

INSURANCE INQUIRY

CCIQ Advocacy



CCIQ Powering
business
potential



1.0 Introduction

1. The Chamber of Commerce and Industry Queensland (CCIQ) welcomes the opportunity to participate in the Inquiry into the Australian Small Business and Family Enterprise Ombudsman Insurance Inquiry.
2. CCIQ is Queensland's peak industry representative organisation for small and medium businesses. We represent over 448,000 Queensland small and medium businesses who employ 68% of Queenslanders working in the private sector, and account for 56% of economic productivity (gross value added).
3. CCIQ works with the chamber network across Queensland to develop and advocate for policies that are in the best interests of Queensland businesses, the Queensland economy, and the Queensland community.
4. The cost of rising insurance premiums has emerged as a major constraint on businesses in Queensland. CCIQ has been alerted to growing concerns regarding soaring costs of insurance premiums, particularly in North Queensland, Far North Queensland and South West Queensland following natural disaster events.
5. Escalating insurance costs are leading to concerns that some businesses may be forced to inadequately protect their assets by under-insuring or foregoing insurance altogether.

Key Reports for Reference:

- CCIQ, *Queensland Business Insurance Report*, July 2014 ([Link](#))
- ICA, *Non-Insurance in the Small to Medium Sized Enterprise Sector*, July 2015 ([Link](#))
- ACCC, *Northern Australia Insurance Inquiry, Second Interim Report*, November 2019 ([Link](#))

2.0 Affordability

6. Insurance premiums in Queensland have skyrocketed following consecutive natural disaster events over the past decade, as well as the most recent health crisis. Especially for the Northern regions of Queensland, businesses are struggling to cope with the affordability of insurance following a large volume of claims resulted by tropical cyclones, flooding, fire and more.
7. Several consequences arise following periods of voluminous insurance claims being made. These include:

- i. Insurance companies' reinsurance prices escalate to cover the costs of their risk
 - ii. Insurance companies spreading the cost of paying out claims across their customer base
8. These factors jeopardise high risk insurance customers as low risk insurance customers seek to cancel insurance coverage altogether, reducing the overall customer base. These outcomes are clearly evident in Queensland at present.

Key Finding (1): Insurance Cost of Natural Disasters in Queensland (2010-2020)¹

Year	Event	Insurance Cost
2010-11	Queensland Floods	\$2.38 billion
2011	Cyclone Yasi	\$1.41 billion
2013	Cyclone Oswald	\$1.10 billion
2017	Cyclone Debbie	\$1.57 billion ²
2018	Central Queensland Bushfires	Not quantified
2019	North Queensland Monsoonal Trough	\$1.24 billion
2019	Tropical Cyclone Trevor	Not quantified
2019	Southern Queensland Bushfires	Not yet quantified
2020	Novel Coronavirus (COVID-19)	Not yet quantified

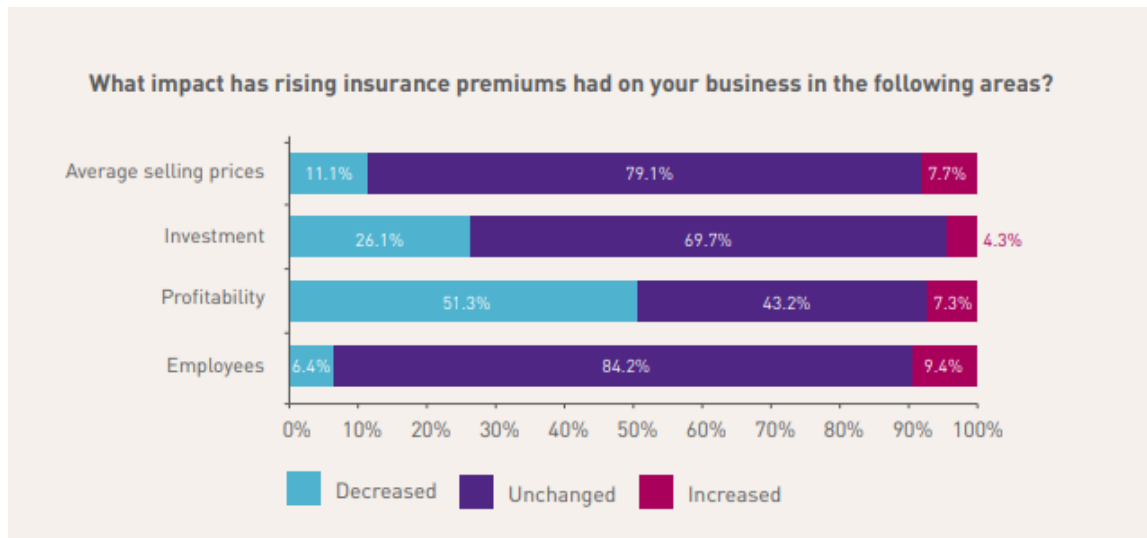
9. Insurance premium 'creep' has now become a state-wide issue. From the most recent CCIQ survey on Queensland Insurance, the average businesses reported that insurance costs made up 5.74 per cent of their overall operating costs.

