



**INSURANCE
COUNCIL**
OF AUSTRALIA

NON-INSURANCE IN THE SMALL TO MEDIUM SIZED ENTERPRISE SECTOR

DECEMBER 2008

KEY FINDINGS

- 26% of all small to medium sized enterprises (SMEs) do not have any form of general insurance.
- Sole traders have the highest rate of non-insurance with 40.0% operating their business with no general insurance.
- Of the SMEs that purchase general insurance, 94.0% indicated they considered that they were adequately insured. Taken together with the rate of non-insurance, this means that under two thirds of all SMEs have adequate insurance.
- Over 80% of SMEs who indicated that they were inadequately insured cited the cost of insurance as a barrier to purchasing. Reform of taxation on general insurance products would therefore reduce the cost burden to SMEs and contribute to a reduction in the incidence of non-insurance amongst SMEs.
- For the majority of small businesses, profit expectations do not appear to impact on planned insurance coverage, at least in the short term. 50.0% of respondents indicated they would leave their insurance coverage unchanged despite the expected change in profits over the coming year.

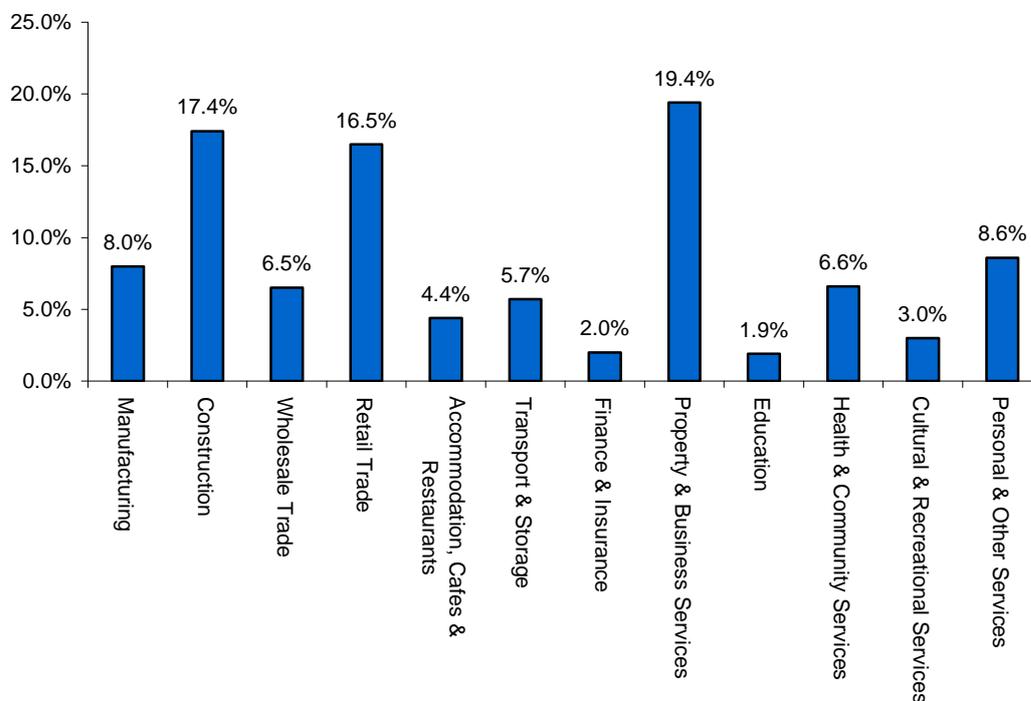
ABOUT THE SURVEY

In 2007, the Insurance Council undertook analysis into non-insurance in the household sector. This research is deliberately targeted in the small to medium sized (SMEs) business sector.

The Insurance Council survey of SMEs was conducted by Woolcott Research in early September 2008. The Insurance Council made use of Woolcott's monthly omnibus survey which covers 1,000 registered Australian small businesses defined as those with less than 20 full-time employees.

