

8 September 2020

Insurance Inquiry Australian Small Business and Family Enterprise Ombudsman
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Dear Ombudsman

RE: Insurance Inquiry

The Victorian caravan park sector is vitally important to the state's visitor economy creating around 2,500 direct jobs and generating in excess of \$2.2b to the Victorian economy with 90% of spending taking place in regional Victoria.

It is a sector that is growing fast with Victorian caravan and camping trips up 6.7% in the year to March 2020 which included disruption from the severe bushfires throughout late December and in January and with nights stayed up 12% from the same period twelve months earlier. This increase was three times greater than the national average increase. This sector is the largest domestic accommodation sector by nights in Australia.

Access to affordable and adequate insurance coverage is vital to the ongoing viability of the Victorian caravan park sector. There is both a practical and legal requirement of caravan parks to have this coverage. Affordable and adequate coverage is important to allow businesses to remain viable and invest in their parks and their customer experience.

Affordable and adequate insurance coverage enables park owners to protect their employees, their consumers and their operations. Most importantly, businesses with finance arrangements in place are dependent on suitable coverage. Adequate insurance is also a necessary and contingent requirement for municipal registration.

While it is understood that insurance providers need to carefully balance risk mitigation within their portfolios, in recent years, and particularly over the course of 2020, Victorian caravan park operators are finding it much more difficult to obtain appropriate and affordable coverage, and in some cases, cannot find any coverage at all. This has put caravan park businesses at very significant risk of closure and much of the \$1.2b in economic benefit to regional Victoria at risk.

State and federal tourism policy seeks to increase accommodation supply in regional Australia. In doing so, a destination can grow visitation which in turn leads to increased economic value through capturing expenditure and creating new and stronger supply chains. However, if accommodation operators are unable to access insurance premiums or are financially burdened with much higher premium prices, operators would be required to pass this expense on to consumers or cease operations. These conditions act to counter economic growth and regional development which will lead to increased costs for visitors leading to less demand, whilst also impacting supply as some accommodation operators inevitably cease or reduce trading.



Major Issues

There are two major issues currently causing the dramatic decline in the availability, affordability and adequacy of insurance coverage for Victorian caravan parks. These are:

1. Natural disasters, particularly increased risk of bushfires impacting property. This is having a major effect on the availability, affordability and adequacy of buildings, contents and business continuity cover.
2. Hazards, particularly the growing provision of children's activities such as jumping pillows, ropes courses and go karts impacting public liability cover.

These issues have played the most significant role in reducing property insurance underwriter numbers to two in the Victorian caravan park market – All Parks Insurance, with a majority of the market, uses HDI Global and Grampians Insurance uses QBE Insurance. This lack of competition has reduced market tension such that difficulty obtaining coverage, excessively high premiums, limitations on policy extensions and reduced options in the market is now the norm for our member businesses.

Natural Disaster Insurance

Victoria's visitor economy relies very heavily on the Melbourne population dispersing to regional Victoria at key times of the year to enjoy bushland and coastal environments. However, as the devastating Victorian bushfires in late 2019/early 2020 showed, our most popular time for a caravan park holiday is when the greatest risk of bushfire presents for those parks located within the state's much sought after wilderness areas.

In recent years, operators located within these regions have increasingly reported that insurance providers, recognising the potential of bushfires impacting caravan park property and interrupting business, are either rejecting the opportunity to present any proposal at all, are imposing exponentially higher premiums, or are writing business only with extraordinary increases in excesses payable.

This outcome is inversely related to the quality of risk mitigation policies in place. The fire management and preparation strategies that operators undertake to ensure the safety and protection of their guests, staff and infrastructure were evidenced as not one of the over 150 Victorian caravan parks located in these areas were damaged from the over 180 individual fires which burned and damaged many Victorian communities.

Increased risk from bushfires is no doubt influenced by climate change modelling available to underwriters. As natural disasters become more impactful on the natural and built environment so must business operations adapt through even greater emphasis on risk management and crisis management practices. But if there is little promise of affordable and accessible coverage, that work may not be undertaken, particularly where expensive modifications to infrastructure are required.

There is little point in simply pricing businesses out of the market or not renewing premiums. A co-operative approach between the insurance industry, park businesses and government must be used to find a solution that supports business investment, insurance industry profitability and government economic and social objectives.

Global underwriter knowledge of the Australian bush and coastal setting is likely poor and influenced by feverish traditional and hysterical, inaccurate social media coverage of extreme events such as the summer bushfires where reports of the "whole country on fire", supported by maps of the country in flames from coast to coast, were made.

