

The Australian Industry Group

# Business Insurance: Unaffordable or Unavailable?



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## About Australian Industry Group

The Australian Industry Group (Ai Group) is a peak national employer organisation representing traditional, innovative and emerging industry sectors. We have been acting on behalf of businesses across Australia for nearly 150 years.

Ai Group is genuinely representative of Australian industry. Together with partner organisations we represent the interests of more than 60,000 businesses employing more than 1 million staff. Our members are small and large businesses in sectors including manufacturing, construction, engineering, transport & logistics, labour hire, mining services, the defence industry, civil airlines and ICT.

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## Introduction

Doing business involves navigating a myriad of risks which makes insurance (compulsory and non-compulsory) an essential element of a successful business. However, insurance appears to be worrying a growing number of Australian businesses.

Ai Group have heard from multiple companies of different sizes, sectors and regions that are facing some combination of steep premium increases and reductions in scope of coverage, or are unable to secure insurance at all.

Given these reports, Ai Group launched a small investigation into the prevalence, causes and impacts of these problems. The first step was a short member poll in September 2020, to identify whether insurance was a significant issue for businesses, and what problems they were encountering. This was followed by research into possible causes of the reported issues.

### Key findings

- More than half of businesses polled reported unusual trouble seeking insurance in the last 12 months.
- Unusually high premium growth was the most frequently reported problem faced by Australian businesses seeking insurance in the last 12 months.
- A concerning number of businesses are reporting that there is a general lack of insurance options. Because of this, some businesses reported paying an extremely high price, or not obtaining insurance at all.
- Local insurance problems are being driven by global factors.
- COVID-19 has not played a major role in current insurance difficulties, but may still cause concern into the future.

This report finds that insurance is a pain point for many Australian businesses with most problems the result of complex global factors, rather than domestic drivers.

It is essential that we secure a competitive market environment where adequate and affordable insurance is within reach of all responsible businesses. Without insurance, it becomes nearly impossible to operate, and as we recover from the COVID-19 pandemic we need to seek to reduce costs and participation barriers for business. It is clear insurance is a growing concern for industry, and therefore it should be a growing concern for government too.

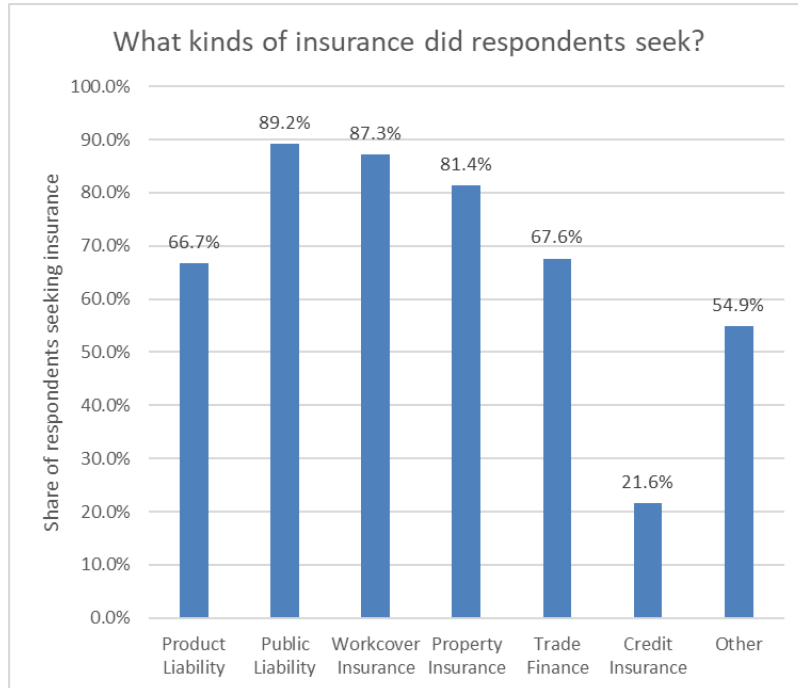
“[The] insurance market is now to the stage where you will have no choice but to be uninsured. [There is] simply no market to get a quote in some circumstances.”

