



**Small Business
Development Corporation**

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Committee Secretary
Select Committee on the Impact of Climate Risk on Insurance Premiums and
Availability
PO Box 6100
Parliament House
Canberra ACT 2600

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Dear Committee Secretary

IMPACT OF CLIMATE RISK ON INSURANCE PREMIUMS AND AVAILABILITY

Thank you for the opportunity to comment on the Impact of Climate Risk on Insurance Premiums and Availability Inquiry (the **Inquiry**).

The Small Business Development Corporation (**SBDC**) is an independent statutory authority of the Government of Western Australia (**WA**), established to support and facilitate the growth and development of small businesses in the State¹.

Under the leadership of the WA Small Business Commissioner, the SBDC provides a range of services to assist and empower small business operators in the State when they are making crucial decisions over the course of their business lifecycle, and when they are faced with uncertainty or unfairness in their business, particularly when dealing with another party.

These services are tiered based on the level of support needed, and include:

- information and guidance through online channels (including the SBDC's website), workshops, business advice and outreach services;
- dispute resolution service, which includes pre-mediation case management and mediation if required; and
- through the Investigations and Inquiry Unit, the SBDC can examine behaviour negatively impacting on the commercial interests of small businesses, particularly when there is a power imbalance between parties.

Through these various touchpoints with small businesses, along with regular engagement with small business and industry representatives, the SBDC is able to monitor the WA small business landscape and constructively contribute to government

¹ The views presented here are those of the SBDC and not necessarily those of the WA Government.

and parliamentary reviews and policy development. To that end, the SBDC's feedback on the Inquiry follows.

In line with the Inquiry's terms of reference, this submission will focus on the WA small business perspectives on the following matters:

- (a) the unaffordability of insurance in some regions due to climate-driven disasters;
- (c) the underlying causes and impacts of increases in insurance premiums; and
- (f) the role of governments to implement climate adaptation and resilience measures to reduce risks and the cost of insurance.

When considering the small business perspective in Western Australia, the size and geographic diversity of the state needs to be recognised. About one third of the nation's landmass, Western Australia covers 2.5 million square kilometres and is home to 2,905,922 people (see Figure 1). It is a state of extremes and distance, to drive from Albany in the Great Southern to Kununurra in the Kimberley would take about 36 hours. A product of the vastness of the State is limited insurance providers in regional areas², reducing options for businesses.

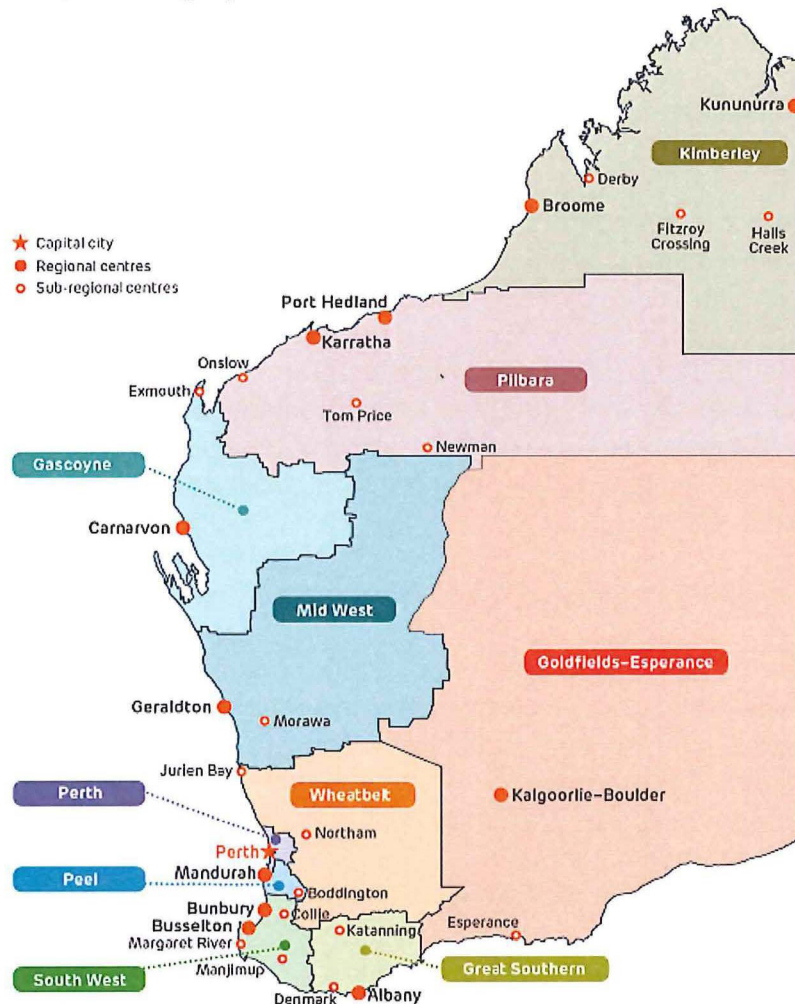


Figure 1. Regions of Western Australia³.

