INSURANCE COUNCIL OF AUSTRALIA

7 July 2020

Senate Finance and Public Administration Committees
PO Box 6100
Parliament House Canberra ACT 2600

By Email: Fpa.sen@aph.gov.au

LESSONS OBSERVED 2019/20 BUSHFIRE SEASON

The Insurance Council of Australia (**Insurance Council**) appreciates the opportunity to identify key lessons observed from the 2019/20 bushfire season in Australia.

The outcomes of the bushfires have been the subject of multiple inquiries and commissions in recent months.

The submissions deployed by the Insurance Council for those forums provide a useful snapshot of the key strategic/national lessons from an insurance industry perspective:

- The importance of mitigation through competent land-use planning and appropriate building codes. **Annex A** to this submission is a copy of the Insurance Council's submission on these issues to the Royal Commission into Natural Disasters in Australia.
- The taxation of insurance products in Australia continues to reduce the capacity of community members to insure their assets, leaving them vulnerable to economic ruin when disaster strikes. **Annex B** to this submission is a copy of the Insurance Council's submission to the NSW Bushfire Inquiry on the matter of under and non-insurance.

There are a number of other tactical lessons being discussed with individual states, for example government funded clean-up operations and coordination of recovery operations, not canvassed in this submission.

The only strategic/national scale observation from the Insurance Council not canvassed in previous submissions, is the need to continue national cross-sector natural hazards research. Research regarding the drivers of natural disasters and best practice responses, developed across agencies, industries and academia must be prioritised by government. We submit that extending the remit and funding for the Bushfire and Natural Hazards CRC will ensure that natural hazards research continues to be actionable, user-driven and encompassing of views and knowledge not limited to a single sector.

If you have any questions or comments in relation to this statement please contact Karl Sullivan, the Insurance Council's Head of Risk and Operations,

Yours sincerely

Rob Whelan
Executive Director & CEO

Annex A

22 June 2020

Air Chief Marshall Binskin AC
The Hon. Dr Bennet AC SC
Professor Macintosh
Royal Commission into Natural Disaster Arrangements

Dear Commissioners

ISSUES PAPER – LOCAL GOVERNMENTS AND NATURAL DISASTERS

The Insurance Council of Australia[1] (**ICA**) appreciates the opportunity to provide this response to the Royal Commission's Issues Paper – Local governments and natural disasters.

At any given point in time, the ICA is managing the general insurance industry's response to multiple disasters around Australia. For instance, the ICA is currently managing the industry's disaster recovery efforts for the Black Summer Bushfires (Oct 2019 – Feb 2020), Severe Hail in South East Queensland (Dec 2019), Severe Hail in ACT, NSW and Vic (Jan 2020), damaging storms and flooding along the East Coast of NSW (Feb 2020), as well as finalising the recovery efforts for the Townsville flood (Feb 2019).

In carrying out this role, the ICA works closely with Local Governments and Councilors to ensure communities recover as quickly as possible. Commonly, the ICA will have representatives on local recovery committees and sub-committees to not only provide guidance on insurance issues, but to also provide advice based on our experience from other major disasters. As natural disaster recoveries are generally managed by Local and State governments, the ICA is the only organisation which has regular national representation on local and state recovery committees. This provides a unique perspective to compare recovery efforts across State borders.

Although the ICA is not in a position to comment on all the questions posed in the Issues Paper, we hope our perspective can provide some insight to the Royal Commission and contribute to the discussion on how to improve disaster risk mitigation and recovery in

[1] The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Our members represent about 95 per cent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system. March 2019 Australian Prudential Regulation Authority statistics show the general insurance industry generates gross written premium of $47.8 billion a year and has total assets of $125.8 billion. The industry employs about 60,000 people and on average pays out $147.5 million in claims each working day. Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

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Australia. As our insights overlap the questions posed by the Issues Paper, we have chosen to respond generally, rather than in question/answer form. In summary, the ICA considers:

1. A more consistent national approach to the collection and sharing of hazard data (particularly flood data and climate projections) would improve community awareness of hazard exposure. There are currently inconsistencies in the utility and accessibility of flood studies commissioned by Local Governments, which has a detrimental impact on Australia's resilience to flood.