Key Finding (2): Impact of Insurance Premium Creep³

¹ Australian Disaster Resilience Knowledge Hub, [Link](#).

² Insurance Council of Australia, *\$1 billion paid in Cyclone Debbie Insurance Claims*, November 2017.

³ CCIQ, *Queensland Business Insurance Report*, July 2014 ([Link](#))



10. A number of issues have impacted the Australian insurance industry, including:
- i. Insurance companies operating costs and profit margins
 - ii. The overall cost to an insurance organisation of paying out claims to its customers including impact of recent natural disasters
 - Indicators from Queensland businesses are that their premiums have either increased directly as a result of natural disasters and their claims history, or indirectly as insurance companies recover costs or spread risk across other policy holders through cross subsidisation. To cover off on these costs, insurers look to increase premiums to recover their expenses. Unfortunately, Queensland will always be naturally prone to floods and cyclones and as such it is imperative that business owners continue to be supplied with adequate and affordable means of protecting their assets in these circumstances.
 - iii. The cost of re-insurance or underwriting
 - Reinsurance is the transfer of risk from an insurance company to a reinsurer. This will occur when Insurance companies face large exposures that cannot be entirely supported by their own capital (required underwriting).
 - Any increases in reinsurance costs that cannot be absorbed by insurance companies will ultimately be passed on to consumers in the form of higher premiums.
 - iv. Market failure through lack of competition
 - There have been a number of reports that insurers have exited the market particularly in North Queensland and Far North Queensland, leading to a lack of competition between insurance companies.
 - v. State Government stamp duties on insurance
 - Queenslanders have felt further pressures resulting from the State Government's increases in stamp duty on insurance in the 2013-14 State Budget which saw the rate of duty applicable to insurance premiums for Class 1 and 2 (motor vehicles, professional indemnity

and directors and officers) increase to 9% of the premium paid (including GST)

- CCIQ believes that these taxes are inefficient and unfair, representing a tax on smart business decisions

11. Consistently, insurance premium costs rank highly for Queensland businesses as a constraint on growth. The costs stemming from insurance ranked as the third greatest constraint from the list of 20 for each quarter during the 2019-20 financial year.

Key Finding (3): CCIQ Pulse Survey Constraints Index

'Insurance Premium Costs'	Quarter	Ranking (/20)	Constraints Index ⁴
2020	June	3	51.5
	March	3	54.4
2019	December	3	57.6
	September	3	58.7
	June	6	54.3
	March	3	55.9

Key Quotes: June Quarter Pulse Survey 2020

“In FNQ, insurance costs are a huge burden.” – Far North Queensland

“Insurance premiums in Far North Queensland are horrendously expensive.” – Far North Queensland

“There have been massive insurance increases with no relief in sight.” – North Queensland

“Public liability is turning our industry into a spectator sport, our ability to provide activities for guests are being locked out by inability to get PL insurance.” – Gold Coast

3.0 Underinsurance

12. Businesses have experienced detrimental impacts in a number of areas as a direct result of rising insurance premiums. Many businesses note their inability to pass these costs on to the consumer, particularly those engaged in competitive markets. Accordingly, many have had to absorb the increases themselves, leading to lower profitability and risk seeking activities such as underinsurance or no insurance at all.

