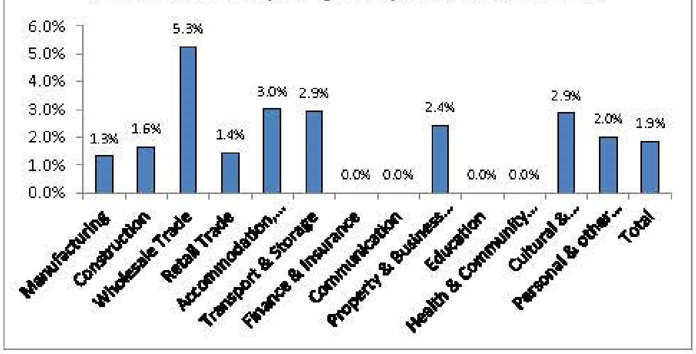

Figure 2
% with insurance reporting inadequate levels of insurance

The most commonly cited reasons for being inadequately insured were;

- "I cannot afford to pay for more insurance",
- "Premiums are too high" and a belief that
- "You can never be adequately insured".

The distribution of reasons for reporting inadequate insurance is summarised in table 1. It's noteworthy that no small business nominated receiving poor advice as a reason for believing they were inadequately insured.

Table 1

Distribution of reasons for not being adequately insured.

Reason for being inadequately insured	Frequency	% of all nominations	% of inadequately insured
Premiums are too high	7	18.4%	43.8%
You can never be adequately insured	6	15.8%	37.5%
Didn't know of the risks I face as a small business	2	5.3%	12.5%
I have received poor advice on my insurance needs	0	0.0%	0.0%
It takes up too much of my time to arrange insurance	4	10.5%	25.0%
I am happy to bear the costs of a loss myself	2	5.3%	12.5%
Have not reviewed insurance cover for some time	3	7.9%	18.8%
I cannot afford to pay for more insurance	10	26.3%	62.5%
Other	4	10.5%	25.0%

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Insurance risks applicable and covered for?

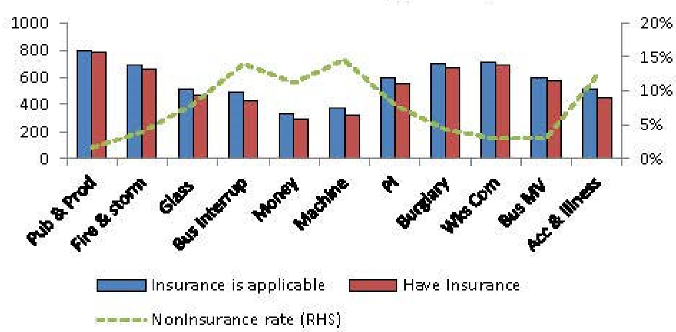
The small businesses were asked to identify which types of insurable risks are applicable to their business and of those, which risks they had insured against.

The non-insurance rates on a product basis ranged from as low as 1.6% for Public and Product Liability to 14.6% for machinery breakdown.

In general the greater the proportion of respondents that nominated a particular risk as being applicable to their business the lower was the non-insurance rate for that product type.

For instance 80.1% of respondents nominated pubic and product liability as an applicable risk while only 37.7% nominated machinery breakdown but this product type had a non-insurance rate of 14.6% compared to 1.6% for PPL.

Figure 3
Rates of non Insurance by product type



Why insurable risk was not covered.

Companies were asked to nominate reasons why they had not purchased insurance to protect against an identifiable risk.

Excluding "other", the most commonly cited reasons were

- "Too busy to arrange",
- "Too expensive" or
- "Risk too low/not worth it".

The least cited reason for not covering an indentified risk was "could not find appropriate cover" implying lack of supply (Market failure) was not a major contributor to non-insurance issues.

Table 2 summarises the relative frequency of reasons for not covering an identified risk by product type.