² Broome Chamber (Kimberley region), email communication, 18 June 2024.

³ 'Foundations for a Stronger Tomorrow, State Infrastructure Strategy', 2022, Infrastructure Western Australia.

The vast state experiences diverse weather extremes, with the northern regions prone to cyclones and wet season flooding, while the southern areas contend with intense storms and bushfires during the hot, dry summers. With the progression of climate change, there could be increasing frequency and intensity of extreme weather events. As sea levels continue to rise, coastal towns and businesses will face mounting challenges and impacts as much of WA is settled along the coastline.

To provide a Western Australian and small business context, the Australian Bureau of Statistics reports that there were 238,907 actively trading small businesses in WA as at 30 June 2023⁴, making up 96.9 per cent of all businesses in the State. Nearly two thirds (62.8 per cent) of all businesses in WA are non-employing. Over three quarters (76 per cent) of all businesses in WA are based in the Perth metropolitan area. The largest industries for small businesses in WA are:

- Construction (41,745 small businesses, 16.9 per cent of all small businesses)
- Professional, Scientific and Technical Services (30,841, 12.5 per cent)
- Rental, Hiring and Real Estate Services (27,402, 11.1 per cent)
- Transport, Postal and Warehousing (22,156, 9 per cent)
- Health Care and Social Assistance (16,546, 6.7 per cent)
- Agriculture, Forestry and Fishing (15,892, 6.4 per cent).

Insurance protection is a critical requirement for small businesses, it transfers the risk from the business to the insurer and if uncontrollable events happen, the business will receive compensation and financial support allowing for recovery from the uncontrollable event⁵. For some industries, insurance is a mandatory requirement for trade with government. For example, in 2022 the SBDC advisory team received a query from a freelance writer regarding a WA government department withholding payment until the contractor had current professional indemnity insurance.

Compounding the issue is inconsistency in insurance requirements required by government entities. In 2021, the SBDC Investigations and Inquiry Unit researched the insurance requirements sought by different WA local governments on potential contractors. The team observed that the minimum required level of professional indemnity insurance ranged from \$1 million to \$10 million, and the minimum required level of public and product liability insurance ranged from \$10 million to \$20 million. This can result in a business being overinsured to work for one local government while meeting requirements of another (possibly neighbouring) local government.

An additional complexity of professional indemnity insurance policies is that they typically operate on a claims made basis rather than claims incurred/occurrence basis. This makes it necessary for businesses to maintain active coverage even after completing past work, as any potential claim arising from that prior work requires a current policy to be in force at the time of claim notification. Therefore, small businesses could bear the burden of high premium costs to retain coverage for historical projects.

⁴ Australian Bureau of Statistics 2024, *Counts of Australian Businesses, including Entries and Exits*, cat. no. 8165.0 ABS.

⁵ *Role of the Private Insurance Market –Independent Strategic Review: Commercial Insurance, 2021*, Insurance Council of Australia.

Small businesses use several types of insurance. In a survey of 400 Australian participants, it was found that around 70 per cent of Small and Medium Enterprises (**SMEs**) purchase three to five types of insurance⁶. The most common were business property, business interruption and public liability. The spread of the types of insurance varies between industries, for example 58 per cent of construction and transport companies have public liability insurance while 44 per cent of technology companies hold cyber insurance⁷.

Small businesses are the most likely to be severely affected by disaster⁸. Recovery can be hampered by financial loss (as reported by 65 per cent of small businesses with 1-5 employees), property damage and disrupted utilities (especially in regional areas)⁹. In WA after the floods that occurred following Ex-Tropical Cyclone Ellie (2022-2023), the Department of Fire and Emergency Services (**DFES**) reported an increase of at least 75 per cent cost of freight to most businesses (80 per cent)¹⁰. In tourism-reliant towns that have suffered from a natural disaster, small businesses may also suffer from reduced income related to the reputational damage to the region, with significant effort required to re-attract visitors to the area.