⁴ Degree of Constraint Index: 0-20 (no constraint); 21-40 (slight constraint); 41-60 (moderate constraint); 61-80 (large constraint); 81-100 (critical constraint)

13. Findings from the latest report on non-insurance in the SME sector (ICA Report)⁵, flag the following:
- i. Sole traders have the highest rate of non-insurance at 24%, while small businesses operating from home had a rate of non-insurance of 21%
 - ii. Around 10% of small businesses admit to being underinsured with respect to the value of their business assets citing reasons such as:
 - “too busy to arrange”
 - “Too expensive”
 - “Risk too low/ not worth it”

Case Study: AAA Consulting – Access to insurance in regional Queensland

- AAA Consulting delivers consulting services to SMEs across Far and North Queensland
- Witnessed a trend of rapidly growing insurance premium costs, likely related to insurance companies’ perception of risk; especially concerning natural disasters
 - i. E.g. Located in Townsville, the company have watched their own insurance grow by more than 100%; an issue that is more easily absorbed by established businesses such as their own, but not so easily for a significant proportion of the sole and micro businesses they service
- Work closely with insurance brokers that often stress supply constraints for many forms of business insurance such as public indemnity as an example
- Lack of insurance options and competition has been seen to result in two issues for small businesses:
 - i. Risk seeking – Businesses opting to self-insure or operate uninsured
 - ii. Compulsory demand inelasticity – Businesses forced to accept high prices due to limited supply
- Limited access to insurance impacts businesses ability to borrow, with many lending contracts requiring a certificate of currency for secured assets
- Absence of private sector activity may necessitate changes to the legislative framework underpinning insurance sector, or public provision of insurance/ underwriting

4.0 Availability and Coverage

Case Study: Pioneer Adventure – Adventure Tourism

- Adventure tourism operators, mainly jet boating, horse riding and quad bike tours, are facing challenges with public liability insurance

⁵ ICA, *Non-Insurance in the Small to Medium Sized Enterprise Sector*, July 2015.
375 Wickham Terrace, Spring Hill, QLD, 4000
(P) 1300 731 988
(E) cciqadvocacy@cciq.com.au

- Insurance companies have withdrawn from this market, meaning that businesses will be unable to re-insure for public liability for these activities
- Once existing policies cease, businesses exposed to these activities will be forced to self-insure for public liability
- Businesses are now looking to the government for assistance
- Businesses have proposed a review of overseas jurisdictions such as New Zealand which hosts a large adventure tourism industry

Case Study: Austcover – Insurance Cycle

- Insurance premium costs and coverage for select business risks have been related to the ‘insurance cycle’
 - i. Relates to the economic forces of competitive markets
 - ii. When companies withdraw from specific regions or risks, the lack of competition will drive up the price and decrease the availability of insurance
 - iii. Over time, companies may decide to re-enter the market due to profitability incentives
- Problems concerning the adequacy of insurance coverage often arise at the procurement phase where there is a lack of clear guidance concerning insurable risk
- Insurance products evolve alongside market trends and demand

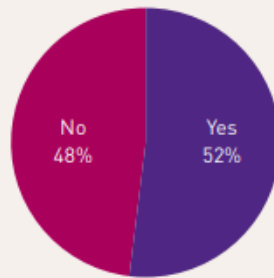
5.0 Insurance Payouts and Dispute Resolution

14. The ICA Report found that the average number of claims by SMEs in 2014-15 was 1.9 per business. The average claim size was \$6,764.
15. The latest CCIQ inquiry into business insurance found that of the 52 per cent of respondents that made a claim on their insurance in the past 5 years (2009-2014), many noted that there was significant room for improvement in the performance of insurance companies during the claims process. 43.1 per cent of businesses reported having a very poor to average experience with their insurance company while making a claim. Otherwise, 56.9 per cent were pleased with the claims process.

