



Insurance Council  
of Australia

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Senator Deborah O'Neill  
Chair  
Parliamentary Joint Committee on Corporations and Financial Services  
Via upload

Dear Chair

### **Small business insurance – industrial special risks insurance and business interruption insurance**

The Insurance Council of Australia (Insurance Council) welcomes the opportunity to provide a submission on behalf of our members on this important topic.

The Insurance Council is the representative body for the general insurance industry of Australia. Our members represent approximately 85 per cent of total premium income written by private sector general insurers and provide a range of general insurance products including small business insurance products.

This submission is one of a series of submissions the Insurance Council will be providing to the Committee's inquiry and focusses on industrial special risks (ISR) insurance and business interruption insurance (BII).

### **What are Industrial Special Risks and Business Package insurance products**

#### *Industrial Special Risks insurance policies*

ISR insurance policies are a type of insurance product designed and suited for larger, more complex business.

ISR policies provide coverage for:

- Material damage to property (including buildings, plant, machinery, stock, raw materials) caused by natural fire and natural peril events.
- Business Interruption: Loss of profits, revenue or increased expenses when business operations cease due to property damage. This can include damage sustained to suppliers or customers of the insured business (often described as contingent business interruption).

ISR policies also have provision for additional coverage which can be included. For example, coverage for loss arising from accidental damage or employee dishonesty. ISR policies generally do not include public liability insurance coverage.

ISR policies are commonly issued on what is referred to as a 'Mark IV' wording. This is an Australian industry standard level of cover.<sup>1</sup> The base wording can be tailored to the specific risk profile of the policyholder by adding endorsements to expand the coverage.<sup>2</sup>

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<sup>1</sup> McCullough Robertson Lawyers. 2021. [Business Pack versus Industrial Special Risks \(ISR\) policy insurance](#).

<sup>2</sup> Ibid.

### *Business Package insurance policies*

Business package insurance policies are designed for small to medium sized businesses. They are sometimes referred to as a business owners policy.<sup>3</sup> They are typically designed for small to medium sized businesses with less than \$10 million in physical assets.<sup>4</sup>

Business package insurance products bundle several insurance coverages into a single policy. This coverage typically includes:

- Public liability insurance coverage
- Property insurance coverage: coverage for damage to business property (buildings, equipment, inventory) for risks like fire, theft or natural disasters
- Business interruption insurance coverage.

As business package insurance products provide multiple insurance coverages under a single policy document, they also remove the burden on small businesses having to source and maintain several separate insurance policies.

### **Key differences between ISR insurance policies and business package insurance policies**

#### *Monetary threshold*

ISR insurance is ordinarily taken out by businesses with larger commercial and industrial concerns and exposures. Business Package policies are typically offered by small to medium commercial enterprises. While there is no hard and fast rule about which cover suits a business, this is generally determined by reference to the value of the assets owned by the business.

ISR insurance is typically more suitable for larger and more complex businesses with more than \$10 million in assets.<sup>5</sup>

#### *ISR insurance provides broader and more flexible cover*

ISR insurance policies can generally offer broader and more flexible coverage arrangements for businesses.

This is because ISR policies provide “all-risk” cover, with any exclusions to cover being noted specifically on the individual policy. Rather than just covering specific events such as fire, storm, earthquake etc., these policies cover all events that cause physical loss or damage to insured property, unless those events are explicitly excluded.<sup>6</sup> By comparison, business package insurance policies will usually only stipulate what cover is included, and if a type of cover is not specifically mentioned in the policy, cover does not apply.<sup>7</sup>

ISR policies provide flexibility in relation to property coverage compared to the property section of a business package insurance product, making it easier to negotiate deletion of specific coverage exclusions.<sup>8</sup>

Therefore, ISR insurance policies can be tailored to meet the needs of a more diverse range of business types. In addition, as ISR insurance policies are provided in a recognised standard industry form (through the ‘Mark IV’ wording), multiple insurers can share risk if the level of coverage or coverage type exceeds a single insurer’s underwriting risk tolerance.<sup>9</sup>

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<sup>3</sup> Australian Chamber of Commerce and Industry. 2025. *Addressing the small business insurance challenge*. Available [here](#), page 19.

<sup>4</sup> Marsh. [ISR v business insurance: how to tell when you’ve outgrown your business](#).

<sup>5</sup> Ibid.