2. All levels of Government should improve hazard data transparency. Due to the current lack of hazard data transparency, the ICA launched the MyHazards App in 2019. That said, we consider this function should be provided by Government – not industry – and in a nationally consistent format. Hazard data should be supported by initiatives that help property owners understand how to mitigate their risk.

3. Local Governments are commonly overwhelmed and underequipped to effectively deal with the initial phases of disaster recoveries. In many cases, the same errors are repeated by Local Governments as there does not appear to be an effective shared learning amongst Local Governments following disasters.

4. The ICA considers disaster recovery efforts would be enhanced through a model that provides a more nationally-consistent management of the initial disaster recovery phase while also training the Local Government to take over the management of the recovery in the medium to long-term.

Local Government and hazard data

Insurers rely on hazard data to calculate risk at a land parcel and price the corresponding insurance premium. Most hazard datasets – namely fire, hail, storm, cyclone and storm – are collated by either the State or Federal Government agencies (BoM, Geoscience Australia etc). These hazard datasets are, for the most part, available to the insurance industry and the public to improve hazard awareness.

In contrast, Local Governments are generally responsible for obtaining flood studies for their LGAs. With over 500 Local Governments around Australia, gaining access to flood data has been historically very segmented and challenging to obtain. This segmented nature has also resulted in inconsistent applications of flood studies by Local Governments and varying levels of detail or accuracy.

Given insurers reliance on hazard data to most accurately calculate insurance premiums, the absence of a national flood dataset posed a challenge to industry's ability to price flood risk in Australia. As a result, in 2007 the ICA launched the National Flood Information Database (**NFID**) which sought to collate flood data from all Australian Local Governments where a known flood exposure was present. The benefits of NFID are:

1. it ensures all general insurers have access to the same flood dataset which improves competition; and

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2. it allows insurers to accurately calculate premium pricing based on hazard exposure and resilience, which can act as an incentive for investment in flood risk mitigation.

For the most part, Local Governments have been supportive of NFID. Over the 13 years that NFID has been in operation, the ICA has been successful in obtaining flood data from most Local Governments. From our experience, Local Governments are generally willing to share data with the ICA as we can demonstrate a clear financial benefit for constituents as a direct result of the data being available to the insurance industry. Without flood data, insurers will either conservatively estimate the risk of flood (including a margin of error) or simply not offer insurance for that location. However, when flood data is provided, insurance premiums are generally compressed as insurers can more accurately calculate the flood risk at a specific land parcel, and a greater number of insurers are able to offer cover.

That said, there remain numerous Local Governments that have refused to provide any flood data to ICA or have only provided older, less accurate flood studies when new data is available. Within these LGAs, there are thousands of homes with a known flood exposure, yet the Local Governments will not release flood depth data. Further, some Local Governments appear reluctant to obtain new, more accurate flood studies due to concerns regarding potential Government liability and criticism from constituents. Anecdotally, some Local Governments also appear concerned that commissioning new flood studies that include climate projections will negatively impact property valuations, drive up insurance premiums and affect land use planning. That said, other Local Governments are very proactive in educating constituents on climate risks associated with flooding and rising sea levels.

The inconsistent approach by Local Governments in respect to transparency of flood data and climate projections means there is varying awareness of hazard exposure in the general population. For instance, residents in one LGA may be unaware that they have an extreme flood risk, yet in a neighbouring LGA the residents will have a thorough understanding of their flood risk and steps they can take to mitigate that risk.

To resolve the above inconsistencies, the ICA believes a more consistent national approach to hazard data (particularly flood data) would enhance Australia's resilience and community awareness of hazard exposure.

Governments responsibility for communication and educating the community

Local Governments play a key role in communicating and educating communities in respect to hazards, preparedness, disaster response and recovery. That said, the ICA has observed an inconsistent engagement on these issues by Local Governments.

The ICA regularly offers to support Local Governments in respect to planned mitigation initiatives. For instance, the ICA has previously supported Local Government proposals for flood levees by modelling potential insurance premium reductions after the levee has been constructed. This modelling demonstrates to constituents how the proposed Government investment in mitigation will financially benefit residents by lowering insurance premiums, as well as reducing the likelihood of a disaster.