After a natural disaster, insurance payouts are a critical enabler in assisting affected economies and small businesses recover and return to a previous degree of economic activity¹¹. The sooner impacted businesses re-open, the sooner employment and supply of goods can occur in the area. Although even with some level of insurance cover, many businesses are at a loss following extreme weather events. This can occur when some items (often plant and equipment) are excluded from the cover, or when particular hazards (e.g. flood) are excluded, when the sum insured is less than costs incurred or when there is a large excess in relation to the cover. For example, it is reported that a business severely impacted by the Bunbury storms in May 2024 has an excess of \$200,000 due to a previous claim following a fire. Recovery can be hampered by unexpected and high costs.

Even when businesses impacted by disaster are covered by insurance, it is the reality that insurance does not cover all the costs required for recovery. In these instances, it is often the case that governments are required to assist these communities. This was the case in 2021 and 2023 when the WA Government provided grants (administered by the SBDC) to assist SMEs directly impacted by Severe Tropical Cyclone Seroja (2021) ex-Tropical Cyclone Ellie and Tropical Cyclone Ilsa (2023) with reimbursement of clean-up and reinstatement activities not covered by insurance¹². These recovery grant funding programs had a capped value, designed to assist with immediate out of pocket costs to re-open businesses and were not a substitution for insurance. The

⁶ *The future of small business insurance — what do customers want? Perspectives from Australia*, 2022, Deloitte.

⁷ *Ibid.*

⁸ *Small Business Natural Disaster Preparedness and Resilience Inquiry*, 2022, Australian Small Business and Family Enterprise Ombudsman, surveyed more than 2,000 responses businesses with 1-5 employees including sole traders, with 6-20 employees, and with 21-99 employees.

⁹ *Ibid.*

¹⁰ *Kimberley Floods State Recovery and Resilience Plan 2023-2024*, DFES.

¹¹ *'The backbone of regional and rural economies: Small business and community resilience'*, 2021, report prepared for IAG by SGS Economics & Planning.

¹² Not to meet costs that can be claimed under insurance or to replace lost income.

grants recognised the importance of re-opening local businesses for the overall recovery of the community.

It is widely recognised that extreme weather events could occur more frequently with climate change, and in underprepared areas. In April 2021, Severe Tropical Cyclone (STC) Seroja impacted over four towns and communities. Starting in Kalbarri (Midwest region), in 10 hours STC Seroja moved through approximately 600km of land and became a tropical low near Merredin (Wheatbelt region). STC Seroja went through areas in WA that were not rated as cyclonic wind regions, resulting in damage to infrastructure not built to withstand cyclones¹³. As the weather becomes more unpredictable, small businesses may bear more risk by being underinsured or higher premiums and potentially be overinsured.

In WA, the cost of doing business, including insurance, is impacting business confidence. According to the March 2024 Chamber of Commerce and Industry WA (CCIWA) *Business Confidence Survey*¹⁴, the increasing cost of doing business remains the primary factor negatively impacting business confidence (84 per cent) in WA. Cost pressure was reported by 71 per cent of those surveyed as a barrier to growth. Both the Broome Chamber of Commerce and Industry and the Wheatbelt Business Network commented on the rising insurance costs impacting business operations. This is a timely inquiry regarding one of the many pressure points on small businesses in WA.

As insurance is such a significant issue for small businesses, the Australian Small Business and Family Enterprise Ombudsman's Office (ASBFEO) has directed considerable resources towards it. Over the last few years, ASBFEO researched and produced *Insurance Inquiry Report December 2020*, *The Show Must Go On* (2021), and *Small Business Natural Disaster Preparedness and Resilience Inquiry* (2022). Earlier this year, Bruce Billson, the Small Business and Family Enterprise Ombudsman, argued there is an insurance crisis, that businesses have closed due to high cost/unavailable premiums and pleaded with the insurance sector to help small businesses with insurance solutions.

The unaffordability of insurance in some regions due to climate-driven disasters

Climate change and extreme weather events are increasing insurance costs across the state, especially for regional businesses. The Broome Chamber of Commerce and Industry (Kimberley region)¹⁵ reported an increase in expenses, including insurance, as being drivers for businesses closing or people moving away from the area. The Wheatbelt Business Network¹⁶ expressed its concern about businesses experiencing growing financial strain (including due to insurance premiums) which is squeezing profit margins to a point where some businesses are contemplating the viability of their future operations.

In the Margaret River area (Southwest region), a caravan park owner stated that since the 2011 bushfire, his insurance premiums had gone up almost 40 per cent to \$70,000

¹³ *Severe Tropical Cyclone Seroja April-May 2021*, DFES.