Sole traders accounted for around 25.0% of the sample population while businesses with 1-4 employees, 5-10 employees and 11-19 employees accounted for 42.0%, 22.1% and 10.4% of the sample population respectively. The distribution of participating SMEs on an industry basis is shown in the graph below.

Sample population by Industry Sector



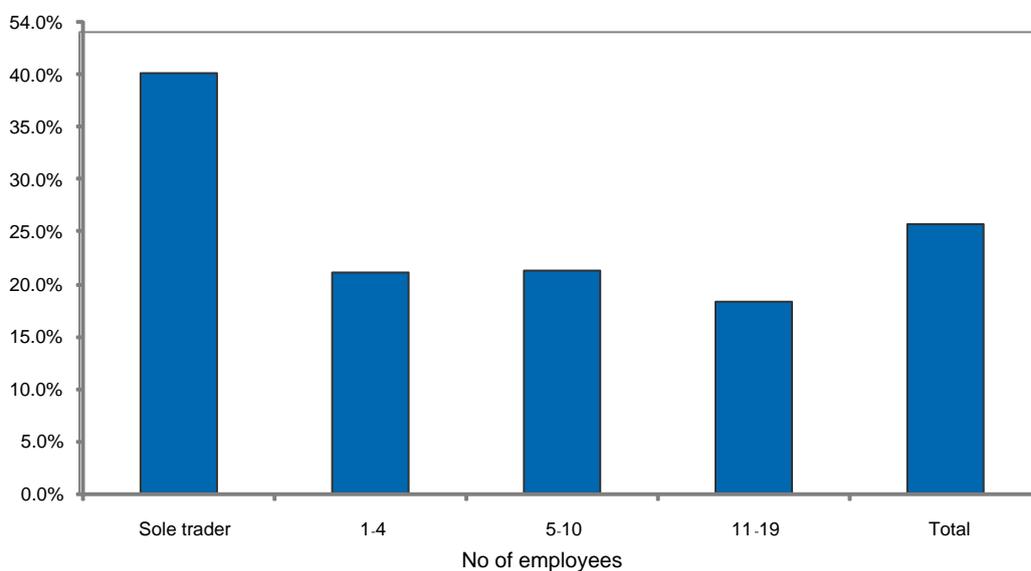
OVER A QUARTER OF SMALL BUSINESSES PURCHASE NO GENERAL INSURANCE

The survey found that 25.6% of small businesses do not have any form of general insurance.

Sole traders have the highest rate of non-insurance with 40.0% of those sampled indicating they had no general insurance. Small businesses with 1-4 employees and 5-10 employees both had a rate of non-insurance around 21.0% while small businesses with 11-19 employees had the lowest rate of non-insurance at 16.7%.

The rate of non-insurance by size of business is shown in the graph below.

