# The evolving risk *for* aged care providers

## Risk management has become a governance responsibility

Following reforms to the Aged Care Act, providers are under increased pressure to demonstrate risk management is being actively addressed at the board level. Governance obligations now include the duty to identify, assess and mitigate risk as part of ensuring the ongoing safety and sustainability of services.

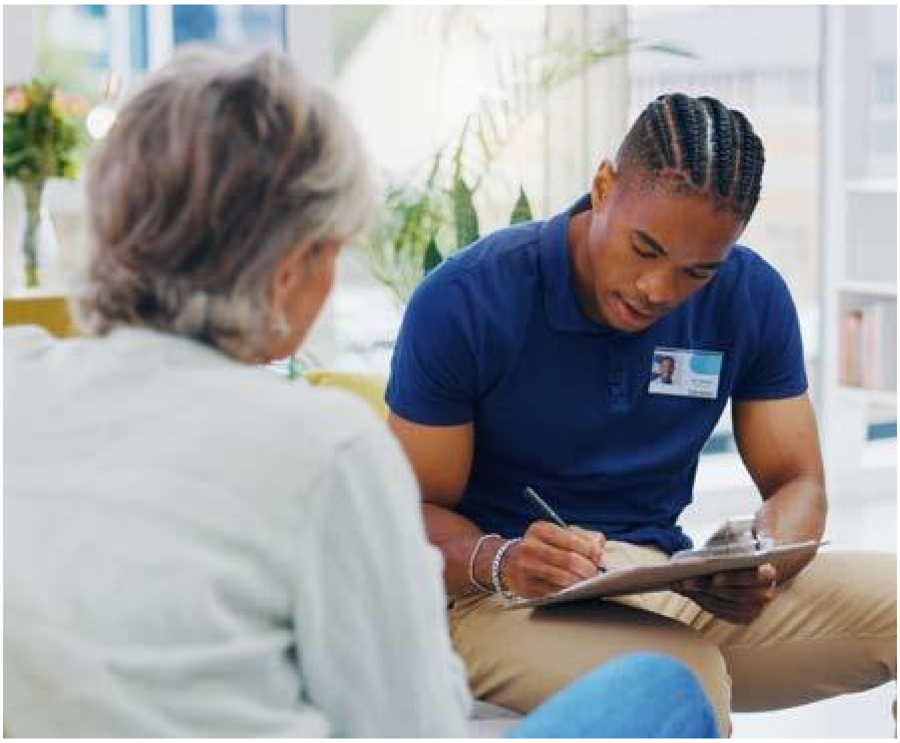
In particular, it is vital to secure accurate insurance valuations with clearly defined coverage. Without them, boards may fall short of their obligations even if no claim has occurred.

### A case study

This is perhaps best illustrated with recent example from rural Victoria involving a residential aged care home that carried out a major building project between 2019 and 2024. The timing of these works coincided with a period when construction costs rose significantly, material supply was protracted and labour shortages were common.

The provider was guided by their insurance broker to recognise the potential risk this posed and secured an updated Reinstatement and Replacement Valuation for Insurance before the new buildings were handed over by the builder. This resulted in a 36 per cent increase in the originally proposed Property Sums Insured, but it was worth it.

Later the same year, an isolated weather event struck the site causing



extensive damage. The reinstatement works associated with this damage exceeded four million dollars. If the Property Sums Insured had not been revised, the Under-Insurance clause would have been triggered and the amount claimable could have been proportionately reduced by the amount the site was found to be underinsured.

### Reinstatement gaps are a silent exposure

Many providers often rely on general property valuations or even real estate valuations which include a suggested 'insurance figure'. However, these estimates rarely reflect the true cost of reinstating aged care infrastructure, particularly when factoring in construction timelines, specialist design requirements or regulatory compliance specific to aged care.

Any shortfall in a claim will inevitably lead to funding gaps that can compromise service delivery, delay rebuilds, prolong care disruption or divert already stretched resources.

The risk landscape for aged care providers is shifting rapidly. As reinstatement costs continue to rise and regulatory scrutiny increases, many boards are re-evaluating how well their insurance programs align with their operational realities.

Residential aged care providers operate in a uniquely complex environment – one that blends property ownership, clinical care and vulnerable populations. In this setting, accurate risk assessment and insurance adequacy are not just financial decisions, they are governance imperatives.

### Specialist insight makes a measurable difference

It is not just the amount for which a property is insured that is a cause for concern. Residential aged care homes face exposures that differ significantly from other property-based businesses. From liability considerations to indemnity period structuring, policies that are not tailored to the care environment often contain gaps that only become visible after a claim is made.

It is important aged care providers engage with insurance professionals with specialist aged care expertise as this can help them identify blind spots by drawing parallels with other providers. Independent valuations, sector-specific cover advice and an understanding of evolving compliance requirements all contribute to stronger program design.

Generally, aged care providers tend to face similar challenges and often have similar claim experiences. An adviser who can illustrate areas for improvement or concerns based on real-life examples can help providers better understand and make informed decisions about the risks they face. While insurance may not be the sole solution, in many cases risk management processes or procedures can minimise or in some instances remove these exposures.

### Considerations for aged care boards

As aged care providers prepare for accreditation, reporting or facility expansion, insurance should be considered as part of the broader organisational risk strategy. Key questions for decision-makers include:

- Are our building and asset values independently and recently assessed?
- Do our policy limits align with today's reinstatement costs?
- Have we reviewed our coverage with someone who understands aged care risks?

The answers to these questions can determine how effectively boards navigate both expected and unforeseen disruptions.

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