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In terms of hazard awareness, the ICA considers that every level of Government has a responsibility to improve access and availability of hazard data to the general population. Given the apparent lack of hazard data transparency, in 2019 the ICA launched an industry solution, the MyHazards App, which provides the general population with access to all hazard data the ICA has collected for land parcels within Australia. The dataset behind the application utilised flood data obtained by the ICA from several hundred Local Governments. MyHazards provides viewers with flood, fire, storm, hail, cyclone and storm surge hazard data (where available). The App has been well received by the public for its ability to educate property owners on their hazard exposures.

That said, we consider this function should be provided to the public by Government, not the insurance industry. We also consider a national solution would provide greater consistency of data and significantly improve general awareness of hazard exposure amongst the general population. The sharing of hazard data should be supported by programs that provide guidance to property owners on how to mitigate their risk.

Local Governments role in disaster recovery

Local Governments play a critical role in leading their communities in recovery efforts following disasters. That said, from the perspective of a non-government organisation with regular involvement in disaster recovery, it is common for Local Governments to initially be overwhelmed and/or underequipped to manage the enormity of the recovery task at hand.

It is not uncommon for a Local Governments capability to be initially diminished following a disaster. Local Government employees may have been personally impacted by the disaster which can affect their ability to fulfill their duties at a critical time. Further, Local Government offices may be damaged or without power or telecommunications for a period following a disaster. For example, following Severe Tropical Cyclone Debbie in March 2017, the Whitsunday Regional Council office in Proserpine was significantly damaged and without power or telecommunications.

There is generally very little shared learning of disaster recoveries amongst Local governments, particularly across State borders. Local Governments often repeat the same mistakes during the early phases of a disaster recovery when critical decisions are being made that have ongoing impacts throughout the recovery. For example, in respect to insurance, Local Governments often initially encourage constituents to cash settle their insurance claims on the belief this will support local builders. However, as a result, local builders quickly become overwhelmed with demand and the overall recovery of the community becomes protracted. At times, Local Governments can also be susceptible to unwittingly amplifying rumours and false information during the early phases of disaster recovery. To mitigate or reduce the impact of these issues, significant effort is undertaken during the initial phases of a disaster recovery to educate Local Governments on key disaster recovery issues and strategies. However, this education can be time consuming during a critical period in the recovery. The ICA has found disaster recovery efforts can be susceptible to Local Government politicking, which can have a detrimental effect on the pace of recovery.

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A Local Governments ability to respond to a disaster is greatly enhanced if it has recent past experience with another disaster. As an example, the Bega Valley Shire Council has been able to provide improved management of the Black Summer Bushfire recovery in its LGA as a result of its recent experience with the Tathra Bushfire recovery effort. Similarly, Local Governments in North Queensland that experience very regular flooding, are generally well prepared to manage disaster recoveries. That said, the majority of Local Governments do not have experience in managing disaster recoveries. Even where an LGA has experienced a previous disaster, Local Governments appear to lose organisational knowledge of disaster management once the key staff leave the Council.

The ICA considers that disaster recovery efforts could be significantly enhanced by having experienced National or State Crisis/Recovery teams managing the initial recovery efforts while simultaneously embedding and training Local Governments. Only once the initial time-critical recovery issues have been resolved, Local Government facilities are fully functional and staff have been trained on key recovery issues, should management of the recovery be handed to Local Government.

If you have any questions or comments in relation to our submission please contact Karl Sullivan, General Manager of Risk and Operations, on

Yours sincerely

Robert Whelan
Executive Director & CEO

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Annex B

27 March 2020

Dr Dave Owens APM
Professor Mary O'Kane AC
NSW Independent Bushfire Inquiry
GPO Box 5341
Sydney NSW 2001

Dear Dr Owens and Professor O'Kane

NSW Independent Bushfire Inquiry

The Insurance Council of Australia[1] (**Insurance Council**) appreciates the opportunity to make this submission to the NSW Independent Bushfire Inquiry (**Inquiry**). Our submission is made under Head 2 of the Inquiry's Terms of Reference, and in particular relates to the impact of current laws on the community's preparedness and planning for bushfires.