Rate of non-insurance by number of employees

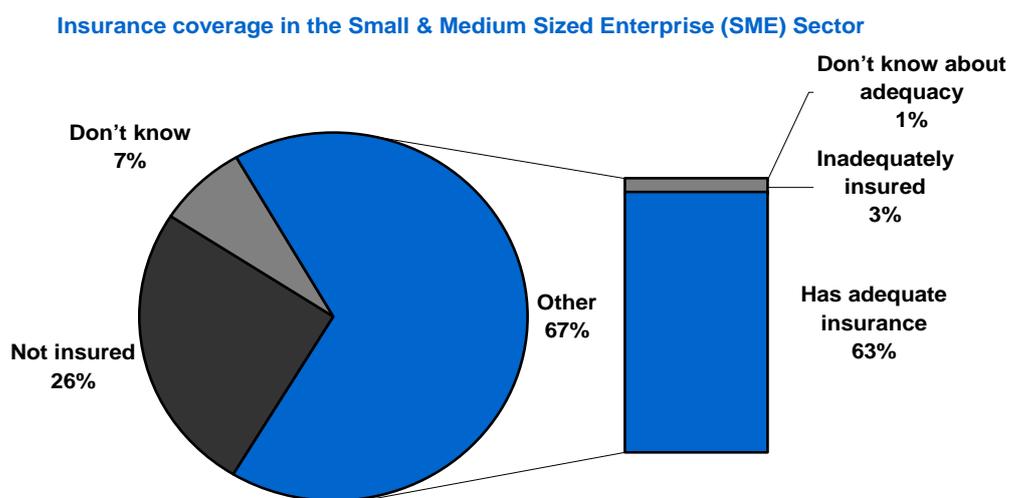


There was little difference in the rate of non-insurance across the States. In New South Wales, Victoria, Queensland and Tasmania, non-insurance averaged around 26.0% while South Australia had the highest rate of non-insurance at 31.4% and Western Australia the lowest at 22.7%. Neither the rates of non-insurance for SA & WA were, however, statistically significantly different from the average rate.

The rate of non-insurance varied significantly by industry, with the finance & insurance sector reporting the highest rate of non-insurance at 40.0% and health & community services the lowest at 13.6%. Health & community services and the transport sector, which reported a non-insurance rate of 15.8% were the only sectors whose rate of non-insurance was significantly different from the national average rate.

RATES OF ADEQUATE INSURANCE

In determining the extent of underinsurance, survey participants that had purchased insurance were asked if they believed they were adequately insured. Overall around 94.0% of these small businesses reported they were adequately insured, which means only 63.0% of the total number of small businesses surveyed believe they have an adequate level of insurance cover. This is summarised in the chart below.

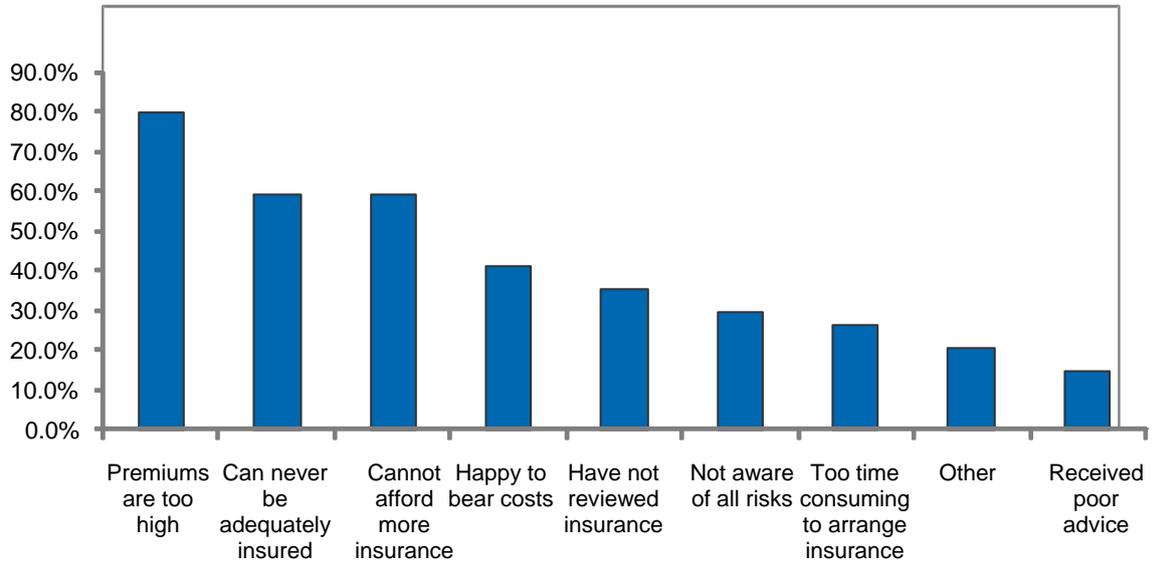


The cost of general insurance appears to be a significant factor contributing to small businesses having inadequate insurance cover. 80.0% of participants who reported they had inadequate insurance sighted “premiums were too high” as the reason for having inadequate insurance, while 60.0% attributed their inadequate insurance cover to “not being able to afford more insurance”.