The current unsuitability of the insurance market is also seen by the advice VicParks received from one broker that renewal timing can play a significant role in whether coverage can be obtained. He stated that if, for example, there were five parks in a wilderness area within a 50 km of each other, underwriters may be willing to renew cover for the first four renewals that came up but not the fifth.

The fifth park would not be considered for coverage regardless of their risk management approach, claims record, or even the prospect of underwriter profitability simply because it was the fifth renewal in a small geographic location to come before them in one renewal period and a maximum of four parks was the underwriter's risk tolerance limit.

VicParks has also been told by more than one park operator that, while coverage could be obtained, they could expect a premium increase of between 300 and 600%. In another case, where property cover had been denied due to being located in a bushfire prone area, the operator advised that he had been given five days' notice by his broker that he would be left uninsured. The same day he received an email from his bank seeking the renewal Certificate of Currency to maintain the operator's business loan.

In the latter case, the operator rang VicParks in a panic asking what could we do to help. While it is not this association's task to step in and find building/property cover for members, we felt obliged to make a call to another broker to see if he could help. That broker suggested that, while it was a long shot, he would approach his underwriter with the suggestion that they offer coverage with a \$1m excess, which, he estimated, would likely be a 500% increase on his current excess. Those negotiations are ongoing while the park operator remains uninsured.

Clearly, these circumstances are unsustainable and government is likely to need to step in and invest in finding common ground between an increasingly risk adverse insurance industry and desperate caravan park operators just wanting to run safe, viable businesses.

Public Liability Insurance

Victorian caravan parks have changed significantly over the past thirty years. Massive support from holiday makers has driven an enormous change in parks from being providers of space and simple amenities and accommodation in natural areas, to offering increasingly premium holiday experiences. On-site restaurants, swimming pools and spa/beauty facilities, pedal go karts, ropes courses, jumping pillows, water slides and more are common place throughout the Victorian industry.

Supporting this new market has been affordability. A five-star resort experience on a three-star budget has been a common refrain with the pricing model being driven by families requiring unique, quality experiences at affordable prices. That model has, historically, been supported by affordable insurance premiums.

This model is now under severe threat as insurance providers are increasingly reducing their risk appetite for including recreational activities that require public liability coverage and are deeming activities such as jumping pillows, water slides, tyre mazes and play centres as 'high risk'. Many insurance providers have sought refuge from the risk profile entirely, leaving a limited, increasingly uncompetitive marketplace of underwriters prepared to consider coverage.

This situation manifests itself most clearly when caravan park operators find themselves at the complete commercial discretion of underwriters who may choose to exclude specific activities from coverage, apply an enormous increase on premiums and/or the policy excess, or decide not to rewrite the business at all at the end of a contract period. Brokers are now having trouble encouraging insurers to even discuss a proposal. This is happening despite park operators having a "no claims" history.

VicParks holds the view that there is likely to be a net decrease in tourism product in the next one to three years as a result of the current predicament caravan park operators find themselves in at renewal. For those that are able to secure public liability insurance, it is very likely to be at the expense of the tourism experience as park operator's modify their offer at the insistence of insurance providers prepared to consider some risk.

For those told that public liability insurance will not be made available, sunk costs in infrastructure that improves the holiday marker experience will be lost and future park operator investment in the holiday experience will be reduced with a profound new disincentive to the provision of high-risk activities.

The holiday maker's experience is negatively impacted which reduces turnover and compromises the caravan park's position in a crowded tourism accommodation marketplace.

Australia's tourism industry is number one in the world for generating visitor expenditure yield. The foundation for this is the provision of a fabulous holiday experience at value for money rates. This has been achieved by a combination of federal and state health and safety regulation and a history of providing safe, high quality activity that meet the demands of the consumer and a supportive insurance industry that understood this marketplace.

VicParks supports operator/insurance provider relationships where the insurer gets to know the characteristics of each individual park and can make recommendations to underwriters based on individual park claims histories, risk management plans and unique risk profiles rather than general ones. In particular, outdoor recreation activities such as jumping pillows, playgrounds and water slides should be assessed as presenting a lower level of risk to other activities such as rock climbing and mechanical thrill rides offered in amusement parks and other "thrill park" settings.

To meet the needs of caravan park operators, insurance providers, and governments, business must be rewarded for investment in safe, quality customer experiences where assessable risk management approaches are audited and improved. Future relationships may need to include government so that risk profiles are individually assessed and that insurers are supported to provide premium and policy settings that achieve a satisfactory legal and financial outcome for park operators, a profitable outcome for insurance providers, and acceptable policy outcomes for government.