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Table 2
Reason for not purchasing insurance that was identified as applicable to the business - % of reasons nominated

	Public and product liability	Fire storm and malicious damage	Glass & Glass breakage	Business Interruption	Money Including loss in transport	Machinery breakdown	Professional Indemnity	Burglary/Theft	Workers Compensation	Business Motor insurance	Personal accident and illness
Too busy to arrange	28.6%	3.6%	2.0%	1.3%	4.5%	1.9%	13.7%	13.9%	25.0%	15.0%	4.0%
Too difficult complicated to arrange				1.3%	2.3%	5.6%	3.9%	5.6%			4.0%
Too expensive	7.1%	14.3%	20.0%	26.9%	18.2%	29.6%	17.6%	25.0%	8.3%	25.0%	29.3%
Risk too low/not worth it	7.1%	17.9%	26.0%	23.1%	31.8%	37.0%	13.7%	22.2%	16.7%	25.0%	10.7%
Not considered risk			4.0%	10.3%	11.4%	5.6%	9.8%	2.8%		10.0%	6.7%
Not sure if current cover picks up risk		7.1%	20.0%	7.7%	4.5%	3.7%	3.9%	5.6%	4.2%		6.7%
Could Not find appropriate cover									4.2%		6.7%
Am looking into it now		3.6%	2.0%	5.1%		1.9%	3.9%		4.2%		4.0%
Broker/Agent advised against	7.1%		2.0%		2.3%	1.9%			4.2%		
Not tod about the risk				1.3%	6.8%		2.0%				
Self ensured against risk	7.1%	10.7%	6.0%	3.8%	2.3%	13.0%	2.0%	11.1%		5.0%	5.3%
Other	42.9%	42.9%	18.0%	19.2%	15.9%		29.4%	13.9%	33.3%	20.0%	22.7%

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Around 10% of Businesses do not have sufficient cover for business assets.

Of the 471 respondents that provided data on both the value of business assets and the sum insured;

- 15% were over insured (Asset Value < Sum Insured)
- 63% were adequately Insured (Asset Value = Sum Insured)
- 10.4% were under insured (Asset Value > Sum Insured)

The average asset value, sum insured and ratio of asset value to sum insured for each of the under, adequate and over insured cohorts are shown in table 3 below.

Table 3
Average of Assets and Sums Insured and ratio of Assets to Sum Insured

	Asset Value	Sum Insured	Ratio of asset value/ sum insured
Over Insured	711,143	2,656,764	0.55
Adequately Insured	1,481,019	1,481,019	1.00
Under Insured	1,401,683	644,000	12.91
Total	1,349,082	1,470,939	3.56

The insurance status (Over/Adequate/Under) on an industry basis is shown in figure 4

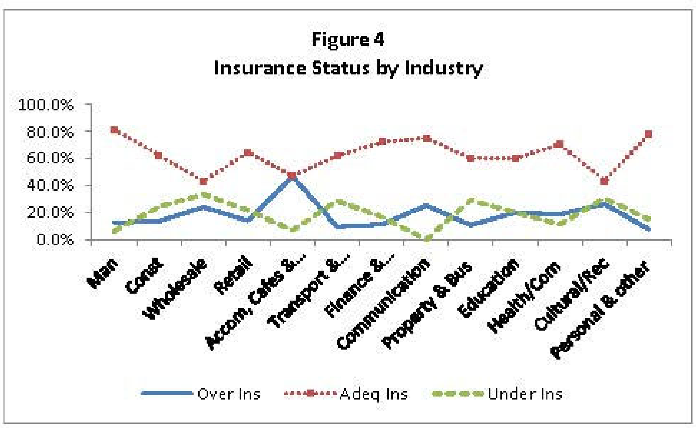

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Figure 5 plots average asset values against average sum insured on an industry basis. The data is reproduced in table 4.

It should be noted the averages are for all the respondents that provided a response for both or only one of the variables "asset value" and "sum insured". Consequently it is not appropriate to calculate the ratio of assets to sum insured as a measure of under or over insurance. The industry averages were potted against each other to confirm that in general there was a positive relationship between asset values and sums insured on an industry basis.