Once a natural disaster is contained, and sometimes even before emergency services personnel are stood down, insurance risk assessors are on the ground helping members of the community who have suffered property loss. This was true of the catastrophic 2019-20 Bushfires in New South Wales (**NSW**) and elsewhere in Australia.

On the South Coast of NSW, insurance assessors were among the first responders to visit impacted properties and render assistance. Dedicated insurance hubs were set up at Disaster Recovery Centres. On Tuesday, 14 January hubs were set up at the Bega Council Chambers, the Ulladulla Civic Centre and the Shoalhaven Entertainment Centre. On Wednesday, 15 January further hubs were established at the Batemans Bay Soldiers Club and the Cobargo Hotel. These hubs were in place for up to a month, some were industry only.

All hubs provided an organisational focal point from which insurance claims teams could then move rapidly into impacted communities to provide face-to-face assistance to policy holders. Those hubs, which were also customer facing, were staffed by insurance representatives.

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Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

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Initial assistance provided included organising emergency accommodation and cash advances to allow policy holders to purchase essential items.

Even when communities remained inaccessible for a considerable time, industry deployed novel solutions to expedite assessments and claims processing. For example, the Insurance Council worked with the ADF to fly a team of insurance assessors into Mallacoota, Victoria, to undertake a rapid coordinated assessment of the community. Following the naval sealift evacuation of Mallacoota, the industry was present at the reception centre to provide emergency accommodation to residents and safe transport home for holiday makers.

Insurance data related to the 2019-20 Bushfires

Since the commencement of the 2019-20 Bushfires, the Insurance Council has been collecting relevant claims data to measure the scale of the disaster from an insurance perspective. This claims data was, and is still being, provided to the Commonwealth government, State governments and relevant regulators on a near real-time basis in a dashboard format (**Dashboard**) to help them better understand the damage caused and the insurance response.

The Dashboard shows at an aggregate level details of number of claims, value of claims, stage of assessment, percentage closed, and amount paid out by building, contents and commercial product line. The linked Australia graphic allows users to zoom in to individual localities, e.g. towns, suburbs and streets, and identify key insurance details in an anonymised manner.

The Insurance Council would be pleased to make the Dashboard available to the Inquiry if the Inquiry considers this to be of benefit to it.

Relatively high levels of non-insurance and under-insurance in NSW

An issue which concerns our members, and which has done so for many years, is the relatively high levels of non-insurance and under-insurance in NSW, as compared to other States and Territories.

The Insurance Council expects that this greater exposure to risk will again be evident when an analysis of the 2019-20 bushfires insurance related data is conducted. The Insurance Council has engaged an independent expert to perform a robust statistical analysis of the data. However, at the time of preparing this submission, there is insufficient claims data available to allow this analysis to be performed. The Insurance Council is hopeful that this work will be able to be completed within the next two months, although stresses imposed on the industry by the COVID-19 crisis may cause some delay.

The Insurance Council would be pleased to provide the Inquiry with the 2019-20 Bushfires data analysis of non-insurance and under-insurance in NSW once available.

The impact of relatively high levels of non-insurance and under-insurance in NSW

The consequence of relatively high levels of non-insurance and under-insurance in disaster affected communities is to increase the level of financial loss experienced by those communities. This, in turn, hinders these communities in their efforts to recover from disaster and/or increases the level of governmental assistance required to help them do so.

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The reasons for relatively high-levels of non-insurance and under-insurance in NSW

This is not a new situation and it is well understood that the higher rates of non-insurance and under-insurance of buildings and contents in NSW is, in large part, an outcome of how NSW has chosen to fund its emergency services.

In NSW the cost of funding emergency services is mostly borne by insured individuals and businesses through imposition of a levy. The NSW government through this Emergency Services Levy (**ESL**) recovers, presently, 73.7% of the emergency services' annual budget. The ESL is collected at the same time as policyholders pay their insurance premiums. The role of insurance companies in this system is to act as tax collectors for the NSW government.