Case study – Multiple tourist and mixed tourist/resident caravan park operator in eastern Victoria

"For us, the major issue has been the unwillingness of insurers to offer coverage. Our public liability insurance premium has not materially increased, however we are retaining a much higher amount of risk, which, if we were to incur a major liability claim would severely hamper business cashflow.

"We have a major tourist park uninsured for property loss risks. Our broker proposed various coverage options and structures to the insurance market but there was no competition or appetite for the risk. We are yet to receive a price to cover this risk.

"Options for insurance buyers of risks deemed 'high' are limited. Accept the insurance market terms or, at the worst case, operate without insurance.

"Our broker is active in the industry and we are aware of parks going uninsured. Others have had to close some facilities and operations.

"There are few insurance markets willing to provide essential insurance cover for the industry, particularly parks in proximity to bushfire risk and/or children's activities deemed high hazard risk such as play centres, jump pads/cushions, go karts, ropes courses, inflatable water parks and tyre mazes.

"We currently do not have property insurance for one of our major tourist parks in Victoria which attracts many families due to bushfire proximity and these high hazard activities. This places over \$18 million worth of assets at risk.

"Our public liability insurance coverage deteriorated dramatically at renewal in June 2020. Whilst the premium did not increase materially the 'excess' has shifted from \$10k to >\$500k. Essentially we are now self-insuring for anything other than a catastrophic event."

Summary

Victorian caravan park operators have an enviable record of safe accommodation and outdoor recreation provision. While the risk profile of the industry is unchanged over the past two years, the risk appetite of a reducing number of insurers has changed significantly.

Increasingly, operators are finding property and public liability insurance coverage either unaffordable or not accessible with some parks operating without any coverage.

Both financiers and municipalities require adequate cover to protect their interests. The increasing volume of park operators unable to find property and/or public liability cover or cover that is affordable or adequate becomes, in turn, a major issue for those financiers and local governments who have to assess whether they subsidise coverage or accept that some assets will be uninsured assets.

Those parks that remain open will increasingly be forced to reduce the number of outdoor recreation options they offer to meet a very different, very stringent risk profile. This will impact the market perception of caravan parks who have spent the past thirty years investing in a high-quality customer experience at a family friendly price. That offer is now under real threat as brokers have difficulty even getting an insurer to discuss a viable proposal.

Park operators, who are fully regulated by relevant state and federal legislation and have enviable health and safety records, are not seeking to avoid their responsibility regarding public liability and natural disaster management. They are however seeking a consistent framework that ensures their significant investments and liability are able to be protected while securing appropriate profits for insurance providers. Specifically, operators require:

- I. Access to adequate policy coverage that clearly defines the provisions included;
- II. Guarantees that any coverage provided will not be revoked without consideration given to a operators needs to find additional insurance provisions;
- III. That coverage is available in the market and if not, the government will examine the creation of a mechanism to ensure operators remain insured.

In addition, we support the Ombudsman in exploring the following issues:

- (i) The current market conditions of policy provisions and their adequacy to tourism accommodation providers;
- (ii) Dispute resolution mechanisms and the timeliness of payouts;
- (iii) Insurance provision to businesses in areas prone to natural disasters and climate change;
- (iv) Current insurance coverage for low risk recreational activities and how it is applicable to accommodation providers;
- (v) The commercial relationship between insurer and insured party regarding risk mitigation, unfair fee hikes and imbalanced policy amendments.

While this inquiry is timely, the Ombudsman's recommendations cannot come quickly enough. The viability of much of the Victorian caravan park industry, the productiveness and return from the tourism sector more broadly, and the capacity to deliver on government regional development objectives is at stake.

We welcome the opportunity to discuss these issues and the inquiry in further detail with you.

Yours sincerely



Scott Parker
Chief Executive Officer

About the Victorian Caravan Parks Association (VicParks) and the Victorian caravan park industry

Formed in 1964, the Victorian Caravan Parks Association (VicParks) is the peak industry body for owners, managers and lessees of caravan parks in Victoria. The association has 390 Victorian caravan park members who are mostly regionally based.

The industry forms an important component in the supply of both regional tourism and regional residential accommodation.

Caravan parks hold more than 54% of all accommodation capacity in Victoria with VicParks members employing around 2,500 staff in regional locations.

The commercial caravan holiday park industry accounts for approximately 12% of accommodation industry revenue overall.

The Victorian caravan park industry is estimated to contribute nearly \$500 million in revenue and \$2.2 billion overall to the Victorian economy.