



Australian Government



Australian
**Small Business and
Family Enterprise**
Ombudsman

5 February 2021

Secretariat
Senate Finance and Public Administration Committees
PO Box 6100
Parliament House
Canberra ACT 2600

via email: fpa.sen@aph.gov.au

Dear Sir/Madam

Lessons to be learned in relation to the Australian bushfire season 2019-20

Insurance is a vital component of post-disaster recovery. In the wake of the 'Black Summer' bushfires many insurers worked proactively with small business owners to identify potential insurance claims and provide quick and effective assistance.

However, the impact of the 2019-2020 bushfire season on insurance accessibility and affordability has been devastating for small businesses. A year on from that season, market failure has emerged in property insurance for small business, and there is an impending market failure in property insurance generally.¹ I enclose a copy of my office's Insurance Inquiry report (the Report), which found that businesses often cannot obtain natural disaster insurance at all or are offered it at prohibitive costs.

An ongoing crisis of market failure

Since publishing the Report we continue to be contacted by small businesses who cannot obtain property insurance due to changed insurer appetite for bushfire risk. A business in regional Victoria, that contacted us recently paid close to \$100,000 in property insurance premiums last year, and this year is unable to obtain a quote. Without property insurance they are operating in breach of their mortgage contract and risk the bank taking enforcement action at any time. This business brings thousands of travellers to the local area and spends upwards of \$20,000 a month purchasing goods from local suppliers. If they are forced to close due to insurance issues, the impact will be felt through their whole community.

Another regional business we spoke to recently is already in this position. Having laid off 60% of their staff, this regional business will be forced to simply close and walk away if they cannot sell. They cannot obtain property insurance and the investment risk for the current owners is too high to continue to operate uninsured. Of course, this will also pose a real difficulty for any potential buyer.

Many small businesses around the country are facing the same crisis. Without property insurance small businesses will be forced to close, regional jobs will be lost and local communities will suffer.

Expansion of the Australian Reinsurance Pool Corporation (ARPC)

Prior market failure in property insurance around terrorism risk resulted in the creation of the ARPC. The ARPC stabilised the market for terrorism commercial property insurance and is well placed to do the same for natural disaster commercial property insurance. Recommendation 8 of our Report

¹ KPMG (2020), *General Insurance Industry Review 2020*, p21.

recommended the ARPC be expanded to provide reinsurance for all natural disasters for commercial property insurance. This would increase competition and lead to lower property insurance premiums and increased availability of insurance.

We encourage the Committee to endorse this recommendation to directly address this market failure for small business. We also welcome the Interim Report Recommendation 11 for APRA to undertake financial vulnerability stress testing of insurers. We suggest this recommendation would be strengthened by recommending APRA stress test both the current market and the changes that would occur with an expansion of the ARPC.

Recommendation 7 of our Report proposed a Government insurance scheme of last resort for small business public liability insurance. Given the existing market failure in property insurance and the need for insurance to facilitate post-disaster recovery the Committee should consider this option for natural disaster property insurance.

Land use and mitigation

Addressing the current crisis through expansion of the ARPC will not resolve long term issues with Australia's land use and mitigation needs. We support the Interim Report Recommendation 3 to release funding for mitigation work from the Emergency Response Fund and strongly suggest the Committee consider endorsing Recommendation 21.3 from the Northern Australia Insurance Inquiry Final Report by the Australian Competition and Consumer Commission. This would involve mitigation work being undertaken in coordination with the insurance industry to produce lower insurance premiums while appropriately addressing the risk of natural disasters.

In our Report my office found that the best time to prevent inappropriate development of land is before it is released or zoned for development by local authorities. Local authorities are in a unique position to understand and assess the risk of land use prior to release. Recommendation 9 of the Report was that local governments must undertake a suitability and natural peril assessment of all land (assessed for a 1 in 100 year risk) before commercial release and publish the results of the assessment prior to land release. Where land is released with known issues that are not disclosed the relevant authority should carry the liability for the known issue in perpetuity.

Endorsing this recommendation would assist in preventing the continued development of unsuitable and dangerous land. If land continues to be inappropriately released and developed in natural disaster risk areas the 2019-2020 bushfire season will not be a unique experience.

Thank you for the opportunity to comment.

Yours sincerely

Kate Carnell AO
Australian Small Business and Family Enterprise Ombudsman