As a result of this system, the cost of obtaining insurance in NSW, for an equivalent level of risk, historically averages around 21% higher than in other States and Territories. The layering of insurance duty and GST can result in taxes adding over 50% to the base premium for an insurance policy. These add-on costs make obtaining adequate insurance cover in NSW increasingly unaffordable for many, and as a result people are less likely to take up home and contents insurance in NSW than in any other State.

NSW is the only State in Australia to rely on an emergency services levy on consumer and commercial insurance. All other States in Australia apart from Tasmania (which retains a levy on certain classes of commercial insurance) have abolished these levies due to their well-recognised policy problems. These problems are summarised in the *2009 Victorian Bushfires Royal Commission Final Report*. The Royal Commission highlighted the lack of equity and transparency in an emergency services levy funding system. As noted by the Royal Commission this system is inequitable as:

> "*those who do not insure or who under-insure avoid making a proportionate contribution to the funding of the fire services but are afforded the same protection as those with insurance. A disproportionate share of the cost of providing fire services benefiting the entire community falls on insurance policyholders."* [2]

The 2009 Victorian Royal Commission recommended that the *"State replace the Fire Services Levy with a property-based levy with a property-based levy and introduce concessions for low-income earners."* [3] This recommendation was accepted by the Victorian Government and the Fire Service Levy was eliminated from 1 July 2013.

The outcome for Victorians of this decision has been a significant decrease in the level of non-insurance in both the Melbourne metropolitan area and in regional Victoria.[4] This increased level of coverage helps these communities recover more quickly from disasters as

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[2] Page 382, Volume 2, Final Report, 2009 Victorian Bushfires Royal Commission
[3] Page 36, Summary, Final Report, 2009 Victorian Bushfires Royal Commission
[4] The reason the impact of the reform is separately analysed for Metropolitan Melbourne and Regional Victoria is because the Metropolitan Fire Brigade (MFB) and Country Fire Service (CFS) were funded by separate levies on insurance policyholders. The rates of the levies were markedly different, primarily due to differences in the size of the policyholder pool over which the cost of funding the fire service could be recovered. The size of CFS policyholder pool was significantly smaller, hence the rate of CFS levy imposed on regional Victorians was much greater than the equivalent levy imposed on their Melburnian counterparts. For example, after the fires in November 2009 the rate of the MFB levy and the rate of CFS levy on commercial policy premiums was 47% and 84% respectively.

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the level of financial loss they experience is less than previously. This improved position can be seen from the following table.

Proportion of Victorian households* with household insurance, ABS Household Expenditure Survey 2009/10 compared with 2015/16

Building insurance (includes combined building/contents and buildings separable)

	% with insurance	
Area	2009/10	2015/16
Balance of State	91.6	95.2
Capital city	92.4	98.4
State total	92.2	97.4

Contents insurance (includes combined building/contents and contents separable)

	% with insurance	
Area	2009/10	2015/16
Balance of State	90.1	94.5
Capital city	88.7	92.7
State total	92.2	93.3

Source: ABS HES 2009/2010 and 2015/2016 [5]

In December 2015 the NSW Government announced its intention to abolish the ESL and replace it with a new fire and emergency services levy to be paid alongside council rates. The Insurance Council and its members welcomed the reform and worked hard with all stakeholders for its successful implementation. Unfortunately, as the Inquiry will be aware, on 30 May 2017 the NSW Government deferred the abolition of the ESL indefinitely.

Recommendation

The Insurance Council considers it important that individuals and businesses in disaster affected zones not be deterred from adequately insuring their buildings and contents. The insurance Council also considers it important that emergency services be sustainably and equitably funded in the future.

The Insurance Council therefore recommends that the ESL be abolished and be replaced with a broad property-based levy. It is essential that, before implementation the changes are carefully modelled so that appropriate transition measures are introduced so that all parties consider the reform to be in their overall interest.

[5] "Households" were identified as owner-occupied households for whom body corporate rates were not included as an expenditure item. The HES data does not enable an assessment of the change in the level of under-insurance as between the two periods. The ICA expects that the data it is collecting in relation to the 2019-20 Bushfires across Australia will enable an assessment of the level of under-insurance as between NSW and other affected States.

