



Australian Government



Australian  
**Small Business and  
Family Enterprise**  
Ombudsman

17 June 2021

Mr John Anning  
Insurance Council of Australia  
Level 4 56 Pitt St  
SYDNEY NSW 2000

*via email: [submissions@insurancecouncil.com.au](mailto:submissions@insurancecouncil.com.au)*

Dear Mr Anning

### **Role of the Private Insurance Market – Independent Strategic Review: Commercial Insurance**

Thank you for the opportunity to comment on the review of the role of the private insurance market. The Office of the Australian Small Business and Family Enterprise Ombudsman recognises the importance of the private insurance market to small businesses.

As you are aware, this Office has undertaken significant work on affordability and availability of insurance for small businesses. We make the following comments on the review.

#### **Availability vs affordability**

We welcome a collaborative approach between insurers and industry to address issues of affordability, accessibility and mitigation. However, we believe there are some small business specific concerns that the report has not accurately reflected.

We hold particular concerns about the characterisation of affordability issues and the proposed affordability guide. According to survey responses received through our inquiry into insurance affordability and availability, for many small businesses insurance (when it is available) is already unaffordable or not offered on commercially viable terms. We understand that the proposed affordability guide is designed to assist individual businesses to assess their affordability concerns. It is important to be clear that a premium increase of 30-50% over three years is not a 'medium' increase for a small business facing significant cost pressures and already struggling to afford cover.

We understand the need for individual insurers to price the risk they buy at a level that covers them for the risk, the associated corporate overheads, and the need to deliver a profit to shareholders. In some cases, the market offering for an insurance product is certainly the lowest possible offering an insurer can provide while protecting their commercial interests. Where a business valued at \$3.5million receives a property insurance premium quote of \$6.5million<sup>1</sup> it is difficult to argue the 'fairness' of this cover.

#### **Criteria for government intervention**

We note the papers discussion of market failure and agree that the proposed criteria for Government intervention is mostly sound.

We further note that, given evidence that some market segments cannot obtain insurance at all, or if available it is not available on commercially viable terms, the provided criteria to trigger Government

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<sup>1</sup> Fellner, Carrie. The Sydney Morning Herald. May 30, 2021.

intervention is currently being met in many segments of the SME insurance market in Australia. We agree that government intervention should only be sought where all other avenues have been thoroughly explored.

We are encouraged by the industry-led options proposed in this review. This office recommends thorough exploration of all potential options to address issues of market failure and encourages collaboration of insurers, industry associations and government. We would be pleased to work with industry to develop solutions to these issues.

#### **Documentation, definitions and policy wordings**

We continue to encourage the use of standardised definitions across the insurance industry. We also support the introduction of clearer documentation, allowing policies to be assessed on their individual merits without the distortion of different coverage definitions. We strongly encourage insurers to proactively advise businesses on any and all potential risk mitigation steps they could undertake. Small businesses often do not have the expertise to properly assess their insurance risks and we recommend insurers provide this information through:

- providing clear reasons for a refusal to renew or premium increase;
- advising customers (either directly or through brokers) on mitigation steps taken by similar businesses that have resulted in a continuation of insurance or reduced premium increase;
- advising, at the initial stage, of information the insurer would require to be satisfied that the appropriate mitigation had occurred; and
- providing information on factors that have impacted the insurers' risk appetite, helping small businesses understand the issues and allowing them to make informed decisions should their business be at risk of becoming uninsurable.

#### **Industry association accreditation and standards**

Our Office understands and appreciates the importance of industry standards. However, in the current hardening market even industries that are part of Professional Standards Schemes with the associated accreditation, responsibilities and capped liability are struggling to obtain insurance. Industry standards should not, therefore, be seen as a solution.

Thank you for the opportunity to comment. If you would like to discuss this matter further, please contact Miss Alexandra Hordern on 02 6213 7442 or at [alexandra.hordern@asbfeo.gov.au](mailto:alexandra.hordern@asbfeo.gov.au).

Yours sincerely



**The Hon. Bruce Billson**  
Australian Small Business and Family Enterprise Ombudsman