In the context of the current reviews of taxation, it is clear that taxation reform of insurance premiums which would serve to relieve the cost burden of taxation on SMEs would be of significant benefit in reducing non-insurance in the SME sector. For example, a small business in New South Wales and Victoria suffers under the weight of a triple burden of taxation – fire services levies, the GST and state stamp duties. Together, state taxes can add up to 60% to the cost of an SMEs insurance premium.

The graph below summarises the reasons for not having adequate insurance.

Frequency of reasons for being inadequately insured as % of SMEs inadequately insured



INSURANCE TAKE UP BY CLASS

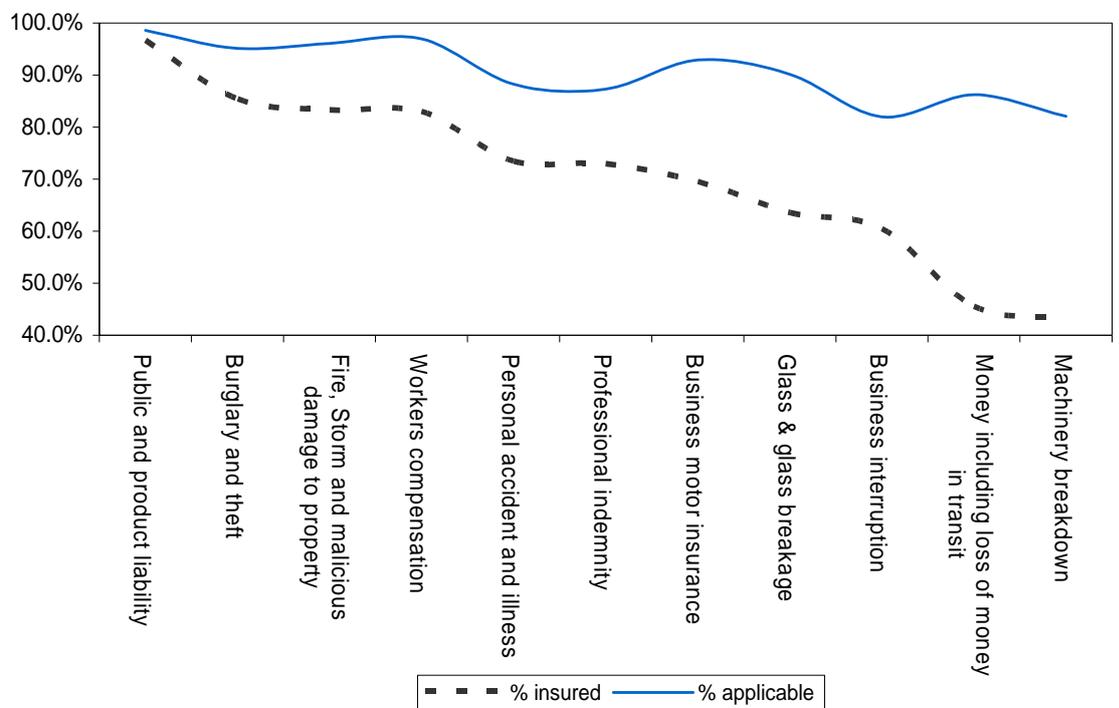
The likelihood that a small business would have a class of business insurance was directly related to the perception by small businesses that a class of insurance was applicable to their business risk. The larger the proportion of small businesses that felt they had a particular risk the greater the likelihood that a business that faced that risk would insure for the risk.

For example, 96.7% of insured respondents believed public and product liability insurance was applicable to their business and 98.6% of these businesses had that class of insurance.

However, only 43.3% of those insured felt machinery breakdown insurance was applicable to their business and of these only 82.1% had purchased that insurance. The only exception to this relationship was workers' compensation insurance, where 83.0% saw it as relevant and 96.9% of those purchased it, clearly reflecting the compulsory nature of this type of insurance.

The trend in the rate of applicability and insurance is summarised in the graph below.

