

“Ensure-make safe against risks’ (Oxford Dictionary)

(against risk or loss)” (Oxford Dictionary)”

Technology Online)”

Insurance and Risk Management: Unravelling civil society?

“Ensure (c.1385,from Anglo-Fr.enseurer, from en-”make” +O. Fr

act without regard of the danger involved (Oxford Dictionary)”

Insurance and Risk Management:

unravelling civil society?

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Introduction

This Report is a summation of a survey undertaken in South Australia in the spring of 2004 seeking information about the experiences of community sector organisations in accessing insurance and managing risk. A total of 388 organisations responded to the survey. It is preliminary work conducted for the purpose of contributing to the evidence base about these issues in South Australia. It is part of an ongoing project with the SA Council of Social Services.

Rising costs in insurance

Over the past 4 years the cost of insurance premiums for community organisations across Australia has increased and at a rate greater than the Consumer Price Index. This upward trend has been the subject of much public debate and consternation. Reported impacts include closures or cut backs to community activities and services because of difficulties in gaining or paying for insurance; groups abandoning or changing direction to be 'risk adverse' and to secure resources to pay for insurance. These issues are captured in the following quote from the Report of the Australian Senate Economics Reference Committee Inquiry into Insurance held in 2002:

The Committee received many submissions from community groups, small businesses, and professional organisations describing sudden, exorbitant increases in premiums (regardless of claims history); inability to find insurance at any price; excesses and deductibles increased to an extent that makes the insured effectively self-insured for all but the biggest risk. Community events are cancelled, community groups are disbanding, professionals find themselves unable to practise their professions. (2002, p1)

It has been suggested that the underlying cause of this situation is a potent mix of factors; the changing nature of the insurance market after the collapse of HIH, an increasingly litigious society, and international dynamics unleashed post September 11th (Senate Economic Reference Committee, 2002, xiii).

The Senate Inquiry recommended a range of actions including legislative and regulatory changes such as capping damages, accreditation programs for recreational services, support for the development of risk management programs, and regular monitoring by the Australian Competition and Consumer Commission (ACCC)¹. A range of tort reforms has been introduced. In South Australia the State Government acted early with legislative and regulatory change and educational and training responses to the issues. Legislative changes include the introduction of bills to limit liability and to protect volunteers from personal liability, and these changes have been accompanied by the provision of information and educational strategies on risk management and insurance.

Despite government attention and organisational efforts, the effectiveness of these measures in reducing the magnitude of the problem remains uncertain. The ACCC (2005) in their most recent monitoring report, entitled *Public liability and professional indemnity insurance-Fourth Monitoring Report*² write that insurers expect '...reforms to have an impact on claims costs and premiums in the future, although they believe it is still too early to tell what extent reforms may act to reduce

1 See Australian Competition and Consumer Commission (2005) *Public liability and professional indemnity –Fourth Monitoring Report*, Commonwealth of Australia.

claims costs' (2005: 40). However a recent study undertaken by the OurCommunity team, found that 62 percent of the 275 groups who responded to a survey had experienced rises in insurance premium prices over the past two years:

The survey found that the vast majority of groups had either experienced a price hike or their premiums had remained unchanged despite legislative reforms aimed at reducing the costs for groups. It is a disappointing result given that all State Governments have enacted legislation over the past two years that the insurance industry said was necessary to produce an environment that would result in lower premiums. The State Governments have done their bit. The community groups have had to spend more time and effort addressing the issue of risk management to create a safer environment. Now the time is ripe for the insurance industry to do the right thing by community groups and immediately start offering substantially lower premiums at prices that actually reflect the low level of risks posed by the non-profit sector. (2005, p. 4)

Risk management

Along with government changes to address insurance problems, community organisations have given more prominence to implementing risk management strategies. This course of action has been suggested by bodies such as the Insurance Council of Australia, and the State Government³, and was a recommendation of the Australian Senate Economics Reference Committee Inquiry. There has been very little local research into the implications of an increased focus on risk management for community strengthening and support. However overseas research presents a picture of risk practices changing the nature of organisations in ways detrimental to traditional goals. Waterson (1999, p. 278) argues the focus on risk in planning and service delivery is increasingly on 'negative risk' supplanting 'risk taking' as a response to need and empowerment. This assumes a perception of risk management as a neutral or value free undertaking. Waterson (1999) makes the point that at every step of the risk management decision-making process value judgements are made about what constitutes a risk and what level of risk is bearable or desirable.

Impact on civil society?

A number of commentators have observed that increases in insurance costs across Australia, coupled with the organisational effort to manage risk, have generated a burden for community organisations, and that this, in turn, has consequences for community participation and community strengthening (Verity, 2004). A key strand of civil society is the active engagement and collective participation that takes place in a myriad of ways and about a diverse range of issues. It has been argued that unduly meeting the needs of a 'risk environment' can be conceptualised as a risk to the development of stronger communities. It can pose a risk to an organisation's ability to flexibly respond to social issues and needs, and a risk to the lateral thinking and boldness needed to work for change in these transformative times. It can also place a burden on the people who come together to participate and contribute to their social world. These concerns go to the heart of this Project.

2 *The Volunteers Protection Act 2001 and The Law Reform (Contributory Negligence and Apportionment of Liability) Act 2001, Wrongs (Liability and Damages for Personal Liability) Amendment Act 2002, Recreational Services (Limitation of Liability) Act 2002, Statutes Amendment (Structured Settlements) Act, 2002.*

3 See for example -Office of Recreation and Sport, (2004) *Risk Management and Insurance-A guide for Recreation and Sporting Organisations*, South Australian Government.

Executive Summary of Study findings

A total of 388 organisations responded to the survey (N=388)

Insurance

- Eighty eight percent of respondents (n=341) reported a rise in costs of insurance over the period 2001-2004
- Fifty five percent of respondents with some increase in insurance over this period had rises in four or more categories of insurance
- Of those who were able to estimate their percentage increase in the price of insurance (n=263) for 2002/3-2003/4:
 - One hundred and thirty one organisations, or 50 percent, reported this rise to be at least 20 percent
 - The reported mean percentage increase in the price of insurance premiums was 35 percent and the median increase was 18 percent
 - Eight percent of organisations (n=21) had rises of at least 100 percent.
- Fifty percent of the total sample had made an insurance claim over the period 2001-2004 and the greater proportion of these claims were for workers compensation, followed by motor vehicle accidents
- Smaller organisations, both in terms of paid and unpaid workers, were less likely to have made claims
- The most frequently reported main strategy of funding increases was for organisations to use their own resources, followed by cuts to services and additional fundraising.

Risk management

- Seventy eight percent of the total sample had spent more time on risk management since 2001
- Two thirds of respondents answered a question about the impacts of risk management. Sixty one percent of these respondents considered that risk management assisted them to better meet organisational goals
- The Study finds there are variations in how risk management is addressed amongst organisations.
- Some organisations report they have ceased key activities because of difficulties gaining insurance, and others have curtailed existing activities because of possible future risks. Providing child-care or youth related activities feature here.
- The time and effort that is needed to implement risk management is experienced by some organisations as a burden.

Survey method and sample characteristics

The intention of this Study was to gather information about risk management practices and insurance as experienced by the community sector in South Australia. In this Report I use the term 'community organisation' to refer to not for profit, community based and non-government organisations. The study questions are:

- Is insurance and risk still a pressure on the community sector in South Australia?
- What have been the impacts of a focus on risk management and insurance for community sector organisations?
- What have been the impacts of insurance and risk management on community work?

The research was conducted over the period September 2004 to March 2005.

Method

Survey questions were developed through a consultative process with members of community based organisations and community participants and through reference to the literature on insurance and risk management. Questions focused on the following areas; key characteristics of the surveyed organisation, insurance costs and claims, how these costs have been funded, perceived impacts and benefits of risk management, and the negotiations of policy contracts with insurers. A question was asked specifically about the South Australian Government's scheme of limiting liability by registering a Code of Practice for a fee. A final question was asked about what respondents thought might be done about the impacts of insurance and risk management. Ethics approval was gained from the Flinders University Social and Behavioural Research Ethics Committee.