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This recommendation is consistent with submissions made by the Insurance Council:

- to Mr David Thodey AO, Chair, Review Panel, NSW Review of Federal Financial Relations; and
- to Mr Peter Achterstraat AM, the NSW Productivity Commissioner.

For your convenience, I have attached the Insurance Council analysis which formed the basis of both these submissions.

If you have any questions or comments in relation to our submission please contact John Anning, the Insurance Council's General Manager Policy, Regulation Directorate, on telephone:

Yours sincerely

Robert Whelan
Executive Director & CEO

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THE IMPACT OF GOVERNMENT DUTIES ON HOUSEHOLD INSURANCE

Insurance Council of Australia

November 2019

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Contents

1. Introduction

The Insurance Council of Australia (the Insurance Council) is the representative body of the general insurance industry in Australia. Its members are responsible for more than 95 per cent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system. They provide insurance products ranging from those usually purchased by individuals (such as home and contents, travel and motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability, professional indemnity, commercial property, and directors and officers insurance).

The industry employs about 60,000 people and on average pays out about $151.4 million in claims each working day. June 2019 Australian Prudential Regulation Authority statistics show that the private sector general insurance industry generates gross written premium of $48.4 billion a year and has total assets of $128.4 billion.

Through the efficient management of risk, the general insurance industry plays an essential role in supporting the everyday activities of individual Australians, communities and the broader operation of the Australian economy. In particular, the industry plays a critical role in protecting the financial wellbeing of individuals, households, businesses and communities by restoring their standard of living and helping them recover following natural catastrophes and other insured events.

The role of the general insurance industry in community recovery is significant not only in terms of the billions of dollars of claims paid each year, but also because of the evolving risk mitigation and emergency management initiatives that make for more resilient Australian communities.

The Insurance Council has been a key participant in the tax reform debate. The economic case for the abolition of insurance-based taxes (here referring to stamp duties and levies to fund emergency services) is widely accepted, having been canvassed in numerous federal, state and territory government reviews and inquiries including:

- Australian Competition and Consumer Commission's Northern Australia Insurance Inquiry 2018
- Australian Government's Review of Australia's Future Tax System (the Henry Tax Review) 2010
- NSW Independent Pricing & Regulatory Tribunal (IPART) Review into State Taxation 2008
- 2009 Victorian Bushfires Royal Commission
- NSW Government 2012 review: *Funding our Emergency Services*
- ACT Review of Taxation 2012
- GST Distribution Review[1]
- Various Productivity Commission reports.[2]

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[1] See GST Distr bution Review, Final Report. October 2012.
[2] Multiple Productivity Commission reports have recommended the abolishment of insurance-based taxes including Rec 4.8 – *Natural Disaster Funding Inquiry* (December 2014); Rec 4.8 – *Shifting the Dial: 5 Year Productivity Review* (October 2017) and; Rec 14.3 – *Inquiry Report; Competition in the Australian Financial System* (August 2018).

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The consensus is that the states and territories would be materially better off if they reformed their tax regimes so that they were more or wholly reliant on broad-based taxes with minimal exemptions at the same time as they reduced their reliance on transaction-type taxes, including insurance duties.

The interests of all states and territories would be best served by abolishing their insurance duties. The successful shift in states (including Victoria, South Australia and Western Australia) from funding their emergency services through an insurance levy to a broad-based property levy shows that reform is feasible and would bring significant social and fiscal benefits.

Unfortunately, high taxes are a significant disincentive for households to insure. The take-up of home and contents insurance is consistently lowest in NSW, the jurisdiction with the highest rate of insurance duties and levies and the only state or territory to still fund emergency services via a levy on retail insurance premiums.

The ACT's experience in phasing out its stamp duties on insurance products between 2012 and 2016 shows governments can smoothly transition to other, more efficient and fairer revenue sources.

A broad-based property levy, subject to safeguards as to its impact, is a more economically effective and equitable method to fund Australia's state and territory governments when compared with transactional insurance duties.

