

15 June 2021

Manager
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To the Manager

Reinsurance pool for cyclones and related flood damage

Thank you for the opportunity to provide a response to the Reinsurance pool for cyclones and related flood damage consultation paper. This paper seeks comments on key design features of a reinsurance pool for cyclones and related flood damage, with the aim to improve the accessibility and affordability of insurance in cyclone-prone areas.

As the peak body for the caravan parks industry in Queensland, this is an issue which impacts many of our members, which are largely micro to small businesses (based on turnover and staffing levels) with significant investments in their business, particularly the infrastructure located within their property. Unusually for the majority of these business owners, their place of business is also their place of residence, so a weather event will not only impact their business but also their home.

Over the past five years access to affordable insurance has become a significant issue for our industry, especially as it relates to cyclones and named storms. Over 50% of our surveyed members have advised us that the coverage they have been offered will leave them severely under-insured and, in some cases, completely uninsured. Not only does this put their business and livelihood at risk, for some of these businesses it has also put the finance for their business at risk.

Ensuring that these businesses have adequate insurance coverage will improve their resilience and in the event of a cyclone, will ensure that they return to business as usual as quickly as possible, supporting employment in the region and the local economy, as well as providing critical accommodation to those trades that have come to the region to help with the recovery.

In the past five years, the sale several of caravan parks North Queensland have fallen through as the purchaser has been unable to get insurance cover for their new investment, or the cost of insurance makes the business unviable. This leaves small business owners that are ready to retire in a situation where they are unable to sell their business, which in many cases is also their superannuation/retirement plan.

An effective insurance scheme for North Queensland will ensure the value of these small businesses are retained and that their sale is possible if the operator is looking to retire or move on.

For our members, insurance is an essential service which they cannot operate without. The Government would not let them go without power however due to current insurance market failure is letting these same businesses go without insurance.



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This reinsurance pool has the potential to positively impact over 200 caravan parks in Queensland, this is over half of our member caravan parks.

Failure to provide remedy the current market failure could see these businesses, and many others in Northern Queensland, forced to close as they are unable to protect their business, or they lose their finance which is tied to their insurance.

While as an industry we are hopeful that this reinsurance pool will be beneficial for our sector, we strongly believe this will depend on the final design of the reinsurance pool.

Recommendations

In our submission we have made several recommendations and believe that any decision made about the design of the reinsurance pool should encourage a “better off overall” approach to policies, ensuring that households and small businesses in Northern Australia are better off because of the new reinsurance pool.

- (1)** Cyclones should be defined as tropical storm named by the Australian Bureau of Meteorology Tropical Cyclone Warning Centres.
- (2)** Any definition of cyclone related flooding must take into account not only the carrying size and impact of a cyclone but also the associated impacts including the fact waterways and drains may be compromised by the cyclone (i.e. trees in waterways).
- (3)** Cyclone related storm surges should be included in the reinsurance pool.
- (4)** Any wording used by an insurance policy which has been reinsured through the Cyclone Reinsurance pool should leave the policy better off overall than they would be if insured directly through the pool.
- (5)** We strongly recommend the use of the Australian Small Business and Family Enterprise Ombudsman’s definition of ‘small business’ for the purposes of all insurance legislation, regulation and codes. This definition “a business with less than \$10 million in turnover or fewer than 100 employees”.
- (6)** Consideration be given to the individual structures and the likelihood of significant damage to them when determining the property and structure value for insurance purposes. This should also have a direct correlation to the value of the property should it be sold.
- (7)** Any tiered risk rating scheme be managed to ensure that properties in low-risk locations do not end up paying more for insurance than properties in high-risk locations.
- (8)** Moveable dwellings, such as cabins, be covered by the reinsurance pool providing they are appropriately built and tied down.
- (9)** The Government set a fixed date by which insurers must exit their existing reinsurance contracts and transition into the reinsurance pool.
- (10)** The review of the reinsurance pool occur annually for the first three years and then every three years after that point with indicators such as reduced premiums in Northern Australia and a reduction in the number of under-insured or non-insured properties in these regions.
- (11)** The reinsurance pool be an ongoing concern with no end date.
- (12)** Explicit price monitoring be investigated and mandatory disclosures be required for both the costs of the reinsurance and the fact the insurer is part of the reinsurance pool.