A total of 388 organisations (N=388) responded to a survey. The survey was sent to either the Chief Executive Officer or Chairperson of all organisations on the Community Information Support Services Association (CISSA) data base. Survey responses were coded and entered into SPSS for Windows (Statistical Package for the Social Sciences). Responses were tabulated for each set of questions. Pearson Chi-square tests were conducted to explore the relationship between study questions and variables such as revenue, location, main area of activity. Survey respondents made extensive open-ended comments which were examined to identify themes. Not all respondents answered each survey question as is indicated in the discussion of the data findings. Respondents were informed they would receive summary information about the results of the survey.

Limitations of the study

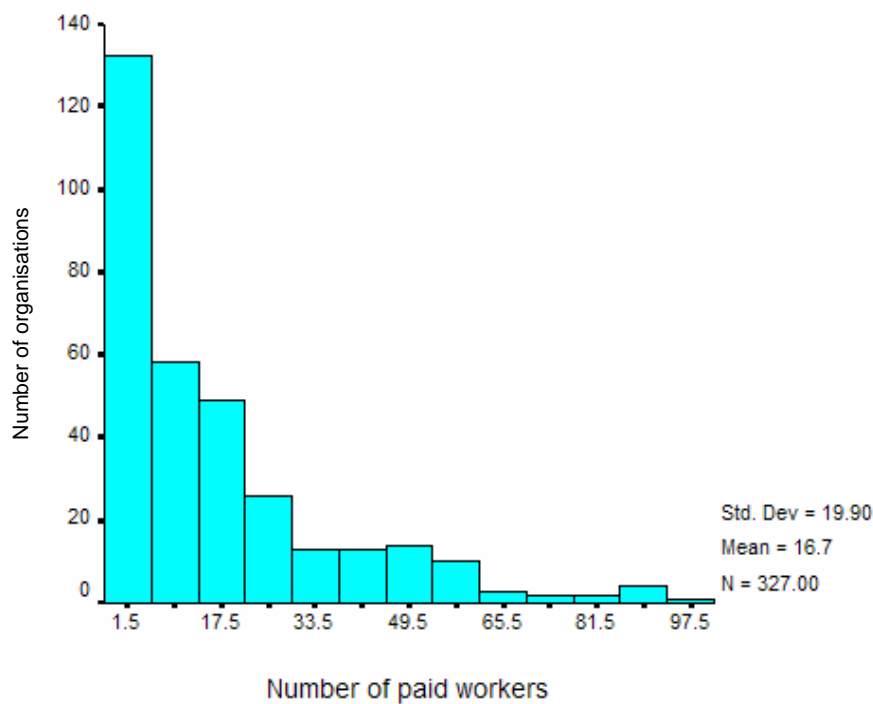
This is not a comprehensive study of all facets of the survey respondent's insurance costs and claims history. Rather the study reports on information about some areas of insurance and risk management based on the estimations and experiences of survey respondents.

Sample characteristics

There is considerable variation in the characteristics of survey respondents in terms of size of the paid/unpaid workforce, primary source of funds and the main activities undertaken. The majority of respondents are incorporated organisations with a small proportion (12 percent) identifying that they are not incorporated. Fifty three percent of organisations are located in metropolitan Adelaide and 27 percent in regional locations. Twenty percent of the sample has organisational sites or services in both multiple metropolitan and regional locations.

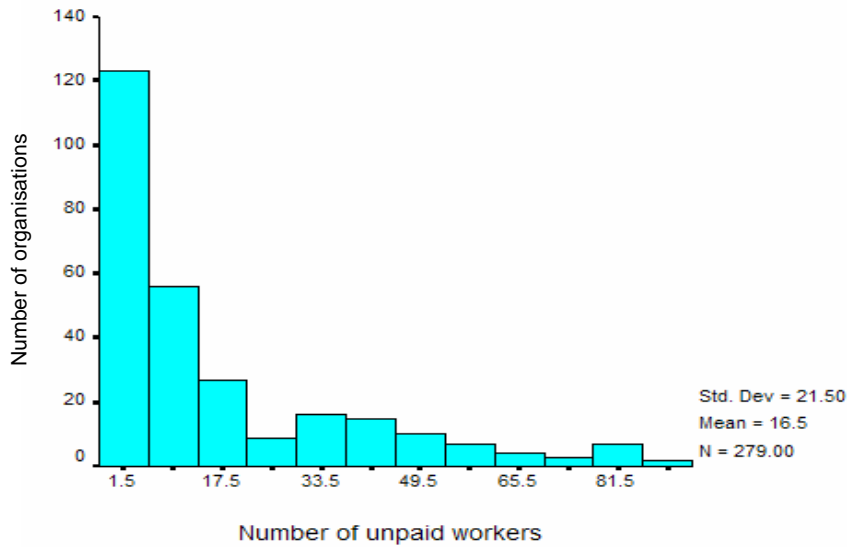
There is a range in the size of organisations. Figure 1 below depicts the distribution of paid workers for organisations with less than 100 paid workers. A third of the respondents (34 percent) have less than 5 paid staff members. Twenty six percent of organisations employ more than 40 staff and 5 percent (n=18 organisations) are large organisations with paid staff groups of over 500 in size.

Figure 1 Numbers of paid workers (for organisations with less than 100 paid workers).



There is a similar pattern in the range of unpaid workers with a majority of respondents who provided information to this question having small to medium sized unpaid staff. The figure following depicts the distribution of unpaid workers for organisations with less than 100 unpaid workers.

Figure 2 Numbers of unpaid workers (for organisations with less than 100 unpaid workers).

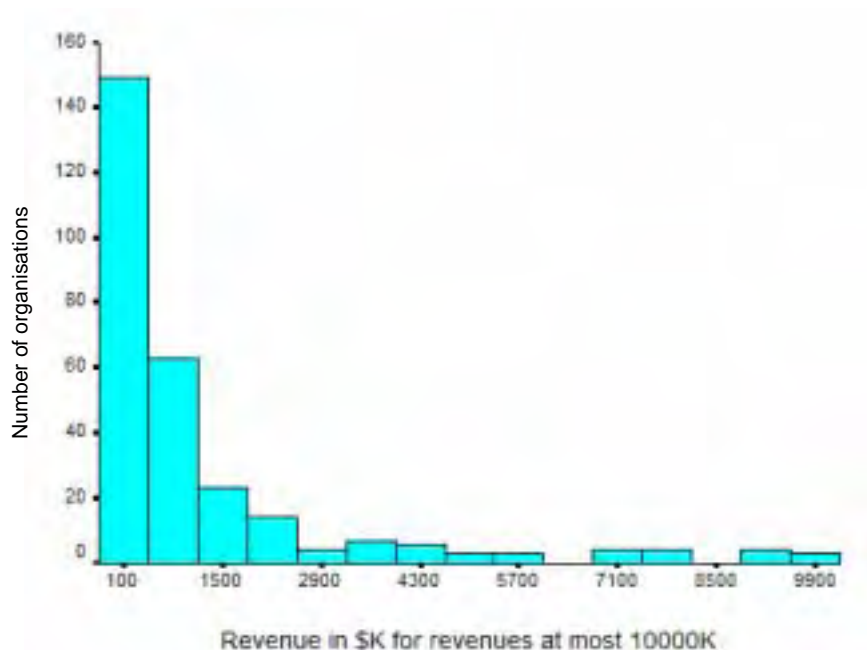


Funding and revenue

While most respondents identified they received funding from multiple sources, 30 percent of the sample ranked that their primary source of funding is from the Federal government. Twenty six percent of respondents received funds from State government sources and 6 percent received primarily local government funds. Thirty two percent generated their own revenue as their main source of funds.