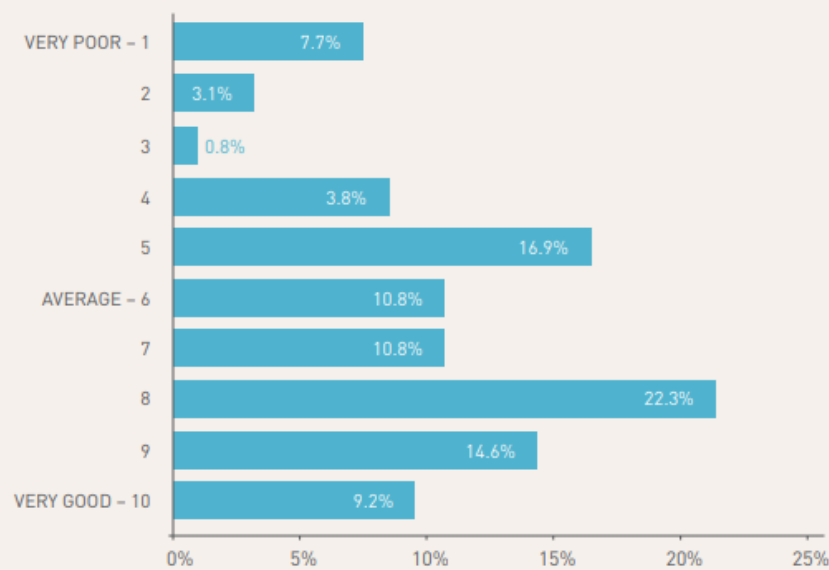
Key Finding (4): Insurance claims and satisfaction⁶

⁶ CCIQ, *Queensland Business Insurance Report*, July 2014 ([Link](#))
 375 Wickham Terrace, Spring Hill, QLD, 4000
 (P) 1300 731 988
 (E) cciqadvocacy@cciq.com.au

Have you made a claim on your insurance in the past five years?



On a scale from 1 - 10, how positive was your experience in making the claim with your insurer



16. Empirical evidence suggest that Australia's common law legal system and strong dispute resolution upholds the fairness of insurance payouts.

6.0 Role of Brokers

17. The ICA Report presented data that 70% of SMEs indicated that they purchased insurance via a broker while 21% purchased directly from a company.
18. Trust in the broker industry was seen to fall following the Financial Services Royal Commission (2018-19). CCIQ upholds the view that brokers play an instrumental role in maintaining market competition, and that unconscionable behaviour should be penalised to maintain trust in the industry.