– Ai Group member

## Poll Background

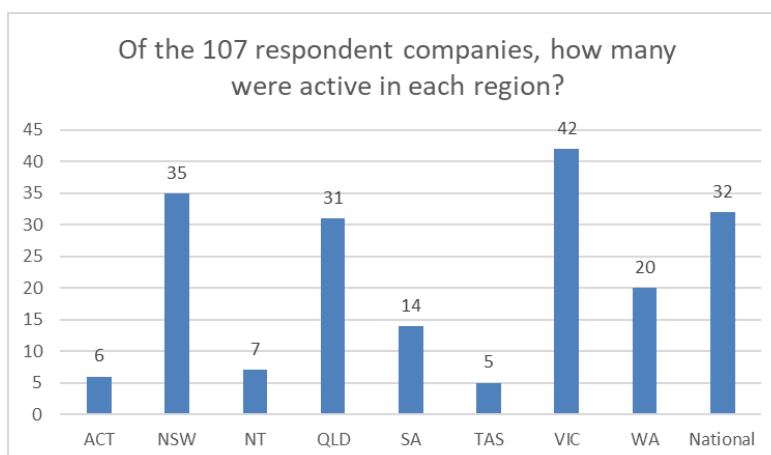
In September 2020, after numerous member reports regarding challenges in obtaining insurance, Ai Group conducted a member poll in order to identify whether insurance was a significant issue for businesses, and if so, what the key problems were.

Ai Group received 107 responses to the poll, with 95% of them reporting having sought insurance in the last twelve months. Our respondents were predominantly medium businesses (51%) with a similar rate of response between small businesses (29%) and large businesses (27%).<sup>1</sup>



Respondent businesses were active across Australia, though more were active in NSW, QLD and VIC. The prevalence of insurance problems did not differ significantly between States and Territories.

The most popular type of insurance sought among respondents was public liability (89.2%), followed closely by Workcover (87.3%) and property insurance (81.4%). At the lower end was credit insurance (21.6%), 'other' (54.9%) and product liability (66.7%).

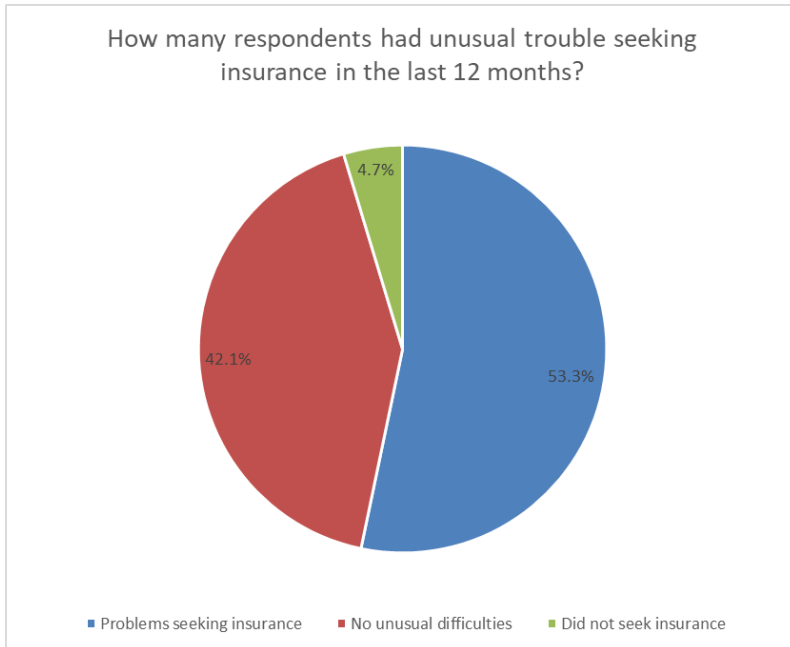


Note that Workcover, the second most commonly sought insurance type, can be handled by larger companies by applying for a license to manage their own losses for claims, as an alternative to paying premiums to a WorkCover Agent or insurer<sup>2</sup>. Several larger Ai Group members reported that they self-insure.

<sup>1</sup> Using the ABS definitions of small (<20 employees), medium (20-199 employees) and large (200+ employees) businesses.