Three hundred and seventeen organisations (n=317) responded to a question about their annual revenue. A small proportion of this number (5 percent) have annual revenue of less than \$10,000. At the other end of the continuum thirty four percent of respondents had annual revenue of over a million dollars. Figure 3 depicts the distribution of revenue for organisations whose revenue is at most 10 million. This comprised 90.5 percent of those who responded to this question.

Figure 3 Revenue



Organisations were asked to identify categories that best identify their main areas of activity from a list of options. The majority of organisations assigned themselves to more than one category of activity. The greater proportion of respondents (n=268 organisations), reported they are engaged in community or welfare activities. Thirty six percent indicated they are involved in health and 36 percent conduct education and training as a main area of activity. This is shown in Table 1.

Table 1. Organisation’s category of activity.
(n=384)

Category of activity	Number and proportion of total sample
Sports / Recreation	36 (10%)
Business / Union	12 (3%)
Religious	23 (6%)
Emergency services	28 (7%)
Law / Justice / Political	26 (7%)
Environmental / Animal welfare	34 (9%)
Youth organisation	50 (13%)
Arts and Culture	40 (10%)
Education / Training	139 (36%)
Health	140 (36%)
Community / Welfare	268 (70%)

The greater proportion of unincorporated organisations rank themselves as engaged in community/welfare activities (57 percent), education and training (45 percent) and health (30 percent).

Table 2. Unincorporated organisation's category of activity
(n=46)

Category of activity	Number and proportion of total unincorporated organisations
Sport recreation	6 (13%)
Religious	4 (9%)
Education / Training	21 (45%)
Community / Welfare	27 (57%)
Environmental / Animal welfare	7 (15%)
Youth organisation	4 (9%)
Emergency services	7 (15%)
Law / Justice / Political	6 (13%)
Business / Union	3 (6%)
Arts and Culture	6 (13%)
Health	14 (30%)

Insurance & Risk Management

Securing insurance

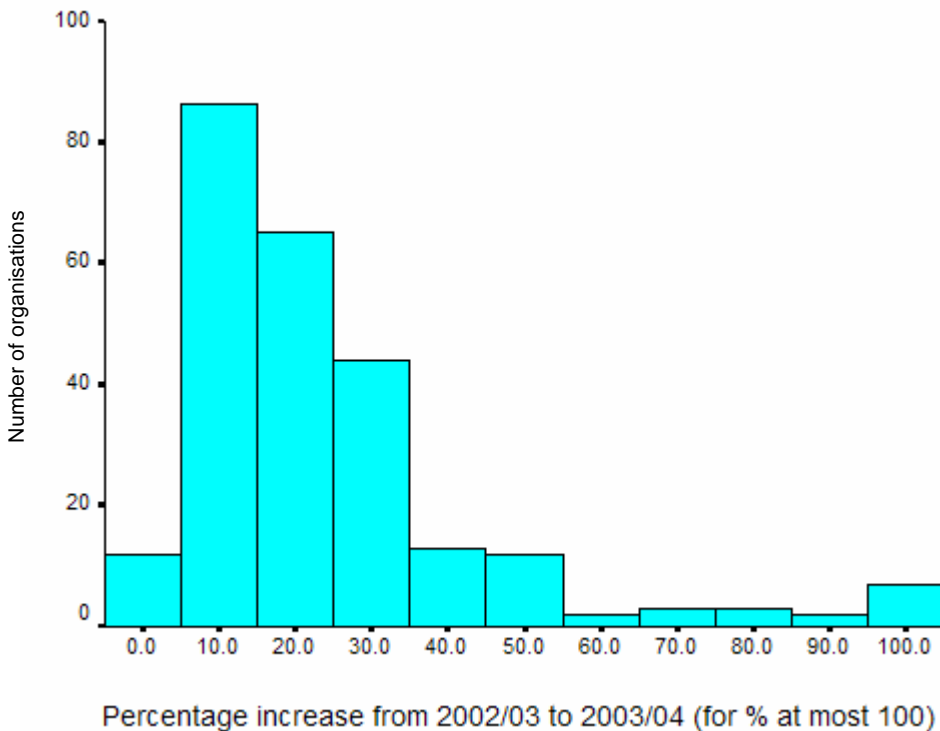
Respondents were asked whether they had been able to gain insurance for the financial years 2001/2002, 2002/2003 and 2003/2004. Those respondents who had secured insurance for each of the three periods numbered 361. Only a small number of organisations (n= 8) said that they could not obtain insurance at all for each year from 2001-2004. One of these organisations operates without it and they write: *"Very small group such as ours simply do not have the funds to be able to afford insurance. We would like it, but simply it is beyond our reach"*.

Rises in the costs of insurance

The majority of the sample (88 percent) reported that their total outlay on insurance increased over the period 2001-2004. Of the 361 respondents who indicated that they had insurance for each financial year between 2001-2004, 263 provided an estimate of the overall percent increase in the costs of their insurance premiums for the financial year ending 2003/2004 compared to the previous financial year.

Half of this number, a total of 131 organisations, reported an increase in the costs of insurance of at least 20 percent over this period. This is a higher proportion than the 23 percent of respondents in the 2005 OurCommunity survey that reported insurance costs had risen over 20 percent in a two year period. The following Figure 4 depicts the percentage increase in insurance from 2002/3-2003/4 for respondents whose increase was at most 100 percent.

Figure 4 Percentage increase in insurance 2002/3-2003/4 (for % at most 100).



The mean percentage increase in the price of insurance premiums for the period 2002/3-2003/4 was 35 percent and the median increase was 18 percent. The distribution is significantly positively skewed by the twenty-one organisations that reported increases in insurance that were at least 100 percent. One organisation reported a percentage increase from 2002/3-2003/4 of 600 percent. The percentage change in the Consumer Price Index in Adelaide for this same period was 3 percent (ABS, 6401.0).

Some respondents reported that were restricted in the activities they were insured to conduct because certain activities were deemed 'risky' by the insurance company or broker. This impacts on whether or how they continued to undertake these activities. Such 'risky activities' as reported, include the operation of boarding houses, crèches, childcare centres, fetes and outdoor fairs, and undertaking youth sexuality education. For example one respondent stated they "*Have been unable to secure insurance (at any price) for Boarding House style accommodation*". Another stated "*Our public liability also restricts our fundraising capacity – the sale of second hand goods (clothes, books etc)*".

A small number of respondents said that they had gained affordable insurance by going overseas or interstate as the following comments indicate:

Our insurance rose significantly in 2002-2003. The insurance company we are using for public liability is based off shore at Cayman Island. This was the only insurance available to our centre at the time of renewal -community centres with a childcare service are limited in their choice of insurance companies

Fortunately the 2004-2005 year we were able to make considerable savings by going to an interstate insurance company that only covers volunteer and not for profit organisations. SA based insurance brokers/companies were not interested and could not have cared less when told what we had achieved.

Purchasing insurance overseas can be problematic especially if the insurer is an Unauthorised Foreign Insurer⁵. This point is emphasised in the comment from the following respondent who had used an overseas insurance company that had subsequently ceased trading. They write:

Concerned that we previously used a company that was off-shore which were reinsured off – shore and have recently be deregistered – if we'd had a big claim that would have been disastrous. Problems getting cover for the child care component of the centre.

Responding to the rises in insurance

Respondents were asked to indicate by ranking a set of options in order 1-4, how they had paid for any increases they had encountered. Only a small number of organisations received extra funds from government to assist pay for rise in insurance costs. The most commonly reported means for financing rises was by drawing on the organisation's own resources. For 242 respondents this was the main method for resourcing the increase. Seventy three organisations reported they undertook additional fundraising and for 36 organisations this was their main method for financing increases in insurance.