- (13)** The reinsurance pool should have an explicit mandate to recognise and encourage mitigation and should look to peak industry bodies and their accreditation programs to assist with this.
- (14)** Local Governments and building inspectors should be required to ensure that any construction in a high risk area is limited or built to the appropriate standard rather than imposing additional cost for people choosing to relocate to regional areas such as North Queensland.
- (15)** Insurers should be required to offer multiple excess options to households and small businesses under the reinsurance pool, recognising that some policy holders may wish to reduce their premium by increasing their excess and others will be willing to pay a higher premium so their excess is lower if they need to claim.

Background

Caravan parks are the quintessential Australian holiday destination. What many people do not consider is the integral role they play providing housing and visitor expenditure particularly in regional Queensland.

In Queensland over 80% of caravan and camping visitor nights are spent in Regional Queensland, making our sector a significant employer and economic driver across the state.¹ Our industry contributes \$2.8 billion to the Queensland economy each year² in addition to the many social benefits from the industry with studies showing that families that enjoy caravan and camping are happier, healthier and more connected than their non-camping counterparts.³

In 2019, the caravanning and camping sector provided accommodation for 12.5 million visitor nights across the Queensland⁴. While this number did reduce in 2020 due to the COVID-19 pandemic, the industry continues to be the most popular holiday accommodation option for Australians.⁵

In addition to providing a significant amount of tourist and temporary workforce accommodation, Queensland has the highest concentration of residents in caravan parks and manufactured home estates in Australia with over 23,000 individuals, or 0.5% of all residents, in Queensland living in one of these communities.⁶

In terms of rental accommodation in Queensland, at the time of the 2016 census, the caravan park and manufactured home estate sector was providing approximately 1.8% of all housing stock in Queensland.⁷ When looking at only low-income earners (under \$42,000 p.a. per household) this increases to 3.3% of housing stock in the state.⁸

The ability to access appropriate and affordable insurance is key to these businesses continuing to play such an integral role in their local communities.

In August 2020 we surveyed our members in relation to their experience with insurance and were informed that the three biggest challenges were:

1. Premium costs
2. Lack of choice/competition for insurance provided in “cyclone zone”
3. Excess cost

¹ Tourism Research Australia, National Visitor Survey, YE December 2020

² Tourism Research Australia, National Visitor Survey, YE December 2019

³ Caravan Industry Association of Australia, Real Richness Report, 2017

⁴ Tourism Research Australia, National Visitor Survey, YE 31 December 2019

⁵ Tourism Research Australia, National Visitor Survey, YE 30 December 2020

⁶ Australian Bureau of Statistics, Census of Population and Housing, 2016

⁷ Ibid

⁸ Ibid

These challenges have added financial stress to these business operators, already struggling because of the COVID pandemic, and has resulted in some operators being unable to expand their business or to offer some services.

Several respondents also provided the following comments:

“Our insurance premium tripled when our existing company stopped insuring caravan parks, only one company will insure us now, excess has gone to \$100k.”

“In particular for us in the North the “named cyclone” excess went from \$5k to \$10k to \$100k over a 3 year period. Nobody has the first \$100k laying around to fund a cyclone damage recovery - hence why you have insurance!”

“With only one company that will insure parks in the far north ours went from \$10k 2014 to \$50k 2019 and now \$100k and premiums high! Then council rates are \$35000 half year...but that is another story!”

Over half of the respondents to our survey indicated their premium had gone up by over 30% in the past five years, with some advising that it had increased by as much as 100% or more.⁹

This increase is complicated by the fact that over 70% of our members indicated they were only given one option in terms of their policy renewal with all other insurers having pulled out of the caravan park market, this was notable in locations north of Gympie.¹⁰

In rerunning this survey in June 2021, 43% of respondents advised their insurance premium had increased by 100% or more in the past five years with a further 14% indicating it had increased by over 40% in the past five years.¹¹

These results echo the results of the Queensland Tourism Industry Council (QTIC) Insurance Survey which found that of the businesses surveyed, 10% had increases in property insurance of over 70%, while 43% of these businesses believe they are under-insured with their property policies. When looking at the businesses with increases in property insurance of over 70%, 39% are on or above the Tropic of Capricorn.¹²

This survey also showed that 10.4% of businesses surveyed do not have property insurance due to lack of availability or affordability.¹³

This lack of insurance options is having an impact on the sales of caravan parks in Queensland. We have had several reports of sales falling through as the purchaser is unable to source suitable insurance, despite using multiple brokers and looking in a range of markets.