<sup>2</sup> ['What is Self-Insurance?'](#) Gallagher Bassett

## Reported Problems



Over half (53.3%) of respondent businesses reported unusual trouble seeking insurance while 42.1% reported no problems. Just 4.7% reported that they did not seek insurance in the last twelve months.

The most commonly reported problem was high growth in premiums (reported by 55.6% of those businesses reporting any problems seeking insurance). The next most reported problem was 'other' (16%), followed by coverage being too limited (14.8%) and

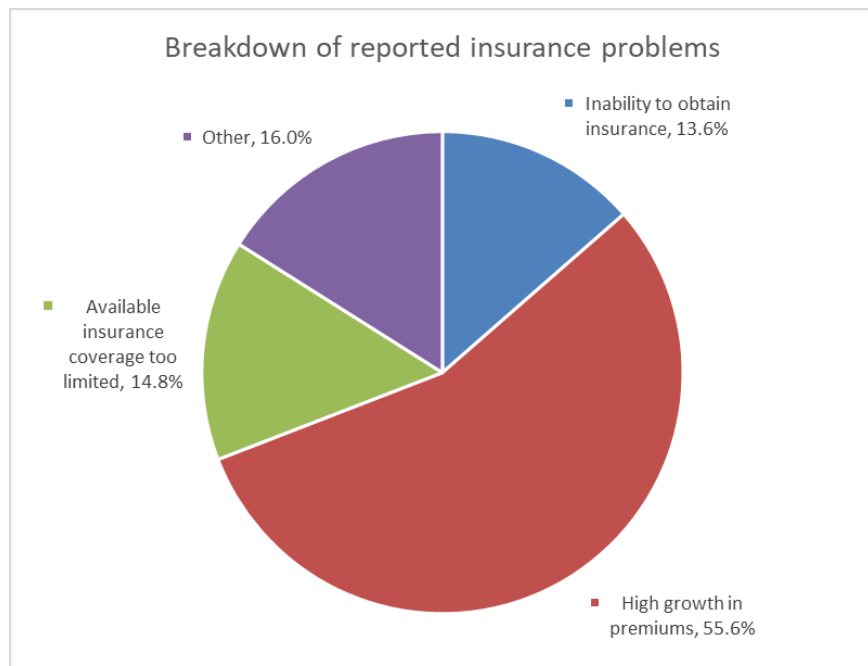
inability to obtain desired insurance at all (13.6%). Some businesses reported multiple problems.

The most common 'other' problem reported was a reduction in competition (fewer insurers offering relevant cover, but relevant cover was available). Thus, together with the responses on cover scope and insurance availability, a significant number of businesses face limited insurance choice.

The qualitative information that came from our free-text poll options also uncovered that in addition to higher premiums, respondents are also encountering higher deductibles.

“[We] had to resort to using overseas [insurance] companies at exorbitant premiums. These are not licenced in Australia.”

– Ai Group member



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## Key Drivers: Global Influences with Local Effects

Perth based brokers KBI argue that the insurance market is cyclical, and while Australia enjoyed a ‘soft market’ for the last 5-7 years, the market is hardening<sup>3</sup> noticeably, and quickly. In a ‘hard market,’ rates jump up significantly (and usually quickly) with insurers pulling back cover and restricting their policies, if not declining to provide them altogether<sup>4</sup>. This is consistent with what Ai Group’s member reports of rising costs and falling choice.

This section looks to provide some brief context around what factors are leading to this ‘hardening,’ and the global nature of the symptoms we are feeling locally.

“[We have] only 2 choices - take it or leave it.”

– Ai Group member

### Climate Risks

Climate risk is becoming increasingly important for communities, governments, businesses and insurers around the world. The insurance market is global, and we are now seeing an increase in natural disasters and catastrophic events with links to climate change leading to large claims seasons.

Insurance companies purchase their own insurance (‘re-insurance’). When insurers face large claim seasons beyond those they can manage within their own risk portfolio, such as from large catastrophic events affecting many insured parties simultaneously (for instance, the out of control bushfire seasons seen recently in Australia and currently in the United States), insurance companies draw on their re-insurance. When the global number, breadth and impact of such events is high enough that re-insurers face many calls from insurers, re-insurance rates go up and insurance companies pass this increased cost through to consumers around the world<sup>5</sup>.