Table 3. Paying for rises in the price of insurance
(n=314)

How organisations paid for increases in insurance	From own resources	Extra funds from government	Additional fundraising	Increased membership fee	Cuts to services
Numbers ranking item 1-4	268	42	73	44	85
Numbers ranking item as the main method of paying for increases	242	21	36	30	50

Meeting the additional costs of insurance without additional external resources inevitably diverts resources from other purposes. For example one respondent made the point that 'the cost of insurance has a large impact on service provision – effectively reducing the budget by 5 percent'. Other respondents made similar comments about what they have had to forego to pay for increases in insurance:

Insurance costs are becoming more difficult to cover – we now pay as much for insurance as we do to run some programs.

(We) ...spend one quarter of its total administration allocation on insurance to cover its varied activities held across the metro area and in some regional areas.

We fundraise to pay the gap between funding and real cost of service.

Many respondents (n=141) made open-ended comments about aspects of rises in the cost of their insurance. The use of language throughout these responses such as 'struggle', 'worry', 'burden', 'fiasco', 'stress' 'exploitative', 'outrageous', 'the last straw', 'appalled', 'totally out of control', communicates the emotion that surrounds this topic and the headache that insurance has caused for these organisations. A number of these respondents state they have had few claims or no history of claims. Reproduced below are comments from twenty-four respondents about these issues.

We are a 'not for profit' community service organisation and all funds are raised by members and put back into the community. Any subscriptions/dues are paid from member's own funds. Insurance premiums have placed our clubs and members under stress. The more who resign place additional costs on those who remain.

As a non-profit community based day care centre, the high rise in insurance premiums have to be passed on to the families who use our service as we can not afford to cut costs if we are to maintain good quality care. We already struggle to meet our running expenses.

Costs becoming too high for the risk our organisation has. Consideration for reduction of costs if no claims have been made over the years (31 years and no claims).

It is ridiculous to expect a small non profit groups as ourselves to pay the outrageous

5 See for example the NCOSS Insurance Information Sheet, *Unauthorised Foreign Insurer*.

insurance premiums. If the government did not assist with funding on this matter we would be unable to exist

Insurance costs above \$1000 per year... Very onerous for a small overworked self funded volunteer organisation to meet.

In non-profit orgs, the continued increase in premiums threaten the viability of living in retirement village. Our premium have risen 140 % since 2001.

Ours is a small organisation that is dependent on box office sales and local government. Increased insurance costs come directly off our bottom line and at the moment we are forced to put on more productions. Simply to generate additional revenue in order to pay insurance!

While we have been able to secure insurance for existing programs we have not been able to develop a most needed range of programs because of our inability to obtain public liability insurance to operate a crèche. It seems that to be able to run a crèche even with all best practices in place would put insurance way beyond the means of the organisation.

We are concerned about securing funds to keep viable and provide our core service activities. Insurance premiums for our on site crèche are heavily and unnecessarily loaded. We could find insurance issues and premiums might be too onerous and would be the last "straw".

We are small and struggling to meet fees. We negotiated professional indemnity for volunteer employees and most decided not to take it because they were "volunteers" and covered by their churches.

Many not for profit organisations are closing due to high costs of public liability insurance.

We run a self funded not profit organisation and since the introduction of higher insurance premium and the litigation that is following we have decided to reduce our activities.

Many, many small and self-funded community orgs have simply closed. Many more will not be able to open because of restrictive practices and the necessity of increased need for insurance cover.

Insurance is making it hard to plan activities we can't get affordable coverage for fundraising activities such as fetes, sales, open days. It is almost like having to say " we are offering our services but people can't attend because it is an insurance risk".

Public liability issues have a huge impact upon our organisation. Developing programs is far more difficult and time consuming.

As a not-for-profit organisation we find it difficult to budget for insurance of over \$6000 pa especially when it is significantly increased from one year to the next. The community based child care sector is currently negotiating re: premium reductions.

Insurance premiums have risen so much that they are now 10 % of the income of our organisation, with the insurance company informing us that premiums will continue their steep upward trend for at least another 4 years or more. This is impacting enormously on our services.

Our biggest problem is directors' and officers' insurance which has increased in cost and decreased in cover. Without it our honorary Board of directors would resign.

Our organisation is appalled at the percentage of stamp duty paid on insurance cover. We are non profit, community owned and managed and insure govt funded services run mostly by volunteer participation and are then taxed (GST and stamp duty) (GST is refunded but the stamp duty is more than GST) This hurts as we have to also address inflated insurance premiums.

The insurance fiasco took me a complete year to secure this was very detrimental to our organisation, committee volunteers and participants.

Our funding has effectively been reduced as insurance has increased. Process of getting quotes and apply (we using a broker) becomes more complicated and time consuming. Underwriters more likely to refuse even to quote – not interested in our business

The increase in insurance has been totally out of control in relation to the actual claims being sought. It is about revenue raising and should have/should be controlled by government policies. Insurance costs have impacted greatly upon the services our organisation can afford to provide. As an organisation we are happy to undertake risk management if our insurance costs will be reduced accordingly

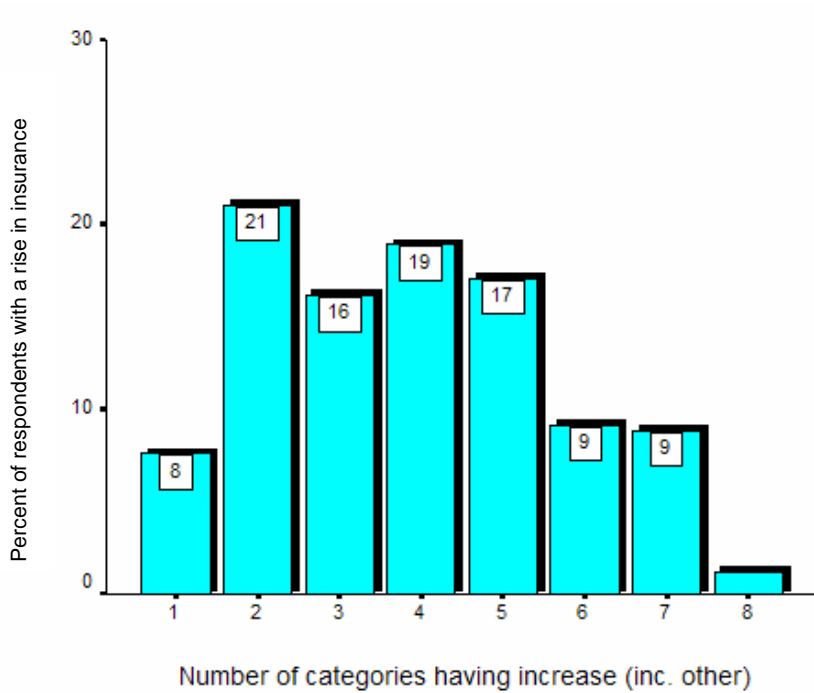
Hard for those who like doing community things to be able to do them. Killing off lots of sports/rec etc we took for granted when we were young.

Beyond public liability ...

Largely the insurance 'crisis' has been a story about public liability and professional indemnity insurance and these are the two areas of insurance monitored for the Federal Government by the ACCC. In this study these are also the two categories of insurance where the most number of organisations have reported a rise. However increased costs are reported as well across a range of types of insurances.