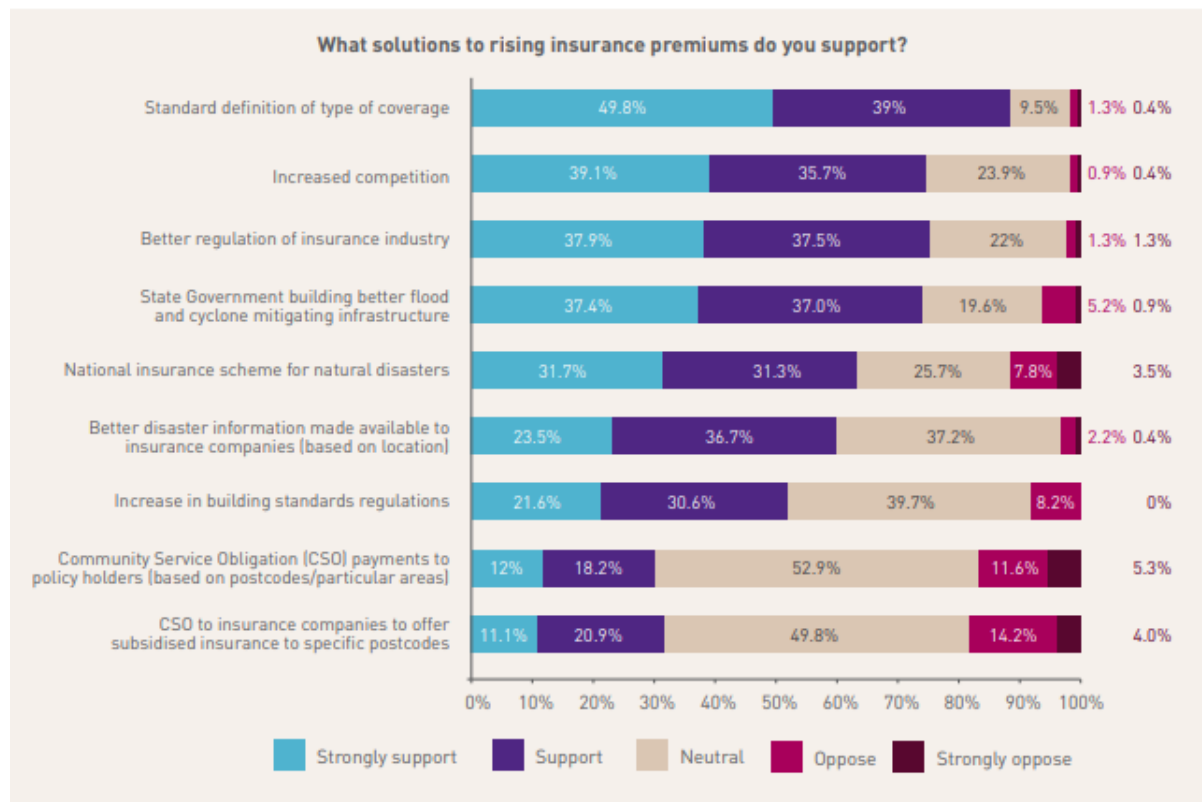
19. Brokers are viewed to be instrumental in breaking down information asymmetries between insurance providers and business customers.
20. Brokers have a more detailed understand of business specific exposures such as industry sector or location.
21. Brokers save businesses time and money by sourcing and negotiating appropriate insurance contracts, as well as handling claims processes.
22. Brokers assist in increasing market competition by:
 - i. Sourcing the most affordable or appropriate contracts
 - ii. Product bundling
23. Brokers are legislated to act in the best interest of their client.

7.0 CCIQ Recommendations

24. *Standard definition and terms for all policies* - Significant changes have occurred to enact regulation to introduce a standard definition of 'flood' in insurance contracts. CCIQ would like to see these changes expanded to include other risks universally defined within policy documents and terms to avoid confusion with the consumer.
25. *Prioritising disaster mitigation infrastructure* – Mitigant infrastructure continue to be prioritised and rolled out, especially in regions that are historically more prone to natural disaster. Fast tracked construction works would also assist in the recovery from COVID-19 in regional Queensland.
26. *Reduction or removal of stamp duty on insurance* - Taxes on insurance in Queensland are inequitable and are actively discouraging businesses from adequately protecting their assets with appropriate insurance. CCIQ recommends that these taxes be removed or significantly reduced.
27. *Improved legislative frameworks* - There must be a stronger emphasis on more efficient industry regulation. This includes improving disclosure documents to assist in dealing with information asymmetries to prevent misperceptions or misunderstandings among the owners of insurable risks. CCIQ also acknowledges that the actions of insurers and reinsurers reflects the policy environment which they operate in. It is necessary that Australia look to other jurisdictions to adopt policy frameworks that result in more efficient outcomes.

28. *Allowing foreign insurance companies to enter the market* - There has been an element of market failure in North Queensland and a lack of competition assisting to keep costs down. Allowing foreign insurance companies to enter the market will provide relief to customers through promoting robust market competition.
29. *Defined settlement times for insurance claims* - Insurance companies must provide clear settlement time frames to help improve customer experience with making claims on their insurance.
30. *Break down information asymmetries between insurance providers and customers* - Ensure that insurance companies are transparent in disclosing premium costs for standardised risk. Not only should insurance companies be required to improve transparency on their own platforms, the Federal government must also consider a national insurance comparison website.

Key Finding (5): Support for solutions to rising insurance premiums



8.0 Conclusion

CCIQ thanks the Australian Small Business and Family Enterprise Ombudsman for the opportunity to provide commentary on insurance issues facing SMEs. If there are any questions in relation to the submission, please contact Jack Baxter (Policy Advisor) at jbaxter@cciq.com.au.