This type of levy would encourage the adequate take-up of insurance and be a more efficient and certain way of collecting revenue compared with insurance duties, which in essence penalises policyholders for effectively managing their risks.

State and territory governments have the opportunity, through the reform of their insurance tax regimes, to strengthen the long-term integrity of their own revenue bases.[3]

[3] For example, the Productivity Commission's October 2017 Draft Report on its Inquiry into Australia's system of horizontal fiscal equalisation (HFE) underpinning the distribution of GST revenue to the states and territories.

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2. The impact of taxing home and contents policies

Table A below demonstrates in each state and territory the significant increase in premium from layering of insurance duty on premium before the Goods and Services Tax (GST) is applied, from 19.9 per cent on a Queensland home insurance policy premium to a substantial 45 per cent in New South Wales (NSW is the only state to retain an additional Emergency Services Levy or ESL).[4] Having phased out insurance duties in 2016, consumers in the ACT are in a markedly better off position with only the GST charged on premiums. Commercial premiums are typically significantly higher than for consumer policies, so the impact of these charges often hits small-to-medium businesses hardest.

Table A: Comparison of insurance duties by states and territories

Tax	General insurance (GI) taxes (GST of 10% applies to all GI products)	Impact of levies, GST and stamp duties on final price paid by consumer[5]
NSW	**Stamp duty*:** 9% of the premium. Concessional 5% of premium payable on aviation, disability, hospital and ancillary health benefits, motor vehicle, occupational indemnity. Concessional 2.5% of premium paid on crop and livestock. **ESL:** Historically adds 21% to home and contents premiums and up to 40% to business premiums. **Note:** NSW is increasing its ESL requirements by $230 million between 2018-19 and 2021-22 to fund presumptive workers' compensation liabilities for firefighters.	The addition of ESL, GST and stamp duties is projected to add in 2020-21 **more than 50%** to the base premium for a household policy and up to 70% to a business policy.
VIC	**Stamp duty*:** 10% of previous month's gross premiums. **Note:** Victoria abolished its Fire Services Levy on insurance premiums in 2013.	The addition of GST and stamp duties adds **21%** to the base premium for a household policy.
QLD	**Stamp duty***: 9% of the premium for most GI contracts; 5% of net premiums for workers compensation. 10c flat for CTP. **Note:** The Queensland Government increased its stamp duties on GI products by 1.5 percentage points in 2013.	The addition of GST and stamp duties adds **19.9%** to the base premium for a household policy.
WA	**Stamp duty*:** 10% of gross premiums; 10% of premiums on CTP.	The addition of GST and stamp duties adds **21%** to the base premium for a household policy.
SA	**Stamp duty*:** 11% of premium.	The addition of GST and stamp duties adds **22%** to the base premium for a household policy.
TAS	**Stamp duty*:** 10% of premium. There is also a fire levy of 2% on marine cargo insurance; 14% aviation hull insurance and 28% on certain other presriced classes of commercial insurance. **Note:** The Tasmanian Government increased the stamp duty on GI products by 2 percentage points in 2012.	The addition of GST and stamp duties adds **21%** to the base premium for a household policy.
NT	**Stamp duty*:** 10% of premiums.	The addition of GST and stamp duties adds **21%** to the base premium for a household policy.
ACT	**Stamp duty*:** Nil. **Note:** The ACT completed the phasing out of its stamp duties on insurance products in 2016.	The addition of GST adds **10%** to the base premium for a household policy.

Source: States and territories' general insurance duty rates retrieved from NSW Treasury, *TRP18-01 Interstate Comparison of Taxes 2017-18*, page 22. April 2018. States and territories' impact of general insurance duties on price (percentage) calculated by the Insurance Council. NSW Budget papers and ministerial statements.

[4] Under the Australian Accounting Standards, the ESL is considered a component of the insurance premium, alongside the GST and state duty applied.
[5] Percentages are a calculation of the final effect of all state and territory government charges as a percentage of the insurer's base premium.