¹⁴ <https://cciwa.com/wp-content/uploads/2024/03/0324-Business-Confidence-March-2024.pdf>

¹⁵ Broome Chamber (Kimberley region), email communication, 18 June 2024.

¹⁶ Wheatbelt Business Network, email communication, 20 June 2024.

a year¹⁷. Northern WA, an area prone to cyclones, had the average national premium for small business building and contents insurance in 2022-23 at \$6,287, an increase of 22 per cent on 2021-22¹⁸. Two towns in the Pilbara region of WA had the highest median premiums nationally for SMEs in 2022-23, Karratha (\$1,255), Port Hedland (\$1,030)¹⁹. The City of Karratha stated that small businesses in the area were individually paying more than \$60,000 in insurance every year²⁰.

Small businesses are central to vibrant thriving towns – they provide jobs, essential services and support their local communities. In regional towns already grappling with high rents, the added pressure of escalating insurance costs will likely force businesses to pass these costs onto customers that are already struggling with cost-of-living pressures. It is a stark reality that these high overheads could become a driver for the closure of many small businesses, which in turn can result in disruption of services for residents and loss of employment opportunities in the local market.

The underlying causes and impacts of increases in insurance premiums

Several factors have led to the increase in insurance premiums. Due to a hardening of the market internationally, premiums in a range of insurance classes have been escalating while some products have been withdrawn. Along with the global hardening, there are changes to the national insurance market. The Insurance Council of Australia represents general insurers and reinsurers across Australia and reported a change to SME insurance as Lloyd's syndicates, significant suppliers of liability capacity to the Australian SME market, have withdrawn due to losses both inside and outside Australia²¹. Additionally, the ASBFEO found that self-regulation has failed, with the insurance industry's service and practice standards set by voluntary codes of practice (the General Insurance Code of Practice and Insurance Brokers Code of Practice) and which are rarely enforced and not taken seriously by industry²².

The lack of public liability insurance from several providers was due to an increase in Australia of litigation and the unpredictability of civil liability damages²³. The cost of public liability cover has risen sharply or been withdrawn completely for small businesses involved in a range of industries, including building trades and professional services firms (building surveyors and structural engineers), security and crowd control services, entertainment venues, adventure tourism, and amusement, leisure, and recreation activities.

However, the global and economic factors causing premiums to rise is seemingly in a manner that is inconsistent with a risk in a particular country or region. The SBDC is aware of premium increases within industries such as adventure tourism forcing

¹⁷ ['WA residents struggle to pay rising insurance premiums amid extreme weather events'](#), 8 August 2023, ABC Radio Perth.

¹⁸ *Australian Competition and Consumer Commission Insurance monitoring report, 2023.*

¹⁹ *Ibid.*

²⁰ ['City calls on State and Federal to address insurance costs'](#), 21 December 2023, City of Karratha.

²¹ *Role of the Private Insurance Market –Independent Strategic Review: Commercial Insurance, 2021, Insurance Council of Australia.*

²² [Insurance Inquiry Report](#), 2020, Australian Small Business and Family Enterprise Ombudsman.

²³ *Ibid.*

businesses to close²⁴; or in regional towns where the rationale for the increase is inconsistent with the actual insured risk within that particular business or location.

In May 2020, the SBDC received several reports involving the increase in the cost and availability of public liability and professional indemnity insurance. In particular, a jet-boat operator in the Southwest region approached four different brokers who covered 30 insurers that declined to offer public liability insurance quotes due to the high-risk nature of the jet boat tour. While the business was eventually able to secure insurance through QBE, the time spent seeking insurance, and the stress associated with this uncertainty and potential business closure cannot be understated. While the operator did not disclose to the SBDC the amount he had to pay to secure this insurance, it could be assumed he paid a significant amount which would have inevitably impacted on the viability of the business.

In 2020, the SBDC received a complaint from a small business owner operating in the amusement industry regarding a year-on-year increase in premiums for public liability insurance from \$4,000 to \$22,000²⁵. In addition to these increases, the insurance product being offered did not extend to previously covered business activities. As a consequence, the business owner was no longer able to operate his business at the Perth Royal Show or on local government land as he was required to produce a certificate confirming currency of public liability insurance. In late 2023, Albany Indoor Adventures (in the Great Southern region) closed as numerous insurance providers declined to cover the business' ninja course²⁶. Although Albany Indoor Adventures has insurance cover for the rock climbing and playground components of the business, it was not viable for the business to operate without the ninja component, and so has closed.