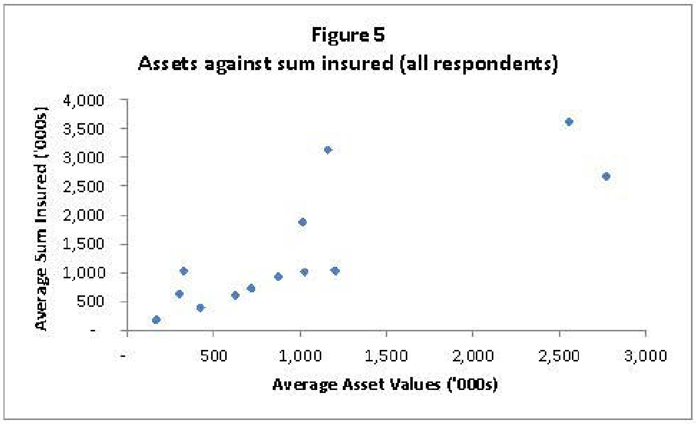

Table 4
Average Assets and Sums Insured for all respondents

Sector	Asset Value	Sum Insured
Communication	166,250	176,250
Personal & other services	422,130	386,778
Retail Trade	624,304	597,468
Education	300,000	630,000
Manufacturing	718,125	723,281
Health & Community Services	875,000	932,407
Wholesale Trade	1,024,762	1,013,333
Finance & Insurance	328,333	1,027,556
Construction	1,201,667	1,031,750
Transport & Storage	1,015,714	1,880,714
Property & Business Services	2,772,233	2,665,816
Accommodation, Cafes & Restaurants	1,160,007	3,127,074
Cultural & Recreational Services	2,559,565	3,616,957

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Average Premiums

Figure 6 summarises average premiums in ascending order on an industry basis, the data is reproduced in table 5.

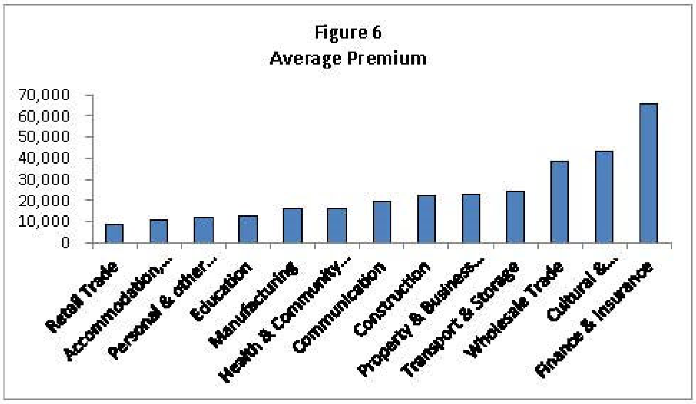

Table 5

Average Premium by Industry

Industry	Average premium $
Retail Trade	8,417
Accommodation, Cafes & Restaurants	10,467
Personal & other services	12,219
Education	12,575
Manufacturing	15,906
Health & Community Services	16,292
Communication	19,480
Construction	22,461
Property & Business Services	22,869
Transport & Storage	24,639
Wholesale Trade	38,697
Cultural & Recreational Services	42,953
Finance & Insurance	65,619
Total	21,343

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Claims

Average number of claims per business over past year was 1.9 with Health and Community Services averaging 2.5 and Accommodation, Cafes & Restaurants averaging 1.13 claims.

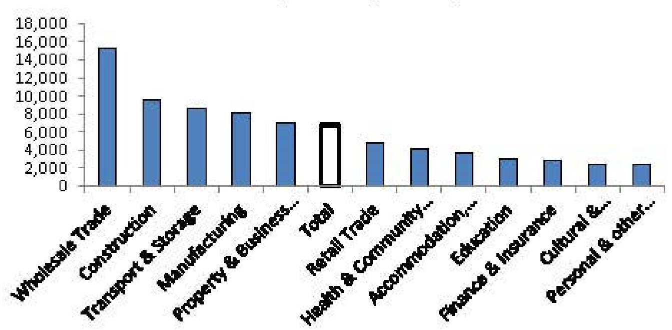
The average claim size across all industries was $6,764 with Wholesale Trade averaging the largest claim size of $15,314 and Personal and Other Services the smallest at $2,337

Table 7 summarises the average number of claims made, claims paid and claim size on an industry basis while figure 7 ranks the average claim by descending order and figure 8 plots average claim size against average premiums on an industry basis.