The 2019–2020 ‘Black Summer’ bushfire season in Australia has been credibly linked to climate change and data on losses from the Insurance Council of Australia revealed that it will be one of the costliest on record<sup>6</sup>. This is a good illustration of the increasing need of insurance companies to enhance their understanding of extreme weather events, changing climate and risk.

Extreme weather events and climate volatility are costly and have a significant impact on the insurance sector. Research shows that the impacts of a changing climate are already being felt and that bushfire risk, as measured by the trends in fire danger indices, is likely to increase in almost all locations in Australia, leading to more frequent and extreme events and fire seasons<sup>7</sup>. This is a key concern for

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<sup>3</sup> [‘Why is Insurance Becoming So Expensive?’](#) KBI (March 2020)

<sup>4</sup> Ibid

<sup>5</sup> [‘Why is Insurance Becoming So Expensive?’](#) KBI (March 2020)

<sup>6</sup> [‘Insurance Bill for Season of Natural Disasters Climbs of \\$5.19 Billion,’](#) Insurance Council of Australia (May 2020)

<sup>7</sup> [‘Strengthening Resilience: Managing National Disasters After the 2019-20 Bushfire Season,’](#) Menzies

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insurers and threatens the viability of the industry<sup>8</sup>.

The Swiss Re Institute estimated total global economic losses from natural and man-made disasters in 2019 at around USD \$140 billion, which was actually down from the 2018 figure<sup>9</sup>. They noted record heatwaves and dry spells and new temperature highs, devastating wildfires and repeated floods in numerous regions (including Australia) and thunderstorms and hailstorms causing damage to property, vehicles and agriculture<sup>10</sup>. Unfortunately, climate change is leading to more frequent and more severe secondary peril events<sup>11</sup> such as these.

Understanding this, many insurers (and investors) are recognising the role they can play in advancing a transition to a low-carbon economy by mid-century to manage climate risks associated with large scale investments in new technology and innovation<sup>12</sup>. This ties in with the increased popularity of Environmental, Social and Governance (ESG) policies, discussed later in this paper, and helps the industry manage and improve risk models to better assess climate hazards and ensure development of capabilities to underwrite natural catastrophe risks into the future<sup>13</sup>.

With evidence mounting that climate change is leading to more extreme weather events, like those associated with the Black Summer bushfires, climate change is likely to remain a key risk for insurers. This means that understanding and mitigating climate change risks will be firmly planted on the agenda of insurers worldwide for the foreseeable future.

In the absence of better mitigation of and adaptation to climate risks, insurers can attempt to more directly respond to their exposure by raising premiums and restricting coverage. This approach is rational, but will be unwelcome for business and other customers – and is likely to create acute problems in communities that are especially vulnerable to climate impacts. Reducing underlying community risks and fairly sharing burdens are increasingly urgent questions.

### **Environmental, Social and Governance (ESG) Uptake**

ESG includes environmental issues like climate change and resource scarcity as well as issues like labour practices, talent management, product safety and data security<sup>14</sup>. Additionally, it covers governance elements like board diversity, executive pay and business ethics<sup>15</sup>. ESG is increasingly being used by insurers to assess potential clients and as a risk management tool. Global insurer, investor and asset manager Allianz uses ESG to reduce risks and capture opportunities in underwriting, claims, investment and asset management<sup>16</sup> and most, if not all other insurers are taking a similar approach.

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Research Policy Paper, IAC (2020)

<sup>8</sup> Ibid

<sup>9</sup> [‘Global catastrophes caused USD 56 billion insured losses in 2019, estimates Swiss Re Institute,’](#) Swiss Re Institute (December 2019)

<sup>10</sup> Ibid

<sup>11</sup> Ibid

<sup>12</sup> [‘Insurance in a world of climate extremes: what latest science tells us,’](#) Swiss Re Institute (December 2019)

<sup>13</sup> Ibid

<sup>14</sup> [‘ESG: Understanding the issues, the perspectives and the path forward,’](#) PwC (US)

<sup>15</sup> Ibid

<sup>16</sup> [Allianz ESG Integrated Framework](#) (Version 3), September 26, 2018