<sup>6</sup> Sedgwick. 2024. [Understanding the key components of an industrial special risks \(ISR\) policy](#).

<sup>7</sup> Bellrock. 2022. [Industrial Special Risk \(ISR\) Insurance](#).

<sup>8</sup> Ibid.

<sup>9</sup> Ibid.

## Complexity

While ISR insurance policies can provide greater flexibility in relation to coverage compared to business package insurance products, with ISR insurers typically tailoring policy conditions to suit individual business circumstances, this flexibility adds complexity to the risk placement process.<sup>10</sup>

For example, ISR insurers may require businesses to provide more detailed information about their business operations, especially when providing coverage for more high value business assets and more niche business activities and risks.<sup>11</sup>

Therefore, while there is no hard and fast rule about which cover suits a business, this is generally determined by reference to the value of the assets owned by the business<sup>12</sup> and ISR is a product usually considered by medium to large businesses that have specific needs and larger assets where a business package insurance would not suffice.<sup>13</sup>

## Cost

An ISR insurance policy may cost more than insurance purchased through a Business Package product given they are often highly customised or bespoke, have broader coverage, and provide coverage for more complex risks and higher values assets.

For this reason, some insurance brokers advise that generally, for ISR insurance to be financially feasible for a business, the business should have assets in excess of \$10 million.<sup>14</sup>

## What is Business Interruption insurance

Both ISR insurance policies and business package insurance products ordinarily include insurance coverage for business interruption.

Business interruption insurance (BII) is designed to help businesses recover or continue operating following the occurrence of events that cause financial loss and provide financial assistance to help businesses recover.<sup>15</sup>

BII can be conceived of as income protection for businesses. When an unforeseen event such as storm, fire or property damage disrupts a businesses' operations or revenue, BII can replace a business' lost revenue or income.

### What does BII cover

While business insurance products provided by different insurers vary, BII typically provides coverage for the following:

- Loss of income/revenue (based on financial records). Income the business has lost due to a period of forced closure or a period during which a business cannot trade due to the occurrence of an insured event such as fire, storm and other natural peril events.
- Costs of recovery. For example, temporary hire or leasing costs that can enable a business to keep operating until a business premises is repaired.
- Ongoing expenses. Expenses a business needs to continue to pay while their business is closed or not operating (e.g. rent, staff costs).
- Supply chain disruption. For example, losses if a supplier to the insured is unable to continue to provide/supply.

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<sup>10</sup> Bellrock. 2022. [Industrial Special Risk \(ISR\) Insurance](#).

<sup>11</sup> Windsor Management Insurance Brokers. [When Industrial Special Risks Insurance Comes into Play](#).

<sup>12</sup> McCullough Robertson Lawyers. 2021. [Business Pack versus Industrial Special Risks \(ISR\) policy insurance](#).

<sup>13</sup> Bellrock. 2022. [Industrial Special Risk \(ISR\) Insurance](#).

<sup>14</sup> Marsh. [ISR v business insurance: how to tell when you've outgrown your business](#).

<sup>15</sup> allinsure. 2022. [The Who, What and How behind Business Interruption Insurance](#).

- Service provider mishaps. For example losses arising out of power or gas outages.<sup>16</sup>

### *What does BII not cover*

BII cover provided through business package insurance products generally will not cover loss of revenue or other business costs arising from:

- Voluntary closures (i.e. any business interruption not related to property loss or property damage).
- Machinery breakdown unrelated to a natural peril or other insured event.

### *What triggers business interruption coverage*

A coverage trigger is the event that must occur for a liability policy to provide insurance coverage for a loss.

BII coverage can be triggered by a material damage loss sustained by the business. For example, damage to a business's warehouse or premises as a result of a natural peril event.

However, coverage under BII also includes losses that arise from events that are more remote to the insured business, but result in loss of revenue or business disruption causing financial loss. These losses are often referred to as contingencies or contingent business interruption.<sup>17</sup> Examples of these include losses arising from:

- Prevention of access: where the business is unable to gain access to its own premises due to surrounding fire, storm and flood damage (to buildings, roads or bridges not owned by the business).
- Damage or destruction of property of a supplier of the business. If a key supplier of the insured business is affected by an insured event, there is cover available for financial loss suffered as a result of the supplier being unable to supply their goods or services to the insured business.
- Damage to public utilities: this refers to damage or disruption to utilities which are publicly available such as power, water, sewerage, gas and telecommunications. Cover is available for the loss that this causes.