Table 7
Average number of claims made, claims paid and average claim size by Industry

	Average Number of claims made	Average Number of claims paid	Average Claim size
Manufacturing	1.57	1.48	8,098
Construction	1.77	1.74	9,516
Wholesale Trade	2.11	2.11	15,314
Retail Trade	1.39	1.26	4,769
Accommodation, Cafes & Restaurants	1.13	1.13	3,659
Transport & Storage	1.82	1.73	8,651
Finance & Insurance	2.22	2.22	2,809
Property & Business Services	2.25	2.09	6,941
Education	1.50	1.50	3,000
Health & Community Services	2.50	2.44	4,186
Cultural & Recreational Services	1.75	1.63	2,432
Personal & other services	2.00	1.88	2,337
Total	1.87	1.79	6,764

Figure 7
Average claim by industry



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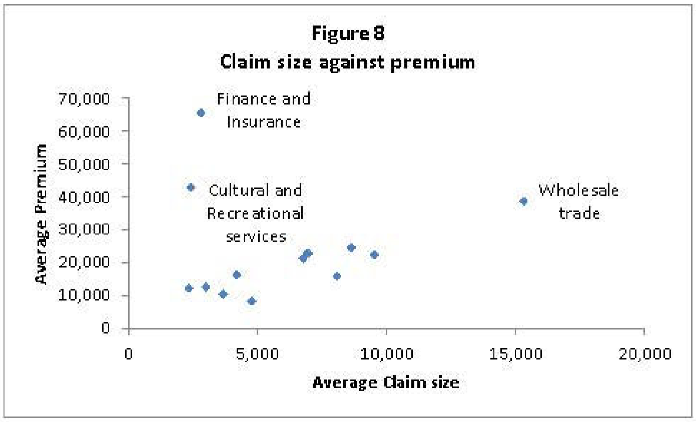
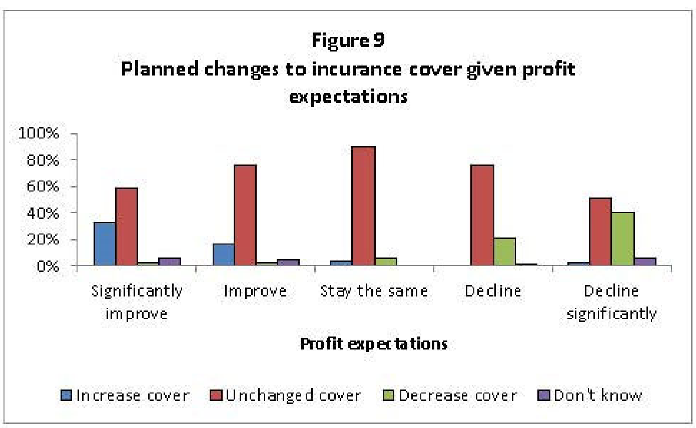


Profit expectations and planned insurance coverage.

There is a significant statistical association between businesses profit expectations and planned changes to insurance cover.

The more optimistic are profit expectations the more likely is a business to increase coverage while the more pessimistic are profit expectations the more likely will a business be considering reducing insurance cover.

Figure 9 shows the proportion of respondents that indicated they would increase, remain unchanged or decrease their insurance cover depending on profit expectations.



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Awareness of Government taxes and charges

Excluding NSW, 65.7% of respondents were aware of government taxes and charges levied on their insurance premiums.

- There is however no significant association between whether a business was aware of the taxes and charges imposed by governments and the likelihood the business would increase the amount of insurance purchased if the taxes and charges were removed.
- Just over a quarter (26.3%) indicated there were very to somewhat likely to increase coverage if stamp duties were removed, half were somewhat to very unlikely to increase the amount of insurance purchased while 23.0% were neutral.

Figure 10 compares the relative distribution of responses for the two cohorts that were aware or not aware of stamp duty charges.

Figure 10
% indicating likelihood of increasing insurance coverage in response to removal of Stamp duty

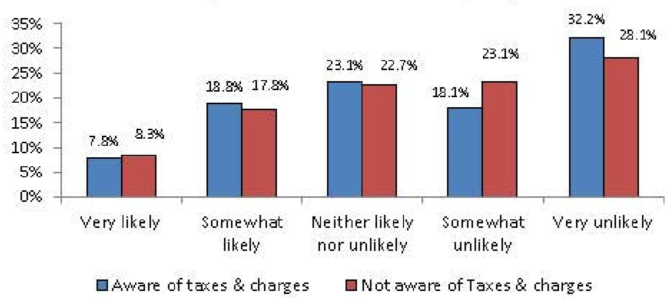

Table 8 summarises the sample proportions obtained from the survey plus their 95% confidence intervals.[1]

Table 8

Proportion of **Ex NSW** respondents indicating likelihood of increasing cover if stamp duty was removed from premiums.