Case study – the sale of one Queensland caravan parks has fallen through as the turnover of the business for sale was approximately \$1 million per annum. The only insurance the purchaser was able to find had a premium of \$920,000 per annum, which would leave just \$20,000 for the running of the business and profit each year.

Many caravan park operators, especially “mum and dad” operators have invested in their business as a form of superannuation. If they are unable to sell their business when they are ready to retire they will be left in a situation where they need to continue to run their business, despite being exhausted. This not only affects the park owner but also the reputation of the industry as this can result in poor customer service and a reluctance to reinvest in their business.

⁹ Caravan Parks Association of Queensland, Member Survey, 2020

¹⁰ Ibid

¹¹ Caravan Parks Association of Queensland, Member Survey, 2021

¹² Queensland Tourism Industry Council, Insurance Survey, 2021

¹³ Ibid

Our Submission

Appropriate definitions

Definitions of 'cyclone' and 'cyclone related flooding' may determine eligibility for coverage and claims.

Cyclone

We are concerned that the BOM definition of a cyclone may result in some small businesses not being covered despite significant winds and rain if they are located on the edge of the area defined as a cyclone.

Many policies use the term "Named Tropical Storm" which ensures that all properties impacted by that named storm are covered, not just the ones within the cyclone.

Within the Australian region, names are assigned to storms once they reach or exceed ten-minute sustained wind speeds of 65 km/h (40 mph), near the centre, by either the Australian Bureau of Meteorology or by the Tropical Cyclone Warning Centres in Jakarta, Indonesia and Port Moresby, Papua New Guinea.

Recommendation 1: Cyclones should be defined as tropical storm named by the Australian Bureau of Meteorology Tropical Cyclone Warning Centres.

Cyclone related flooding

Requiring that flood damage occur within a fixed proximity and time of a cyclone event does not consider the fact that cyclones vary in size and impact. Further measuring the amount of rainfall brought by the cyclone that has not dissipated when flood damage occurs does not consider the ongoing impacts that a cyclone can have.

Case study - One caravan park in North Queensland reports that four weeks after Cyclone Yasi their town received 750mm of rain with a Tropical Low. This resulted in significant flooding in town, including in their park which is not at risk of flooding, as the water ways which would normally cope with a deluge of this quantity were already compromised as a result of the cyclone just a few weeks prior.

We have also received reports from caravan parks in North Queensland advising that mould that is a direct result of the cyclone is often not discovered until sometime after the cyclone and will continue to cause problems for many months after being discovered.

Recommendation 2: Any definition of cyclone related flooding must take into account not only the carrying size and impact of a cyclone but also the associated impacts including the fact waterways and drains may be compromised by the cyclone (i.e. trees in waterways).

Storm Surge

Coastal properties in northern Australia are particularly vulnerable to storm surges and caravan parks can receive property damage because of these storm surges due to their proximity to the beach.

One of the popular features of caravan parks is their idyllic locations, often on the waterfront (beach or river). While these locations offer amazing views and access to water activities, they also put these businesses at risk from storm surges.

We therefore recommend that storm surges resulting from a cyclone included in the cyclone and related flood damage.

Recommendation 3: Cyclone related storm surges should be included in the reinsurance pool.

If a definition is used in the reinsurance pool, an insurance company using that pool should be required to use that definition unless their own definition offers better coverage to the insured (i.e. better off overall).

Recommendation 4: Any wording used by an insurance policy which has been reinsured through the Cyclone Reinsurance pool should leave the policy better off overall than they would be if insured directly through the pool.

Definition of a Small Business

In North Queensland, caravan parks see significant staffing fluctuations across the year due to seasonality. This can mean they go from less than five full time equivalents to 20 or more for a period of three to five months while they are busy. When the season ends, these businesses will lower their staffing levels to reflect that not only is their business running at low occupancy, but, in most cases, it is also running cashflow negative for a period of up to six months of each year.