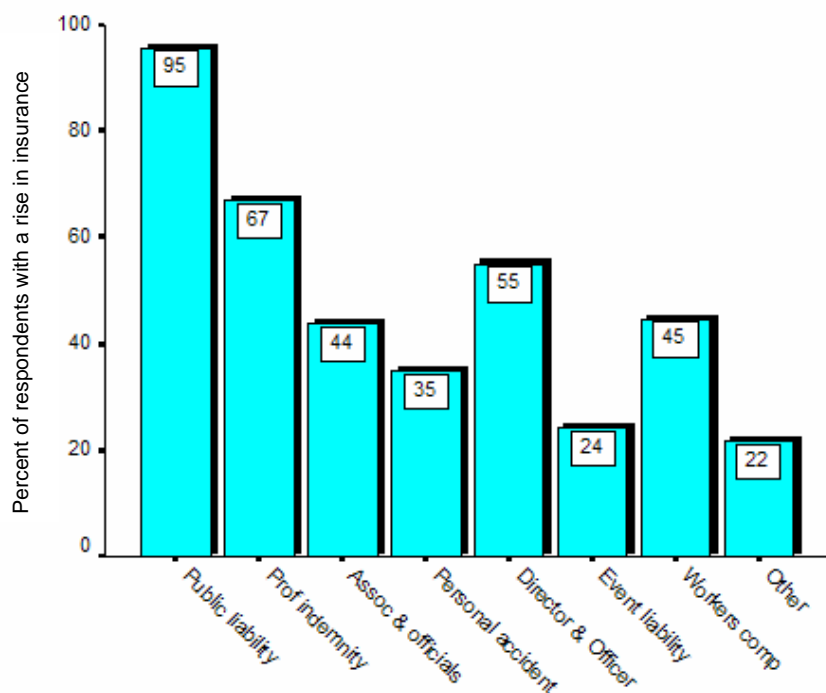
Respondents were asked if they had experienced a rise in the cost of insurance premiums to indicate for which type of insurance. They responded to a list of seven insurance types. Figure 5 depicts the proportion of respondents reporting an increase in insurance by the number of categories of increase. Eight percent of respondents had 1 category of increase, 21 percent of respondents reported two categories of increase, and 16 percent of respondents indicated three categories of increase. Fifty five percent of those who reported a rise in insurance had four categories or more of increase. Of this group 9 percent had rises in all seven categories of insurance.

Figure 5 Proportion of respondents reporting an increase in insurance by the number of categories of increase



Considering only those organisations that have experienced some rise in insurance premiums, the following chart illustrates for each insurance category, the proportion of organisations who indicated that they have had a rise for that category.

Figure 6 The proportion of organisations who indicated that they have had a rise by category of insurance. (n=328)



Cross tabulations of rises within insurance categories with variables of paid and unpaid workforce size, revenue, main activity and source of funding revealed the following examples of statistical significance.

Workforce size

- Organisations with 6 or more paid workers were more likely than organisations with less than 6 or more paid workers to have reported rises in Professional Indemnity Insurance ($\chi^2(1) = 10.442$, $n=244$, $p<0.005$) and Director and Officers Liability Insurance ($\chi^2(1) = 11.940$, $n= 244$, $p<0.001$)
- Organisations with 6 or more unpaid workers reported rises in Personal Accident Insurance ($\chi^2(1) = 4.660$, $n = 231$, $p<0.05$) proportionally more than those with less than 6 unpaid workers.

Revenue

- Organisations with revenues of \$150,000 or more, were proportionally more than organisations with smaller revenues to have reported rises in Professional Indemnity Insurance ($\chi^2(1) = 13.733$, $n=244$, $p<0.001$)
- Organisations with revenues of \$50,000 or more were proportionally more likely than those with revenue under this figure to have had a rise in Workers Compensation insurance ($\chi^2(1) = 8.583$, $n= 244$, $p<0.005$)
- However it was also the case that organisations with revenues of less than \$50,000 were more likely than those organisations with higher revenues to have had a rise in Event Liability Insurance ($\chi^2(1) = 8.114$, $n= 244$, $p<0.05$)

Main funding source

- Organisations with Federal or State Government funds as the major funding source were proportionally more likely than organisations who had other sources of funds to have reported rises in Professional indemnity Insurance ($\chi^2(1) = 12.539$, $n= 244$, $p<0.001$)

Main area of activity

- Organisations involved in Welfare and Community activities were proportionally more likely than organisations involved in other main activities to have had a rise in the cost of Personal Accident Insurance ($\chi^2(1) = 6.146$, $n= 244$, $p<0.05$)
- Organisations involved in Education and Training were proportionally less likely than organisations involved in other main activities to have had a rise in the cost of Personal Accident Insurance ($\chi^2(1) = 4.110$, $n= 244$, $p<0.05$)
- Organisations whose main activities involve Youth ($\chi^2(1) = 11.876$, $n= 244$, $p<0.001$) and Health ($\chi^2(1) = 11.777$, $n= 244$, $p<0.001$) were proportionally more likely than organisations involved in other areas to have had a rise in Event Liability insurance.

Who defines the risk and on what basis'?

An issue which emerges in the open-ended responses is how the insurance industry defines and interprets 'risk' and on what basis. Some respondents suggested that interpretations of risk seem to be outside of any reference to a transparent evidence base or schedule reflecting an understanding of what their organisation does. In other words, what is questioned is the basis or formula by which risks are calculated and premiums priced, or the actuarial science. If there is no history of significant past claims, and no objective or clear mathematical basis for determination of future risks and their costs, then how are the price of the premiums established? One respondent put it that *"If we were in a zoo or wildlife park or similar, insurance costs would be easier to obtain "at a cost"! As our service is classified as a hobby – it is in the 'too hard basket' and nobody wants to know about it!"*. The theme of who defines the risk and on what basis is echoed in other comments as can be seen below:

The seven different companies that I approached were consistent in their belief that any activity other than sitting and listening was dangerous. When I mentioned childcare and dance classes they immediately doubled the policy amount.

We are an educational body working in the area of sexuality education for school students, their carers and school communities. We have been told by our broker that, even though there has never been a claim in this area, that the reaction of insurance companies to 'children' and 'sexuality' being involved immediately rates a high premium.

It is clear that premiums are no longer calculated on actual risk of individual businesses.

Our concerns relate to professional indemnity insurance which is over half of our insurance costs. The insurance providers do not understand the work we do. As advocates we do not give advice or provide a service. We seek things on behalf of others. Risk is minimal. Cost is not matched to this. Our small volunteer community organisation examined the possibility of obtaining insurance some years ago but the cost would have taken more than our annual income. We therefore have none.

We usually manage to find some way of covering most situations – but we are unable to hire the building out to anyone who does not have insurance. Everyone who has their own insurance must be for 10 million

According to a survey undertaken by www.communitypre.co.uk pre 2001, no small community organisation made a claim against any insurance co. When I repeated this to all of the co.'s I approached for insurance I found that we have been lumped in the same category "community agencies" as the larger organisations such as large Church organisation that had made claims.

Insurance still tied to generic risks and not to specific client risks and the clients proven initiative to limit risk exposure.

There were exceptions to the views expressed above. The following respondents state that they had managed to locate the services of an insurance broker who understood the nature of their activities and that this had a positive impact on the price of their premiums.

We find our insurance company very supportive and helpful in all areas as they deal specifically with child care centres. They understand how they operate and issues that may arise.

We have an insurance broker involved with our group and he is assisting us review our insurance package.

With the right broker, good relationship with that broker and sensible management you can negotiate reasonable premiums.

Strategies for managing insurance rises

Maintaining a relationship with an insurance broker sensitive to the work of the community organisation is a way that some organisations have managed to locate affordable insurance. Purchasing insurance through a peak body or larger entity with which they are associated is another. Aggregating group buying power to facilitate cheaper premiums is a point noted by the following respondents.

We buy our insurance through our industry peak body, who have secured a broker to search the world for the best cover. This organisation arranges insurances on a national basis and would therefore enjoy a reasonable purchasing edge

Need to organise some form of 'group insurance' so that brokers will be able to offer a lower premium

Our insurance comes under LGA insurance which makes insurance considerably easier.

Centre changed insurance broker and accepted by brokers who cover local government. This improved our premium costs and insurance.