Likelihood of increasing cover	Sample proportion	Sample size	LCL	UCL
Very to somewhat likely	26.30%	186	19.97%	32.63%
Neutral	23.00%	162	16.52%	29.48%
Very to somewhat unlikely	50.70%	357	45.51%	55.89%

[1] If the confidence intervals for two sample proportions overlap then it is not possible to say they are statistically different. Hence in table 8 it is reasonable to conclude the % of businesses that are very to somewhat unlikely to increase insurance cover is larger than % in the other two options, but that the % in the somewhat to very likely group is not different to the % in the neutral group.

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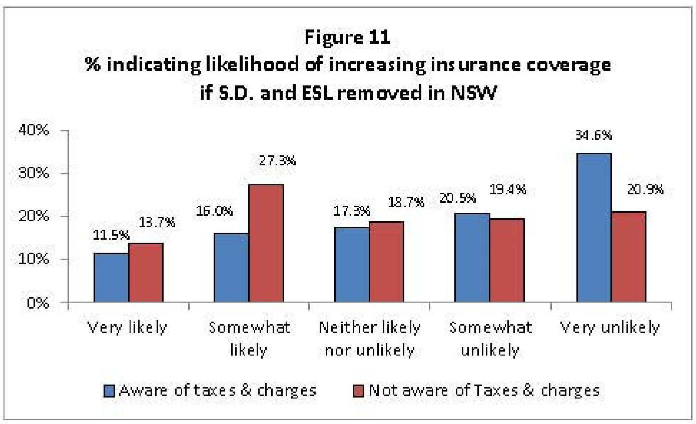
In NSW 52.9% were aware of stamp duty and ESL charge.

There was a statistical relationship between the likelihood of purchasing more insurance and being aware the State government imposed taxes and charges on insurance premiums.

Those that were not aware of the taxes and charges were more likely to purchase insurance if they were removed than those that were aware taxes and charges were applied to insurance premiums.

A third of respondents (33.9%) indicated there were very to somewhat likely to increase coverage if stamp duties and ESL were removed, just under a half were somewhat to very unlikely to increase the amount of insurance purchased while 18% were neutral.



While it is tempting, we *cannot conclude* NSW could expect to see a larger response (take up of insurance) to the removal of Government taxes and charges than the rest of the country because the proportions are not significantly different from each other. Bottom line is, the individual sample sizes are two small.

Table 9

Proportion of **NSW** respondents indicating likelihood of increasing cover if stamp Duty was removed from premiums

Likelihood of increasing cover	Sample proportion	Sample size	LCL	UCL
Very to somewhat likely	33.9%	100	24.62%	43.18%
Neutral	18.0%	53	7.66%	28.34%
Very to somewhat unlikely	48.1%	142	39.88%	56.32%

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Figure 12 and table 10 summarise the aggregated response, that is, all states and territories combined.

It is reasonable to conclude that 50% of respondents would be somewhat to very unlikely to increase cover if state taxes and charges were removed, however roughly the same proportion of respondents would be very to somewhat likely to increase their cover as the proportion that would be neutral to buying more cover.

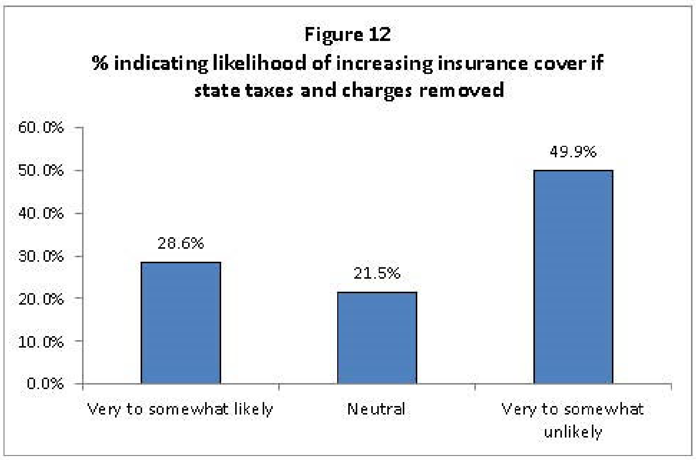

Table 10

Proportion of **ALL** respondents indicating likelihood of increasing cover if stamp Duty was removed from premiums