If staffing levels are used as the definition for what is or is not a small business, we would recommend that it is clear as to whether the count applies at the time of the claim or weather event, or if it is the highest total for the year, in which case we would recommend that the cap is increased to reflect the seasonality of tourism in North Queensland.

Further clarification must be given to whether this is based on full time equivalent (FTE) count or a simple headcount.

In the Australian Small Business and Family Enterprise Ombudsman's Insurance Inquiry Report, released in December 2020, they considered the issue of the definition of a small business and recommended that the definition of a 'small business' be standardised for all insurance legislation, regulations and codes.

In this recommendation, they recommended the definition be "*those businesses with (a) turnover of less than \$10 million per annum or (b) less than 100 employees*". We would support this definition of a small business for the purpose of the reinsurance pool for cyclones and related flooding.

Recommendation 5: We strongly recommend the use of the Australian Small Business and Family Enterprise Ombudsman's definition of 'small business' for the purposes of all insurance legislation, regulation and codes. This definition "a business with less than \$10 million in turnover or fewer than 100 employees".

Product Design

There are currently many caravan parks which believe they are over insured due to the building calculators used by insurance companies. These calculators are designed to calculate the cost to rebuild from the ground up however due to the new building codes, structures in North Queensland are designed to withstand severe weather events and it would be incredibly rare to see a business flattened completely.

Case study – One North Queensland caravan park was advised that the buildings on their property were valued at \$1.5 million despite the property being valued by a property valuer at just \$350,000.

Under the building calculator there is no difference between a besser block amenities block, designed to be able to be cleaned with a high-pressure cleaner if necessary, and a modular amenities block which has been constructed off site and then delivered into the park completed, much like a moveable dwelling.

One of these structures will withstand just about any weather event, including flooding, while the other is likely to see greater impacts, even if it is just as a result of mould following the weather event.

Recommendation 6: Consideration be given to the individual structures and the likelihood of significant damage to them when determining the property and structure value for insurance purposes. This should also have a direct correlation to the value of the property should it be sold.

Risk Ratings

We asked our members if they believed the risk rating assigned to them by their insurer was correct and many indicated they believed it is incorrect.

Case study - We are not likely to be severely impacted by a cyclone as we are 18km from beachfront and surrounded by hills. The main risk to our business will be water ingress from the rain associated with the cyclone for which we have certified flood emergency plans and power backup in place.

One of our members advised that despite the fact their caravan park is located nearly 400km from the coast, when their insurance renewal came through this year the named storm excess had increased to \$100,000. For this property, by the time a named storm hits their property it is likely to be a tropical low rather than a cyclone, resulting in less than \$100,000 of damage, making their insurance worthless.

While the concept of a tiered system seems to be an appropriate solution, we are concerned that those properties in low-risk locations could end up paying more than their premium and/or excess than their coastal counterparts as insurers meet the requirements of the reinsurance pool.

Recommendation 7: Any tiered risk rating scheme be managed to ensure that properties in low-risk locations do not end up paying more for insurance than properties in high-risk locations.

Caravan parks are unique in that they offer a range of accommodation from tourist accommodation through to residential accommodation. In both of these instances, the dwelling that is occupied by the tourist or resident may be owned by either the tourist/resident OR the caravan park depending on the circumstance. In each of these circumstances, the dwelling is considered a moveable dwelling (a motorhome, caravan or cabin) as it was (or could have been) constructed offsite and transported to the caravan park.

With many residents in caravan parks falling into the more vulnerable category (low-income earners, earning under \$42,000 p.a. per household), 3.3% of Queensland residents living in caravan parks compared to 1.8% of Queensland residents when looking at the entire cohort, it is important that a caravan park can return to normal operation as quickly as possible to ensure that these residents continue to have a place to live.

Coverage through this reinsurance pool must ensure that suitably built and tied down moveable dwellings are also covered by the policy and not assigned a high-risk rating on the basis that they are moveable dwellings.

When we spoke to other caravan parks about their experience when their region was impacted by a cyclone they noted that all of the structures in their property now meet a minimum standard which ensures that should their business be impacted by a cyclone there will be very little property damage (unless a tree falls on the structure or something flies in from outside of the property). When we look at recent cyclones the only damage to cabins reported was as a direct result of trees and foliage impacting the building.