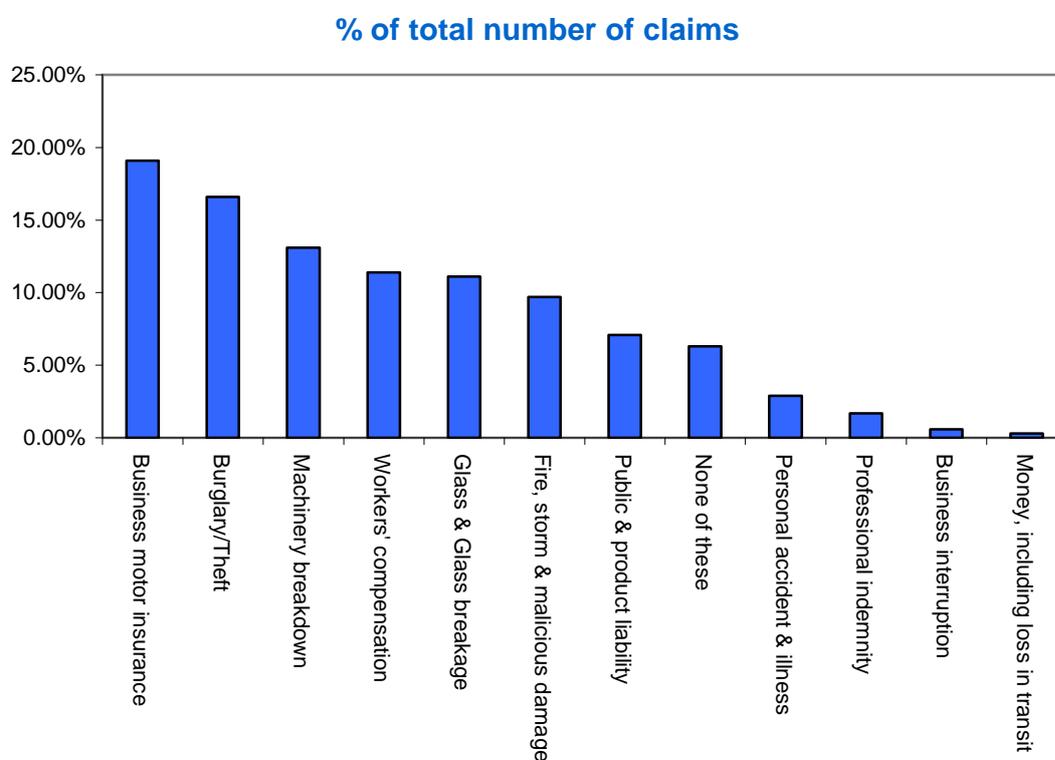
Rate of applicability and insurance for specific classes of insurance



CLAIMS EXPERIENCE

Just under one quarter of small businesses that had insurance lodged a claim in the twelve months prior to the survey. 14.0% lodged a single claim, 6.0% lodged 2 claims, 1.6% lodged three claims and 2.1% lodged four or more claims.

Approximately 19.0% of claims were for business motor insurance, 16.0% were for burglary and theft and 13.1% for machinery breakdown. The claim type as a proportion of total claims is shown in the graph below.



The perceived applicability of the class of insurance products and therefore the risks of the small business sector do not appear to align with the claims experience. For instance, machinery breakdown was the third most frequent claim type, however it was nominated as being an applicable business risk by the least number of small businesses in the survey.

PROFIT EXPECTATIONS AND PLANNED INSURANCE COVER

For the majority of small businesses, profit expectations do not appear to impact on planned insurance coverage, at least in the short term. At least 50.0% of respondents indicated they would leave their insurance coverage unchanged despite the expected change in profits over the coming year.

However, expectations that profits would improve were more likely to cause small business owners to increase coverage than expectations of weaker profits would cause a decrease in cover. As the graph below shows, the proportion of respondents that indicated they will increase cover increases as profit expectations improve, as does the proportion indicating they will decrease cover as profit expectations worsen, albeit to a lesser extent.

Reflecting this short term downward rigidity in insurance coverage is the relative high proportion of respondents, 63.6%, that indicated they would not adjust their cover if profits declined significantly, while 50.9% of those that felt profits would improve significantly indicated they would not change cover.

Impact of expected profits on insurance cover