In relation to premium increases related to severe weather events, anecdotally the SBDC has heard that after a cyclone hit the regional town of Kalbarri (Midwest region) where infrastructure is not built to withstand cyclones, premiums were also increased over 1,000 km away in Karratha and Port Hedland (Pilbara region). This is despite building standards in Karratha and Port Hedland requiring buildings to be constructed to withstand cyclonic conditions, which meant that in reality, the risk was much lower than the insurers have determined.

The role of governments to implement climate adaptation and resilience measures to reduce risks and the cost of insurance

WA is approaching climate adaptation and resilience in multiple ways. In 2021, noting the significance of Environment, Social and Governance (ESG) responsibilities the WA Government released *Supporting Continuous Improvement in ESG Outcomes for Western Australia*, committing to achieve the Paris Agreement objective of net zero emissions by 2050. The 2023 *Climate Adaptation Strategy* sets ambitious targets to reduce emissions and create green energy infrastructure for the WA Government. It includes emissions reduction, water conservation, adaptation (flood protection,

²⁴ 'Adventure tourism operators shutting down amid insurance refusals', ABC Midwest & Wheatbelt, 10 June 2020.

²⁵ 'Perth Royal Show 2021: Fears Sideshow Alley could go without biggest attractions because of 'insurance crisis', *The West Australian*, 26 May 2021.

²⁶ 'Soaring insurance costs force Albany Indoor Adventures closure just weeks ahead of busy school-holiday period', *Albany Advertiser*, 28 November 2023.

infrastructure upgrades, disaster management and business continuity) to build a more resilient state. For SMEs, the Department of Jobs, Tourism, Science and Innovation are developing information, tools and resources to help SMEs adapt to climate change.

This submission lists two different types of measures to address the cost of insurance. The first, a reinsurance pool, is in progress and the second, a discretionary mutual fund, has been proposed but not yet acted upon.

A cyclone and related flood damage reinsurance pool (**the pool**) was established in 2022 in response to higher risk of cyclones in northern Australia to assist in reducing the cost of reinsurance²⁷. The Australian Competition and Consumer Commission (**ACCC**) is monitoring the impact of the pool over a five-year period and reporting on this publicly. In the latest report, the ACCC indicates that the premiums remain significantly higher in WA than other states. In 2022-23, for SMEs, the highest median premiums were in Karratha (\$1,255), Port Hedland (\$1,030) (both in the Pilbara region) and Darwin (\$675), while Sydney, Melbourne and Perth ranged from \$262 to \$384. The pool is in transition and as more insurers join the pool the premiums may decrease for 2023-24. The SBDC is hopeful that the pool will complete the transition phase and premiums decrease accordingly.

There have been varying calls for governments to take on the role of insurer in response to instances of market failure and provide an insurance scheme of last resort. A discretionary mutual fund to navigate high insurance premiums and insurance availability was outlined in a report by ASBFEO. After reviewing the insurance crisis facing Australia's amusement, leisure and recreation sector ASBFEO released *The Show Must Go On* report in December 2021. The report supported a recommendation from the Australian Amusement, Leisure and Recreations Association regarding the establishment of a Discretionary Mutual Fund (**DMF**) for the sector as appropriate risk cover in place of public liability insurance. The DMF would address the critical need for risk protection to enable the sector to remain operational. The DMF proposal includes the Federal Government providing loan funding of up to \$5 million as seed capital towards the establishment of the DMF, with the aim of establishing the fund three to six months later. The report also identified that legislative reform would be required by all states and territories to recognise a Certificate of Protection offered through a DMF as appropriate risk cover for licensing requirements.

The Commonwealth Government has yet to act on the report's recommendations for a discretionary mutual fund. However, highlighting the prevalence of rising insurance premiums due to climate change, is the establishment in May 2024 of the Federal Government Insurance Affordability and Natural Hazards Risk Reduction Taskforce. The taskforce will address both minimising natural risk hazards as well as address near-term solutions to improve affordability.

²⁷ [Treasury Laws Amendment \(Cyclone and Flood Damage Reinsurance Pool\) Bill 2022.](#)

Concluding remarks

Increasing insurance premiums are impacting small businesses in Western Australia, not only as an expense of doing business but also as a necessity to do business. Increased premiums have been experienced by small businesses in regional areas that are exposed to extreme weather events and is contributing to business uncertainty and closure. The SBDC acknowledges the timeliness of this Inquiry and welcomes any recommendations that seek to make insurance more accessible and affordable for the state's small business sector.

Thank you for the opportunity to provide comments to this inquiry. If you would like to discuss this submission in more detail, please contact

Yours sincerely

David Eaton PSM
Small Business Commissioner

27 June 2024