All our groups are covered by the same insurer who invests a lot of time and money back to our sector in risk management – publications and training

One respondent used the metaphor of a 'shield' to convey an approach where they obtained insurance cover under the auspice of a larger entity. As they wrote:

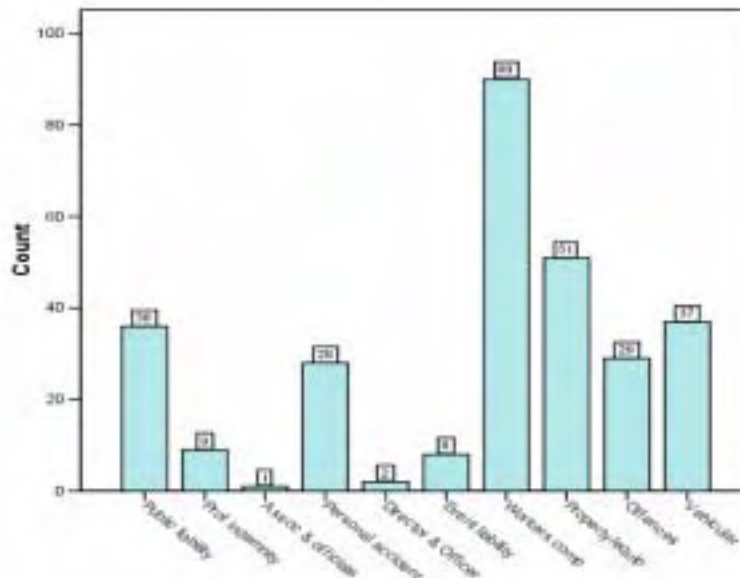
As a group we are somewhat shielded from the problem due to our insurance being carried by the State Govt and through a state umbrella incorporated group. However we have been asked to manage risk in a similar manner to the State Government Department employees and have accordingly taken on board the assessment of risk before starting an activity.

Claims

One of the issues raised through the Australian Senate Inquiry in 2002 was that many of the community organisations facing increased premiums had not had a history of problems such as large claims or payouts. In the 2002 *Australians Living on the Edge Survey* of 2,638 agencies, ACOSS gathered data about insurance for 2001-2002. Agencies surveyed by ACOSS had a low level of public liability claims (1 percent of total claims) and professional indemnity claims (3 percent of total claims) over the preceding two years.

Survey respondents were asked if their organisation had made an insurance claim over the period 2001-2004. Of the 375 organisations that responded to this question just under half of them (n=187) reported they had made a claim over this period. The majority of these claims were against workers compensation insurance.

Figure 7 Number of claims within categories of insurance



Cross tabulations of respondents information about claims with the variables of paid and unpaid workforce size, revenue, main activity and source of funding revealed the following examples of statistical significance.

Workforce size

Larger organisations, both in terms of numbers of paid and unpaid workers, were proportionally more likely to have made claims than other sized organisations as the following reveals:

- Those with 6 or more paid workers were proportionally more likely than those with 5 or less paid workers to have made an insurance claim over 2001-2004 ($\chi^2(1) = 74.639$, $n=359$, $p < 0.001$)
- Workers compensation claims were proportionally more likely to be from organisations who have 6 or more paid workers than those with less paid workers (by Fisher's exact test, $n=116$, $p < 0.05$)
- Those with 40 or more unpaid workers were proportionally more likely than those with less unpaid workers to have made an insurance claim over 2001-2004 ($\chi^2(1) = 14.269$, $n=331$, $p < 0.001$)
- Organisations with more than 100 unpaid workers were proportionally more likely than those with less unpaid workers to have made a claim for personal accident insurance ($\chi^2(1) = 3.952$, $n=104$, $p < 0.05$)

Main area of activity

Each of the following organisations types were proportionally more likely to have made claims against Public Liability Insurance than other respective organisational types using Fisher's exact test (n=114);

- Sport recreation (p<0.05)
- Arts and Culture (p<0.001)
- Environmental/Animal welfare (p<0.005)
- Youth organisations (p<0.05)

A number of respondents in open-ended comments said there is an inconsistency between the price of an insurance premium and the previous claims history of their organisation. Again this relates to the question how are risks established and premiums priced. The following comments illustrate this point:

We have made no claims – yet our insurance premium continues to rise – no benefit for making no claims. Risk management policies are being developed that may help – but reduce the services we are able to offer as we spend more time managing risks that may or may not happen

We don't make any claims yet we continue to get rises in premiums and limits on what we can do.

We have a huge increase in paperwork to cover activities which have always been covered, and we have never had a public liability claim.

Insurance costs (premiums) have been reduced in recent years by accepting a larger excess on claims which has meant that we have not been able to claim on several small claims because the excess was too high

Risk management

Since 2001 a trend concurrent with increases in the cost of insurance has been an increased focus on internal organisational risk management. As outlined earlier this has been recommended as one way to respond to the issues. In practice, as outlined by TheOurCommunity Team, organisational risk management follows a standardised procedure starting with exploration of "what can go wrong" and "how can it happen", "what can be done to prevent it" and "what should be done if the imagined risk eventuates" (TheOurCommunity Team, p. 2). Typically this will involve the collection of information by designated staff about likely or possible risks with analysis of what level of risk is deemed tolerable and how it should be managed. The outcomes of this assessment process determine the extent of changes needed within the practice or systems of the organisation.

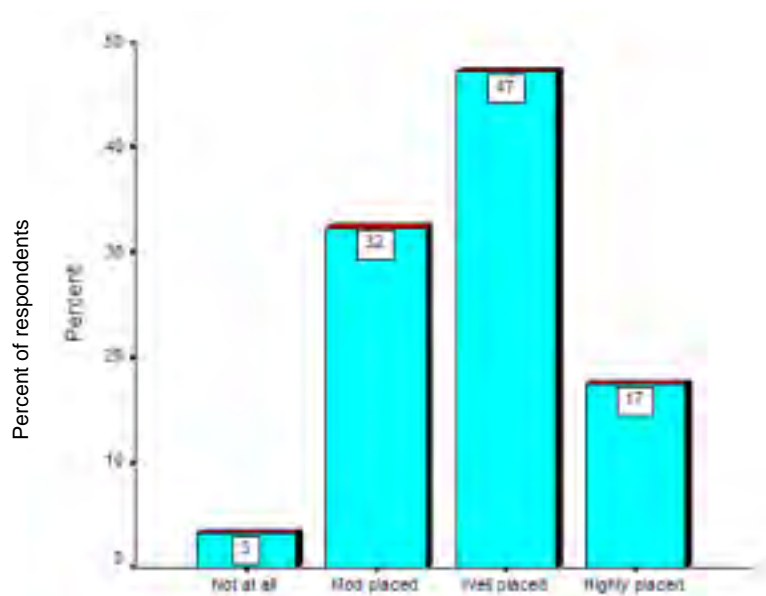
The findings of this survey are that 78 % of the total sample (n=301 organisations) had spent more time on risk management since 2001, with 63 % of organisations having in place a risk management policy. Some organisations had employed staff members to undertake risk management responsibilities and just under half of the total survey respondents (48 %) had community participation in organisational decision making on risk.

From the data 4 distinct approaches to managing risk were discerned. They are:

- Comprehensive approaches where risk management is integrated with other organisational practices (Occupational Health and Safety, Quality Improvement etc)
- Risk management for external events and activities
- Increased vigilance and avoidance
- Education and training

Survey respondents were asked to rank on a scale how well placed they felt to respond to unforeseen risk because risk management processes were in place. There were three hundred and ten responses to this question. Two thirds of these respondents (64%) said they were either well placed or highly placed to respond to risk because of their organisational risk management practices. Only a very small proportion replied that they were not at all well placed to respond to risk because of the systems they had in place. These responses are shown in the following Figure.

Figure 8 How well placed to respond to risks (where risk management exists)
(n=310)



A further series of questions asked respondents to indicate their experiences of the impacts of putting in place risk management strategies. They did this against a listing of six options of possible positive impacts and six options that might be possible negative impacts. These options were drawn from literature on organisational risk management in the human services. The results are shown in Table 4 below. Two thirds of respondents to a question about positive impacts viewed risk management as enabling them to better meet their organisational goals (61%), and a slightly lower proportion saw that it was positive in ensuring that volunteers are better protected (57%). By comparison a smaller proportion of respondents to this question considered that risk management had a positive impact in assisting them securing affordable insurance (26%).