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Allianz have reported their most material ESG concerns, which include<sup>17</sup>:

- Climate change
- Natural capital (water stress, sourcing of raw materials etc.)
- Pollution and waste (toxic emissions and waste, environmental management systems etc.)
- Human capital (child labor, supply chain standards, health and safety etc.)
- Involvement in highly controversial topics

In addition to *considering* ESG matters, some organisations will no longer do business with companies that do not operate in accordance with their ESG policies and values. These businesses integrate ESG into their decision making and are open about the possibility of excluding doing business altogether with organisations where the activities of that organisation are deemed to be inconsistent with their Corporate Responsibility Principles.

This alone can limit supply of insurance to certain businesses or projects, in turn driving up costs and reducing cover options. It can even cause some projects to become uninsurable and therefore, unviable.

### Class Actions

The most noteworthy change in the class action landscape in the last year or so is the rise of the consumer class actions and employment law class actions. Consumer claims represented 41% of class actions filed in 2019 compared to a longer-term average of 23%<sup>18</sup>. Between 1992 and March 2018, only 3.4% of class actions were claims by employees or workers.<sup>19</sup> In August 2020, there were 20 employment law class actions listed on the Federal Court of Australia's website (17.4% of 115 class actions).<sup>20</sup>

In a submission to a current Parliamentary inquiry into Litigation Funding and the Regulation of the Class Action Industry, insurance broker Marsh reported that the average increase in premiums for Directors and Officers Insurance for ASX200 companies in 2019 was 118%, with extreme cases at a staggering 600%. The submission also identifies a list of insurers that had recently withdrawn from the D & O insurance market, and another list of insurers that have become far more discriminating about who they will offer insurance to, with some of the restrictions being so onerous that it amounts to a de facto withdrawal from the market.<sup>21</sup>

Marsh has reported a connection between the ongoing threat of shareholder class actions and the fallout from the Financial Services Royal Commission fuelling spiralling growth in insurance costs<sup>22</sup>. Craig Cloughton (Marsh) says that the losses suffered in Australia are "starting to outstrip the premiums that the insurers [are] charging<sup>23</sup>."

Although the Financial Services Royal Commission has concluded, there has been a steady stream of

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<sup>17</sup> Ibid

<sup>18</sup> [Class Action Risk Report 2020](#), Allens

<sup>19</sup> As noted by Justice Lee in *Turner v Tesa Mining (NSW) Pty Ltd* [2019] FCA 1644, [1].

<sup>20</sup> <https://www.fedcourt.gov.au/law-and-practice/class-actions/class-actions>

<sup>21</sup> Submission of Marsh to the Parliamentary Joint Committee on Corporations and Financial Services' Inquiry into Litigation Funding and the Regulation of the Class Action Industry, 11 June 2020.

<sup>22</sup> '[Australia leads the world in skyrocketing insurance premiums](#),' Australian Financial Review, February 13, 2020

<sup>23</sup> Ibid



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class actions arising from it and that trend is expected to continue for at least the next few years. Additionally, we can expect to see a range of claims arising out of the Royal Commissions into Aged Care and the Treatment of People with a Disability<sup>24</sup>.

Class action risk can apply to numerous areas outside of the Royal Commission outcomes discussed. These can include employment claims, the adequacy of corporate governance models, data breaches, environmental issues and even failure to act on climate change<sup>25</sup>. As the insurance industry is global, we are not only impacted by domestic class actions, but also by those happening elsewhere.

### Future Costs

There is likely more financial pain on the horizon for both the businesses buying policies and those insuring them.

For insurers, the fallout from the COVID-19 outbreak includes a surge in health, travel and business interruption claims, pressure on sales from reduced business activity, and less use of face-to-face channels<sup>26</sup>. Our September 2020 poll did not indicate that these pressures had yet played a substantial role in the insurance problems reported by respondents. However, it is likely that the impacts of the pandemic will reach insurance consumers in the coming years.

