

The backbone of regional and rural economies: Small business and community resilience

A report for IAG produced by SGS Economics & Planning



The importance of small business in regional communities

- **Small businesses are a key component in the Australian economy, playing a great role in sustaining regional and remote communities**
- Small businesses contributed almost **\$418 billion to Australia's GDP**, in 2018-19, making up just short of a third of total GDP in that financial year (figure 1)
- They are Australia's largest employer, employing over 4.7 million people
- They are essential to the local economy and make a significant social contribution in the following ways:



Providing goods and services



Encouraging entrepreneurship



Providing employment opportunities



Participating in community activity



Sustainable local investment cycle



Establishing a local identity

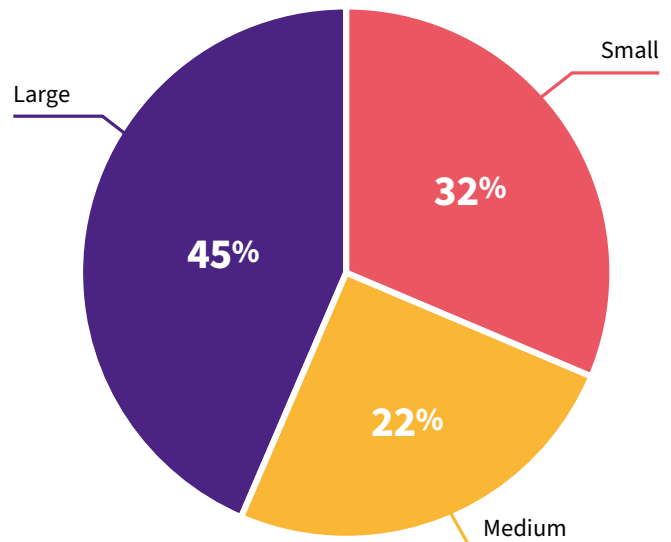


Increasing the local tax base



Mutual support among businesses

FIGURE 1: CONTRIBUTION TO GDP BY BUSINESS SIZE, 2018-19



Source: Australian Small business and Family Enterprise Ombudsman
- Small Business Counts 2020¹

The impact of natural disasters on regional communities

Case study: Townsville Floods

- Between the 27th of January to the 8th of February 2019, Townsville saw one year's worth of rain inundating the town
- In 2019, the economic impact of the Townsville floods was estimated to be a \$2.5 billion reduction in GDP
- Small businesses in Townsville flood affected areas contributed, on average, 65% to the GDP of that area
- The impact of the floods felt by small businesses was estimated to be a \$1.5 billion reduction in GDP

The ACCC conducted a survey in June 2019 on extent of non-insurance for small businesses in the flood affected areas of Townsville:

- 40% of businesses did not have flood cover
- 44% of businesses with flood cover for damages, also had cover for business interruption
- 68% of businesses were impacted by the floods (with the most important impact being business interruption)
- Why did small business not have flood cover?
 - 67% explained they believed their business was not in a flood zone
 - 20% chose not to have it because the business did not operate out of the ground floor or basement
 - 27% said it was too expensive

The role of insurance in helping communities rebuild

- Insurance is an important component in helping regional communities' recover from a natural disaster
- Insurance payouts for claims and recovery provide an economic stimulus that speeds up the rate of recovery for regional economies and limits further losses of economic activity

FIGURE 13: ECONOMIC IMPACT OF TOWNSVILLE FLOODS ON GDP – TOWNSVILLE SA3

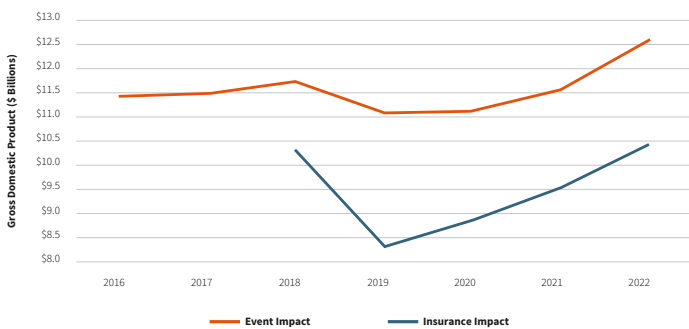


Figure 13 compares Townsville's GDP under two scenarios - the economic impact of the event on the local economy (event impact) and the economic impact of insurance (insurance impact). It shows the **sharp decline that would have occurred without insurance - with insurance payouts, the decline in GDP was reduced.**

Source: SGS Economics & Planning 2021, including claims data supplied by IAG, 2021

Policy implications and recommendations

Importance of mitigation

Mitigation acknowledges the inevitability of natural disasters and focuses on ensuring communities are in the best position to deal with its impacts.

Implications for business

Gain a complete understanding of the risks they face and prepare by conducting a business impact analysis and develop a disaster recovery plan – a key component of which is insurance. A strong understanding of the risks they face helps businesses to prepare and adequately cover themselves.

Implications for government

- As natural disasters cannot be prevented, the aim for governments should be to reduce the extent of damages by focusing on mitigation
- Governments can reduce the impacts of natural disasters by supporting individuals and businesses to make informed decisions regarding disaster management – providing information on exposure to natural disaster risks in an easily accessible and understandable format
- Undertaking a suitability and natural disaster assessment of all land prior to commercial release will become increasingly important
- Governments have a greater role in leading a co-ordinated effort in reducing the impacts of natural disasters in Australia – a national approach to disaster management will be the way forward

Implications for households

- Households need to understand the risks they face, and the options that are available to deal with them
- Households may also need to regularly re-assess the dangers of their environment as changing landscapes may bring risk towards areas that were previously not considered hazardous