We have received several reports recently of caravan parks being unable to get coverage for their cabins as they are moveable dwellings – this is despite the fact the dwellings are cyclone rated and appropriately tied down.

Case study – North Queensland caravan park received their insurance renewal for the 2021 year which had the a small reduction in premium on the previous year (approximately \$200), only to discover the new policy excluded the 14 cabins they own. This reduction in cover also put their finance for the business at risk with the bank requiring a certificate of currency which covered the cabins as well as the rest of the property.

Recommendation 8: Moveable dwellings, such as cabins, be covered by the reinsurance pool providing they are appropriately built and tied down.

Transition to the Reinsurance Pool

Access to insurance for caravan parks is now at a critical point with many caravan parks under insured or unable to access insurance. For this reason, the introduction of the reinsurance pool is required as soon as possible.

To ensure that this pool has the most benefit to the households and small businesses that need it the most, we recommend that the Government set a fixed date by which insurers must exit their existing reinsurance contracts and transition into the reinsurance pool.

Recommendation 9: The Government set a fixed date by which insurers must exit their existing reinsurance contracts and transition into the reinsurance pool.

Regular Review of Reinsurance Pool

In the long term we believe that a three-yearly review of the reinsurance pool will be appropriate, however in the first three years of the introduction of this pool we believe the review should be annual to ensure that the pool is achieving the desired outcomes of the Federal Government, including improving access and pricing to insurance for households and small businesses.

Key indicators of the success of this program would be fewer households and small businesses reporting they are unable to access appropriate insurance, reductions in premiums in Northern Australia, a significant reduction in the number of households and small businesses that are not insured or under insured, and an increase in the number of policies which recognise the risk mitigation processes put in place.

Recommendation 10: The review of the reinsurance pool occur annually for the first three years and then every three years after that point with indicators such as reduced premiums in Northern Australia and a reduction in the number of under-insured or non-insured properties in these regions.

Exit date

As we understand it the existing terrorism reinsurance pool does not have an end date and for this reason we believe the cyclone reinsurance pool should be the same.

The announcement of an end date for the reinsurance pool is likely to push the property insurance for Northern Australia in to a hard cycle, reversing any positive impact the introduction of this program had on access to insurance in Northern Australia.

Recommendation 11: The reinsurance pool be an ongoing concern with no end date.

Ensuring pass through

As an industry we are supportive of price monitoring but unsure how this would work for small businesses.

We are also supportive of disclosure of reinsurance costs to insurance policy holders and the inclusion of a mandatory statement in the product disclosure document that advises the insurer is part of the reinsurance pool.

Recommendation 12: Explicit price monitoring be investigated and mandatory disclosures be required for both the costs of the reinsurance and the fact the insurer is part of the reinsurance pool.

Risk Mitigation

As business operators, caravan parks undertake a large range of mitigation activities including, but not limited to, contracting arborists to manage and maintain trees on their property, ensuring that all structures are designed to withstand weather events, and risk assessments to protect their property and individuals on their property.

When we asked our members if their insurer recognises this mitigation and rewards their business through cheaper insurance or more coverage, they advised that their insurers do not recognise this mitigation work when assessing their business.

Case study - We have implemented numerous resilience activities and our insurer hasn't recognised them. Attempt was made to see if we could reinsure elsewhere due to the mitigation measures we have put in place however it was not seen as relevant to any insurer.

We would encourage all insurers to look at the individual business to encourage risk mitigation and good business practices. For the reinsurance pool we recommend looking to the accreditation programs run by peak bodies to assist in assessing the level of risk.

The caravan park sector has an accreditation program, managed by Caravan Industry Association of Australia, which looks at the business practices of an individual site. The adoption of programs such as this one to assess the risk rating of a business would be accepted by industry and encourage these small businesses to undertake activities to reduce their risk.

Recommendation 13: The reinsurance pool should have an explicit mandate to recognise and encourage mitigation and should look to peak industry bodies and their accreditation programs to assist with this.

Discourage Risk Taking

Local Councils and State and Territory Governments that release new land for development, or rezone existing land for further development should undertake a suitability and natural peril assessment of all land.