Likelihood of increasing cover	Sample proportion	Sample size	LCL	UCL
Very to somewhat likely	28.6%	286	23.36%	33.84%
Neutral	21.5%	215	16.01%	26.99%
Very to somewhat unlikely	49.9%	499	45.51%	54.29%

Increased insurance cover

Of the respondents that indicated they were somewhat to very likely to increase insurance cover if rates and charges removed;

- 1/3rd indicated they would increase their insurance cover by increasing their sum insured
- 11% nominated reducing their excess and
- 56% nominated they would cover a risk not currently insured

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Small Businesses mostly purchase insurance through Brokers.

Just over 70% of respondents indicated they purchased insurance via a broker while 21% purchased directly from a company. Only 4.6% purchased insurance via an agent (the variation across sectors reflects relatively small sample sizes)

The relative distribution of insurance outlets across industries is summarised in table 6

Table 6
Distribution of insurance outlets across industries

	An insurance company	A broker	An agent	Your business franchise agreement	Or in some other way	Don't know
Manufacturing	19.7%	75.0%	2.6%	0.0%	2.6%	0.0%
Construction	20.3%	74.7%	2.7%	0.5%	0.0%	1.6%
Wholesale Trade	21.1%	63.2%	13.2%	0.0%	2.6%	0.0%
Retail Trade	25.4%	67.4%	3.6%	2.9%	0.7%	0.0%
Accommodation, Cafes & Restaurants	15.2%	72.7%	6.1%	3.0%	3.0%	0.0%
Transport & Storage	17.6%	70.6%	5.9%	0.0%	5.9%	0.0%
Finance & Insurance	3.7%	70.4%	14.8%	3.7%	7.4%	0.0%
Communication	12.5%	87.5%	0.0%	0.0%	0.0%	0.0%
Property & Business Services	23.6%	72.1%	3.0%	0.6%	0.6%	0.0%
Education	33.3%	53.3%	0.0%	6.7%	6.7%	0.0%
Health & Community Services	17.9%	64.3%	8.9%	0.0%	5.4%	3.6%
Cultural & Recreational Services	25.7%	68.6%	5.7%	0.0%	0.0%	0.0%
Personal & other services	20.0%	72.0%	4.0%	4.0%	0.0%	0.0%

Comparison of sample populations 2007 and 2015

Figures 13 through to 18 contrasts the distribution of respondents in the 2007 and 2015 survey based on selected demographic features.

The analysis shows that the distributions are broadly similar with the small exceptions that the 2015 survey had a smaller proportion of younger respondents and a slightly larger proportion of sole trader respondents. Given the patterns of non-insurance for these variables, this deviation would have tended to push the non-insurance rate higher in the 2015 survey.

A notable feature is that the non-insurance rates are lower across all the variables in the 2015 survey compared with the 2007 survey.

In the plots below the "Bars" represent the proportion of the sample that are in each industry group, with the blue bars being the proportion in the 2007 survey and the red bars the proportion in 2015. The lines represent the rates of non-insurance with the purple line referring to the 2015 survey and the green line to the 2007 survey.