### *How are business interruption claims assessed*

Assessing a business interruption loss involves the calculation of the business' forecast earnings had the loss not occurred. This process can involve evaluating past tax returns, profit and loss statements, and projected sales and expenses.<sup>18</sup>

Therefore, it is important for insured businesses to maintain accurate business records so that business interruption losses can be properly assessed.

### *What factors impact the cost of BII*

Insurers may consider different factors and each apply their own underwriting criteria when determining the cost of insurance premiums.

Factors that insurers may consider when pricing business interruption coverage may include:

- The type of industry the business operates in
- Number of employees of the business
- Prior claims experience

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<sup>16</sup> Marsh. [Business Interruption Insurance](#).

<sup>17</sup> McCullough Robertson Lawyers. 2021. [Business Pack versus Industrial Special Risks \(ISR\) policy insurance](#).

<sup>18</sup> Ibid.

The location of a business can also impact the cost of BII. For example, if the business is in an area with a higher risk of certain natural perils, premiums may be higher than for those in low-risk areas.

### **Broader impact of severe weather events**

Given business package and IRS insurance products provide coverage for property and business interruption, and severe weather events are a driver of higher claims frequency and claims costs. Increased frequency of severe weather and natural perils events can have a significant cost impact on both products.

Global insurer Allianz has identified natural disasters among the top causes of business interruption claims.<sup>19</sup>

Finity Consulting have also identified that insurers' portfolios that provide corporate property insurance coverage usually require multiple years of favourable claims experience to offset poor loss years following significant natural disaster events.<sup>20</sup>

Consequently, small businesses operating in high natural peril areas may pay significantly higher premiums to reflect this increasing underwriting risk.

### **Impact of inflation on insurance premiums**

Inflation can also have a significant impact on the cost business insurance products, particularly in relation to coverage for buildings and property.

Inflation has a direct impact on the costs associated with repairing or rebuilding damaged buildings. This in turn requires insurers to raise premiums to cover the associated increased claims costs in order to maintain financial stability and long-term profitability.

In recent years, increases in the costs of building materials and increasing wages in the construction sector have resulted in significant increases in building replacement costs and sum insured amounts, which have translated into higher insurance premiums for businesses.

Increasing premiums driven by inflation-driven claims costs has also increased the risk of underinsurance.<sup>21</sup> Combined with other inflation-driven increasing business costs, underinsurance can disproportionately impact small businesses, increasing their financial vulnerability.

### **Reducing risk to reduce premiums for small business**

#### *Education and risk management*

As outlined in the Insurance Council's earlier submissions to the Inquiry, while larger businesses can dedicate resources to risk management, this can be more challenging for smaller businesses due to capital and resourcing constraints.

Education programs that assist small business owners better understand their insurance risks and requirements and measures that can be undertaken to reduce their risk exposure, can assist in both reducing the likelihood of claims, reducing the cost of claims should they occur, and helping improve their insurability.

Insurance brokers can play an important role in assisting small businesses to better understand and manage their risk.

Governments can also play a role through funding risk management training and education programs for small businesses, particularly those operating in high peril risk regions. For example, we are aware the

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<sup>19</sup> Allianz. 2023. *Expert Risk Article*. [Business interruption claim trends](#).

<sup>20</sup> Finity. 2024. *Optima Report*. page 79.

<sup>21</sup> Ibid.

Australian Small Business and Family enterprise Ombudsman has online resources to assist small businesses prepare for and recover from disasters.<sup>22</sup>

*Risk management and resilience planning*

Risk management and resilience planning can also play a critical role not only in improving insurability for businesses but also helping them recover more quickly following an event that impacts their operations. This is particularly important for businesses whose operations are more likely to be impacted by natural peril risks.

For example, businesses that put in place response plans in preparation for business interruption events, such as having second tier suppliers in place they can utilise should a primary supplier's production be halted due to flood or fire, will have greater financial resilience and be more likely to be able to maintain or restore normal trading activity sooner.

We trust this information is useful for the Committee. If you have any queries please contact Tom Lunn, Director Insurance Lines at [tlunn@insurancecouncil.com.au](mailto:tlunn@insurancecouncil.com.au) or 0418 251 326.

Yours sincerely,



**Andrew Hall**  
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<sup>22</sup> Australian Small Business and Family Enterprise Ombudsman. [Disaster preparation and recover](#).