This in conjunction with current planning schemes and the building code require that construction in high-risk areas is built to a minimum standard to ensure they can withstand a cyclone and are unlikely to be impacted by associated flooding. This is the responsibility of Local Governments across Australia.

Local governments should be ensuring that new structures are constructed in a location and manner suitable both to the risks experienced today and those risks predicted at the anticipated end of life for the property. This should be done through a consistent framework to support businesses that run across several jurisdictions.

If a Local Government has approved a development application and appropriately qualified building inspectors have signed off on the construction, this should be considered appropriate assurance that the structure is not high-risk, which should allow it to be included in the reinsurance pool.

Recommendation 14: Local Governments and building inspectors should be required to ensure that any construction in a high-risk area is limited or built to the appropriate standard rather than imposing additional cost for people choosing to relocate to regional areas such as North Queensland.

Encouraging further action on insurance affordability

Reducing the Cyclone Excess

Caravan parks across Queensland have seen their named storm excess increase by 500% to 1,000% in just a few years, with caravan parks in North Queensland advising that their excess has increased to \$100,000 and in some instances even higher.

It is one thing to allow customers to reduce their premium by increasing their excess, it is another thing when the insurer only offers one excess and it is excessive.

Recommendation 15: Insurers should be required to offer multiple excess options to households and small businesses under the reinsurance pool, recognising that some policy holders may wish to reduce their premium by increasing their excess and others will be willing to pay a higher premium so their excess is lower if they need to claim.

Other recommendations

There are several other considerations which may fall outside the scope of this consultation paper but that we believe are appropriate to raise, as follows:

- (1) Explore options to abolish state fees and charges on insurance policies or redirect this revenue to subsidise or assist where market failure is evident.
- (2) Explore global options to attract additional insurance groups into the Australian market with the intent to increase competition and decrease premiums. This may involve additional education for international insurance markets on the real impact of natural disasters, rather than the perceived impact and media commentary around the impacts.
- (3) The introduction of standard time frames and expectations for policy renewals that are realistic for all parties. This would allow appropriate time frames for risk management plan review and other associated risk mitigation planning and documentation. The Australian Competition & Consumer Commission and Australian Small Business and Family Enterprise Ombudsman both made recommendations in their Insurance related reports on this recommendation which we support.
- (4) Development of Government-funded and insurance industry-supported education programs for small businesses to increase understanding of risk, insurance requirements, and related processes.
- (5) The development of standard definitions and greater transparency in relation to the inclusions and exclusions of the policy along with clearer information on the fees, taxes, commission, and brokers fees charged on a policy.

Many of these recommendations have been considered in more detail in the just released Queensland Tourism Industry Council (QTIC) Insurance Cover for the Tourism Industry Report.

For more information

Should you wish to discuss any of these recommendations, or our important sector within the tourism industry in Queensland, please do not hesitate to contact me on the details provided on page 1.

Kind regards



Michelle Weston
Chief Executive Officer

About us

Caravan Parks Association of Queensland Ltd (CPAQ) is the peak industry body representing caravan parks in Queensland. Established in 1966, we provide a united and informed voice for the Queensland caravan parks industry.

As a professional, solution focused association, we encourage and support industry best practice across all areas of business by providing our members with leadership, support, networking, professional development, and promotional opportunities.

There are currently 445 full and associate members of CPAQ, made up of caravan parks (catering for tourists and residents) and campgrounds, large and small, from all corners of the State, industry suppliers, tourism businesses, plus regional and local tourism organisations.

We seek to work with both state and local governments to balance the needs of the consumer with those of the Government and industry. Further we actively strive to ensure not only that minimum standards within parks are met, but that over time these industry standards are in fact driven higher.

Caravanning Queensland

We trade under the brand **Caravanning Queensland** which joins the two related but separate peak industry bodies in Queensland:



Caravan Parks Association of Queensland (CPAQ) the voice of the caravan park owners and operators and the associated supply chain in Queensland.

Caravan Trade & Industries Association of Queensland (CTIAQ) the voice of the trade sector in the caravan and camping industry in Queensland with a membership made up predominantly of retailers, manufacturers, hirers, repairers, and suppliers in the caravan and camping industries.