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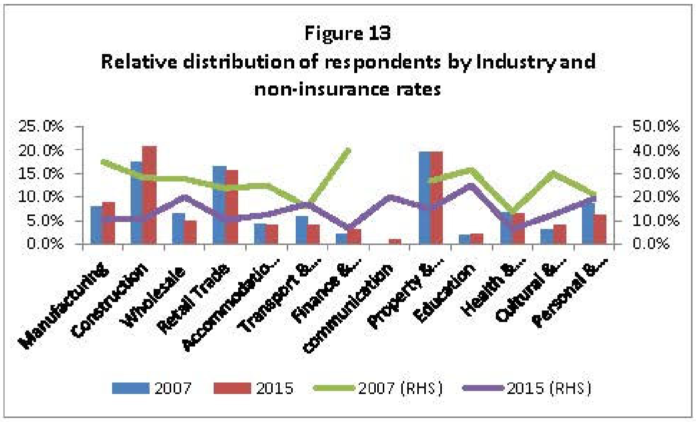

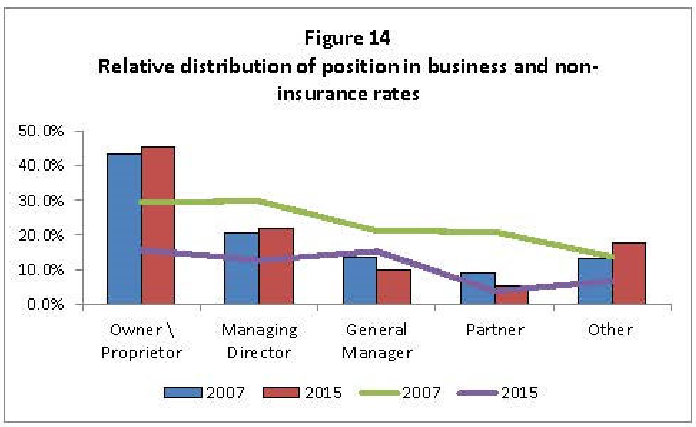

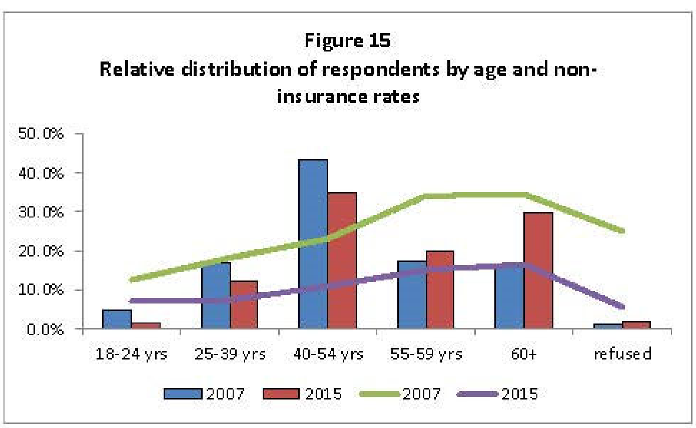

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Figure 16
Relative distribution of location of business and non-insurance rates

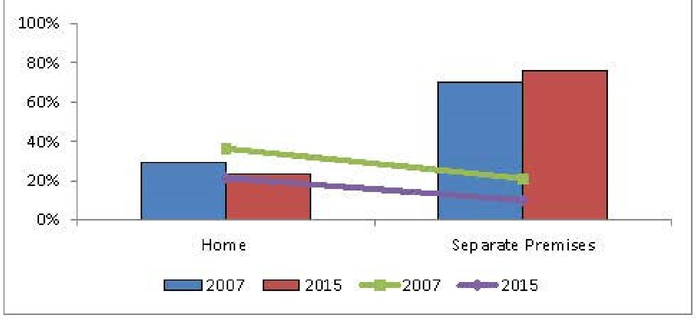

Figure 17
Relative distribution by number of employees and non-insurance rates

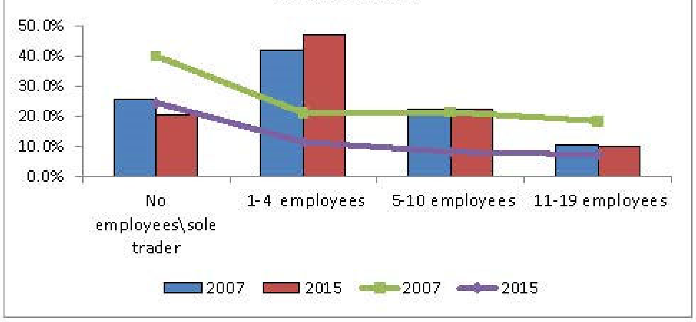

Figure 18
Relative distribution by state and non-insurance rate