Similarly, climate change remains a growing concern. Global average surface temperatures have already warmed by around 1°C from pre-industrial levels<sup>27</sup>. The goals of the Paris Agreement include keeping the total rise below 1.5°C, or well below 2°C<sup>28</sup>. Existing national commitments under Paris would see rises of around 3°C<sup>29</sup>, though major emitters like China and Europe are beginning to announce more ambitious commitments. Whatever happens, Australia and other major economies will experience greater climate impacts than today. Our success or failure in limiting and managing those impacts will flow through to insurance costs, and much more.

Finally, as previously discussed, more Royal Commissions will be held, which will likely result in more class actions leading to greater costs for insurers and their customers.

“[One] premium increased by a multiple of 3 and we had to go to the London [insurance] market to complete the coverage. [The] excess went from \$100k to \$250k [and the] premium from \$224k to \$757k.”

– Ai Group member

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<sup>24</sup> [Class Action Risk Report 2020](#), Allens

<sup>25</sup> Ibid

<sup>26</sup> [Global Insight: Insurance and COVID-19](#), PwC Australia

<sup>27</sup> [Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty](#), IPCC

<sup>28</sup> [What is the Paris Agreement?](#) United Nations Framework Convention on Climate Change

<sup>29</sup> [UN emissions report: World on course for more than 3 degree spike, even if climate commitments are met](#), UN News (November 2019)

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## Conclusion

Our results indicate that businesses have been active in their pursuit of insurance in the last twelve months, but many have had trouble obtaining it, particularly due to unusually high premium growth and a general lack of options. This is consistent with media reports that the insurance market is hardening, and that some companies are facing hefty insurance premium hikes of up to 300% for at least the next 12 months<sup>30</sup>.

“Insurance costs have dramatically increased which obviously has a financial impact on [our] business.”

– Ai Group member

These price hikes are attributable to many of the issues discussed in this paper, including expensive claims seasons resulting from extreme weather events exacerbated by climate change as well as increased class action risk and activity.

As the cost of being an insurer rises (greater risks and more claim payments), the cost of buying insurance climbs with it. Similarly, when risk levels become critical, or too hard to calculate, the market for certain products shrinks – causing the lack of choices also reported by many of our members.

Unfortunately, the world will remain risky and uncertain. While climate change can be fought and legal frameworks reformed, neither will succeed overnight. These complex issues will take many years to address. That said, governments can participate in accelerated global efforts to curb carbon emissions, and can improve Australia’s readiness and resilience to climate impacts. They can also investigate the class action process and take steps to ensure it is fair, streamlined and hard to exploit. These are not short-term solutions or easy options, but over the long term, both would likely impact insurance costs for the better.

Insurance is an essential component not just to doing business safely, but to doing business at all. Attaining affordable insurance can mean the difference between success or failure.

“Reduced coverage may impact our success in tendering.”

– Ai Group member

The unusual trouble facing Australian businesses seeking insurance requires ongoing attention from industry and government. A competitive market environment where adequate and affordable insurance is within reach is in everyone’s interest – and an important foundation for Australia’s economic recovery.

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<sup>30</sup> [‘Further hefty insurance premium hikes for directors on the horizon,’](#) Australian Financial Review (August 2020)

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## Appendix: Poll Questions

### About Your Business

Question 1: What activity is your business primarily involved in?

Question 2: How many people does your business normally employ?

Question 3: In which regions of Australia is your business active?

– ACT – NSW – NT – QLD

– SA – TAS – VIC – WA

### About Your Insurance

Question 4: Has your business sought insurance in the past 12 months?

Question 5: If yes, did you encounter any unusual difficulties in obtaining insurance?

– *No unusual difficulties.* – *Yes, inability to obtain insurance*

– *Yes, high growth in premiums* – *Yes, available insurance coverage too limited*

– *Yes, something else (please specify here)*

Question 6: What kind of insurance are you buying?

– *Product Liability* – *Public Liability*

– *Workcover Insurance* – *Property Insurance*

– *Trade Finance* – *Credit Insurance*

– *Other Insurance (please specify here)*

Question 7: If you had difficulties in obtaining insurance, what are the consequences for your business?

Question 8: Do you have any other feedback on insurance issues?

Question 9: Would you like to be contacted by Ai Group to discuss your answers further?

– *Yes*

– *No*

Question 10: If YES, please enter your contact details below.

– *Name* – *Company*

– *Email Address* – *Phone Number*