A smaller number of respondents answered a question about their perceptions of the negative impacts of putting in place risk management (n=134-138). Of these respondents, 18 percent considered a negative impact of risk management was being less able to attract volunteers to their organisation. A smaller proportion reported that a negative impact of risk management was to cut services (15%).

Table 4 Perceived impacts of risk management

Impacts of putting in place risk management strategies	Proportion of respondents who indicated this to be a positive benefit of risk management (n=331-320)	Impacts of putting in place risk management strategies	Proportion of respondents who indicated this to be a negative benefit of risk management (n=134-138)
Better able to meet organisational goals	61 %	Negative impact on meeting organisational goals	13%
Volunteers are better protected	57%	Less able to attract volunteers	18%
Better able to secure affordable insurance	26%	Reduced community development	10%
Community participants feel more secure	32%	Less community participation in the organisation	10.5%
Better public profile	27%	Reduced advocacy	5%
Better able to secure funds	19%	Services and activities cease	15%

In open-ended comments many respondents note the benefits to their organisation in implementing risk management. A common perspective was that respondents saw that that risk management is sound organisational practice dovetailing with best practice management and governance requirements- ie standards, audits, contract requirements, quality processes. Accordingly, risk management is more than responding to issues of insurance. This is captured in the following comment:

I think organisations have generally become much more aware of risk management issues, regardless of any connection with insurance cover. The ... rollout of the service excellence framework, as well as increasing commitment to accreditation on the part of organisations has also increased awareness of risk management issues.

Notwithstanding the multiple benefits of risk management some respondents comment on the significant investment of time it requires. This is especially onerous for smaller groups who do not have the resources to allocate specifically to this purpose. It can be a two edge sword as conveyed in the following response, *'it's complex and has taken up a lot of time over the last 3 years – the financial burden has been great – it is however imperative to address risk management in a professional and systematic way'*. The burden of implementing risk management (in terms of time, money, and opportunity cost) is a theme echoed in the following comments:

It is clearly an issue to be taken seriously, but I suspect it will kill community involvement in future as organisations (in particular government bureaucrats overly concerned about risk minimisation put in place obstacles to provision of services other than by professionals or businesses)

Risk management does have positive benefits for our organisation. However the organisation does not have the funds to have more time to implement risk management. It has been a slow process getting started.

We actively sought quotes from other insurance brokers and as a result managed to save thousands of dollars. We see the need to put risk management tools in place but lack the time and staff and money to do it.

Too many hours and therefore wages to maintain good risk management compared with high cost of insurance.

More time is needed to be used to review the issues. This is a matter of great importance to an organisation such as ours that services people with a disability. We have experienced difficulty in attracting committee members therefore the onus of organisational management and administration is a burden to only a few. More committee members would mean greater ability to address this, and other issues.

I see risk management as worthwhile and important, however can consume a lot of time/ paperwork/follow-up. Which I don't have the time for in a meagre 20 hrs week

Risk management strategies are useful to protect staff; volunteers and users but few affordable resources to not for profit agencies to develop these strategies. Insurance companies have not scrutinized our practices but if our practices were poor and led to claims our premiums would increase.

Another theme in the open-ended comments is that risk management can be confusing and intimidating especially for community participants. Here risk management can contribute to an organisational culture of scrutiny and analysis and this can harden a 'fear barrier'.

We are a community based organisation of 17 year standing and have been there to

provide free, confidential and impartial options for our clients, primarily farmers and small business (in our area). The current focus on risk management and controls is very intimidating for the volunteers who serve on the committee of management and also increase the workload of both paid and voluntary staff with no appreciable increase in output. In fact we have less time to concentrate on client contact.

Takes time and energy away from core business

Costs too high

Less personal responsibility for actions of individuals

Lost community spontaneity and responsiveness to consumer wishes

Can be a barrier to recruit/retain volunteers in terms of accountability, perceived liability and "fear factor".

Risk management is very time consuming, although necessary and does detract from other community development work.

For a small community agency the paperwork and management issues are time consuming. It takes time away from other priorities.

While it can limit the extent clients can be assisted by our organisation – we are limited to giving "information" not "advice" – it does make us extremely careful when acting on a client's behalf/assisting them with finances

Staff now spend so many hours each week documenting every event and conversation with parents that it takes away from the children we care for.

In some aspects of volunteering to assist vulnerable populations increased risk management was very necessary – basic police checks and referee checks. We were already doing these things. Transport is a more difficult one. Generally we appear a lot less trusting of volunteers and this puts some people off.

Communication with insurers

Respondents were asked a set of questions about communication with their insurance company about the implementation of internal risk management and the pricing of premiums. In response to whether the insurance company required risk reduction strategies as a condition of insurance, 24 percent of organisations (n=89) responded that this was the case. Thirty five percent of respondents (n=126) said they had approached the insurance company themselves to negotiate lower premiums and 12 percent of respondents (n=44) stated they had been directly approached by the insurance company with offers of rewards for the installation of risk reducing strategies.

Table 5 Communication with insurance company

Did the insurance company require risk management to be in place as a condition of insurance? (n=373)	Have you approached your insurance company to negotiate lower premiums post risk management? (n=358)	Offers of reward for insurance company because risk management is in place? (n=368)
Yes 89 (24%) No 250 (67%) Unsure 34 (9%)	Yes 126 (35%) No 231 (65%) Unsure 1	Yes 44 (12%) No 280 (76%) Unsure (12%)

Cross tabulations revealed the following examples of statistical significance.

Main area of activity

For each of the following activities organisations involved in these activities were more likely than those involved in the respective other main activities to have received offers from insurance companies or rewards of lower premiums. Using Fisher's exact test (n=321):

- Sport recreation (p<0.005)
- Arts and Culture (p<0.005)
- Environmental/Animal welfare (p<0.05).

Some respondents made the point that, in their experience, there is a weak relationship between internal organisational risk management and pricing of insurance premiums. This is conveyed in the following comments:

They are not interested in our risk management strategies but simply look at our number of customers involved and the number of the days that activities occur on.

We put a lot of time and effort in the development of our risk management information. Unfortunately the insurance company rep said it doesn't make any difference to our premiums. Our premiums went from \$3625 in 2001 to \$14430 in 2004.

Seems like the customer has to initiate the idea that appropriate risk management strategies could lead to reduced premiums by the Insurers – no proactivity by the Co's in our experience. An area where perhaps we are over sensitive or 'scared' of reality (ie insurance and claims, suits etc)

In a "low" risk org that is a not for profit, charitable group – Insurance is costly and concern each year knowing that fees will rise whether you have never made a claim.

There are no reward schemes for “doing right”

Don't think risk management affects the premiums of our insurance. We have been going for 25 years and the only thing that has affected our premiums – are the liability issues affected by govt policy.

Our record has been without any claims for accidents occurring within our scope of responsibility/duty of care.

Practice has been positive but ridiculous premiums do not match the low risk and good management that happens.

Government scheme of limiting liability by registering a Code of Practice

Under the State government *Recreational Services (Limitation of Liability) Act 2002* which came into operation on the 1st July 2003 providers of specified activities can register a Code of Practice that can limit liability. As outlined by the Office for Recreation and Sport the Act aims to:

Assist community organisations to obtain insurance by further limiting the chance of liability (like a risk management strategy), and to encourage insurers to offer organisations who agree to abide by a code, lower insurance premiums (2004: 5)

A total of 374 responded to a question about whether or not they were aware of this scheme. Eight percent (n=30) were aware of the scheme and almost the same proportion was unsure. The greater majority were not aware of the scheme. Only four organisations that responded to this question said they had registered.

Table 6 Awareness of the scheme to limit liability by registering a code of practice (n=374)

	Yes	No	Unsure
Aware of govt. scheme of limiting liability by registering code of practice	30 (8 %)	318 (85 %)	26 (7 %)

Cross tabulations with independent variables revealed the following examples of statistical significances:

Those organisations whose main activity involves the following were more likely than those organisations with other main activities to be aware of the State government scheme of limiting liability by registering a Code of Practice. Using Fisher's exact test (n=371):

- Sport recreation (p<0.01)
- Arts and Culture (p<0.01).

Insurance and risk: unravelling civil society?

This Report is about insurance and risk management and how they are experienced by a sample of 388 community organisations in South Australia. The Study confirms what is widely known: that these issues translate into considerable financial pressure and are a source of ongoing worry, struggle, anger and frustration for many. In times of rising levels of poverty and demand for services in South Australia, the fact that some community sector organisations are cutting services, and redirecting resources to pay for insurance or to put in place risk management, is particularly disturbing.

The findings show that costs of insurance, based on the estimations of many respondents, continued to be high in 2004 compared to the previous year. These increases are at rates considerably higher than the percentage changes in the Consumer Price Index. Some organisations report that they now pay as much for insurance as they do to run some programs. Many organisations also state that they have low levels of risk. The impact is especially acute for smaller organisations without the market clout to negotiate with insurers, or the resource base to finance the rises.

The consequences of this situation are multi-dimensional. Many organisations are using their own organisational resources to pay for the increased costs, whilst others report they have had to cut services to find the money for insurance. A high proportion of respondents to this Study had spent more time on risk management since 2001. The positive aspects of increased risk management are seen as many, and it is commonly viewed as part and parcel of best practice organisational approaches. Only a small proportion of respondents report that risk management contributed positively to their ability to secure affordable insurance. It was also noted that the effort to implement risk management diverts resources, time and attention away from other purposes. Again, smaller organisations with little or no capacity to appoint designated staff to undertake risk management feel the burden especially.

An increased focus on risk is a result of many entangled factors. It is a consequence of changing market conditions that occur within a cultural context of an increasing litigious and 'risk conscious society'. Furthermore organisational and government practices have adapted to, and in various ways, contribute to a risk culture. Many respondents note the complex nature of these issues. As the following respondent expresses it:

Unfortunately we live in a litigious society, rather than a society which encourages an acceptance that sometimes we need to be prepared for adverse outcomes if we wish to engage in certain activities.

Somewhat paradoxically these 'risk' developments sit alongside government policy initiatives that seek to support volunteering and the development of community capacity. Given this complexity, practical strategies to respond to the negative and constraining aspects of risk are required at many levels. Some suggestions are raised below.

On what basis are 'risks' calculated?

One of the recurring themes from respondents is a questioning of the basis by which the insurance industry determines what constitutes a 'risk' for community sector organisations. There are many aspects to this theme. Many community organisations in this Study report that they have not had a large claims history. What therefore is the relationship of a claims history to establishing risks and pricing the premium? Secondly, questions are raised about the knowledge and values used to define a 'risk'. What is the underlying value base, assumptions and knowledge used by insurers to construct certain activities as 'risky' and therefore more costly to insure? For instance, against what criteria and according to what knowledge basis is youth sexuality education a risk? Or running a boarding house? Or having a fete? Or dancing? How does an assessment of a risk by an insurer translate into the premium price formula?

The insurance industry treats the community sector as homogenous. In other words activities and services are treated as 'alike' when in fact the community sector is incredibly diverse and is shaped by differences in culture, needs, organisational structures, resource bases and so on. There is a quantum difference between a small community group operating largely from a volunteer base and a large not for profit organisation. How does the complexity of the activities undertaken by a diverse range of community organisations feature in the calculations of risks?

What of the risk of not taking risks?

Community organisations deal with risks and take risks in the pursuit of goals of social justice, meeting human needs and supporting stronger communities. A focus on risk as defined by the insurance industry is from a definition of '*what may go wrong*' in the future. There is another aspect to risk and that is what might be the costs of not acting now. What of the risks to civil society of not responding to injustice and inequity, or of not engaging in community participation? For instance there is now solid evidence that equates social and collective participation with health benefits. What of the future health and social costs if people stop participating, because they are burdened by risk management or the efforts to find the money to pay for insurance? Almost half of the respondents to the survey had community participation in internal risk management processes. This suggests an opening for 'community' and client perceptions of risks in defining and assessing risk. This strategy is a logical extension of community participation in program planning and evaluation-current community organisation practice.

Dialogue and negotiation with insurers?

There also appears to be scope for greater dialogue and negotiation between community sector organisations and insurers. Examples are given in this survey where community organisations have successfully negotiated lower premiums. The key elements of this communication, as indicated by these respondents, seem to be locating an insurer who knows the community organisation's business, knows the nature of possible risks in their context, and how the organisation is addressing them. Some respondents suggest that there is a place for more brokers who have knowledge in certain areas (ie aged care, child care, the work of community centres) and that this would be helpful to them.

Greater education, training and practical assistance for community sector organisations in negotiating these matters, along the lines of that provided by NCOSS, would be useful to assist in these processes. Dialogue between representatives of the insurance industry and the community sector about the work of the sector, and the values and knowledge behind definition of risks would also be of value. A formal round table discussion might be one way to further this dialogue.

The role of government.

State and Federal government policy has intervened to respond to these issues implementing legislative reform and encouraging schemes to limit liability. There is evidence from this study that these initiatives have not yet reduced the extent of the problem for community sector organisations. For instance responses to a question about the State Government scheme of limiting liability by submitting a Code of Practice (code) for a fee, show a low level of knowledge about the scheme. One respondent who did know about it said it was 'costly and cumbersome'. There appears to be further scope for additional immediate and medium term initiatives to assist community sector organisations.

- Review of Government contracting. A number of respondents drew attention to the fact that the funding contracts they receive from State government departments require certain minimum levels of insurance to be held. For instance contract requirements to hold Professional Indemnity and Public Liability Insurance of certain levels. Examples were also given of local councils doing the same. One respondent called this 'upping the stakes' and gave an example of a council 'requiring them to have Public Liability Insurance for \$20m compared with \$10m last year'.
- Government contributions to insurance costs. A recurring suggestion put forward by some respondents in the Study is that government make a financial contribution to the increased costs of insurance. There were two scenarios mooted. One is that government funders cost into funding agreements the costs of insurance. The second scenario suggested is that government consider allocating a payment or rebate to community sector organisations to assist them with unaffordable insurance costs. This was suggested as a short term one until such time as legislative and other policy instruments have a positive impact on the obtainment of affordable insurance.
- Support for the exploration of group insurance schemes that are cost effective for participating groups.

Ongoing monitoring

This Study is a picture of the pressures and the impacts of risk on community sector organisations at a point in time. The ACCC conducts regular monitoring for the Federal government on the issues of Public Liability and Professional Indemnity Insurance and information is collected from insurers. It would be useful to have regular monitoring of the impacts from the perspective of community sector organisations in South Australia. To avoid the danger of creating another burden for these organizations, it is suggested that this effort be co-ordinated by the SA Council

of Social Service and connected to national data collection being undertaken by TheOurCommunity team. A further advantage of this process is that it would allow for comparison across jurisdictions.

It is hoped that this Report will contribute in some way to an ongoing discussion of what can be done to assist community sector organisations maintain freedom and flexibility to meet their goals, while balancing a concern for risk. As one respondent said about the impact of insurance they are *“outraged by the inordinate attention this topic receives. We’ve all got better things to do eg being human, caring for others for the right reasons”*. Another made the comment, *“as a community along with our governments we should never have allowed this to happen. We need to step in and bring common sense and reason back into it”*.

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Insurance

“risk-to act without regard of the danger involved (Oxford Dictionary)

“Insurance; to guarantee or protect

“Ensure (c.1385,from Anglo-Fr.enseurer, from en-”make” +O. Fr.seur “sure”, probably influ. by O.Fr. assureur (Ety

“to ensure against risks’ (Oxford Dictionary)

Insurance

“risk-to