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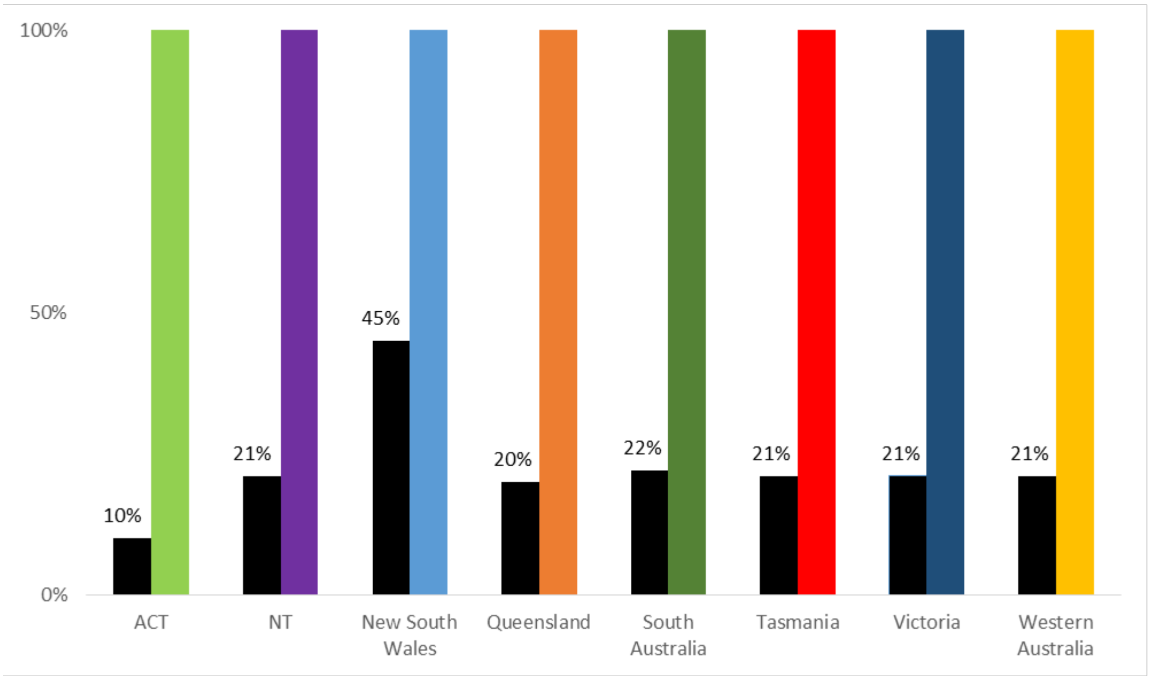
The significant impact of levies, GST and stamp duties on final price paid by consumers for household policies is represented in **Chart 1** below.[5]

Chart 1: Interstate comparison of insurance duties as a percentage of base premium



The Insurance Council recently conducted an analysis, using the taxation rates in Table A and drawing data from the past three Australian Bureau of Statistics (ABS) Household Expenditure Surveys to examine changes in the affordability of and decision to purchase (take-up) household home and contents insurance in each state and territory from 2003-2016.[6]

Chart 2 shows the percentage of total household income (all sources) spent on home and contents insurance.[7] **Chart 3** selects food (including takeaway and restaurant) and non-alcoholic beverages, as a comparative measure of an expenditure class that is relatively inelastic in demand.[8]

Separately, **Chart 4**[7] observes home and contents insurance take-up over these three survey years, to show how price growth affects some states more than others.

The survey data shows that the cost of home and contents insurance relative to income increased significantly, with a notable sharp escalation in the 2015-16 period, for most states and territories. Household expenditure on food and beverages is shown alongside these figures to provide some context.

The take-up of home and contents insurance is consistently lowest in NSW, the jurisdiction with the highest rate of insurance duties and levies and the only state or territory to still fund

[6] Insurance Council conducted this analysis using data extracted from the past three ABS Household Expenditure Surveys: 2003-04, 2009-10 and 2015-16. The analysis is limited to households residing in a detached or semi-detached dwelling owned by the occupants outright or by mortgage.
[7] Charts 2 and 4 include households purchasing a combined home and contents policy; home policy; and contents policy. (Exclude each household that purchased a home or contents policy in isolation).
[8] Household expenditure represented in Charts 2 and 3 is tax inclusive.

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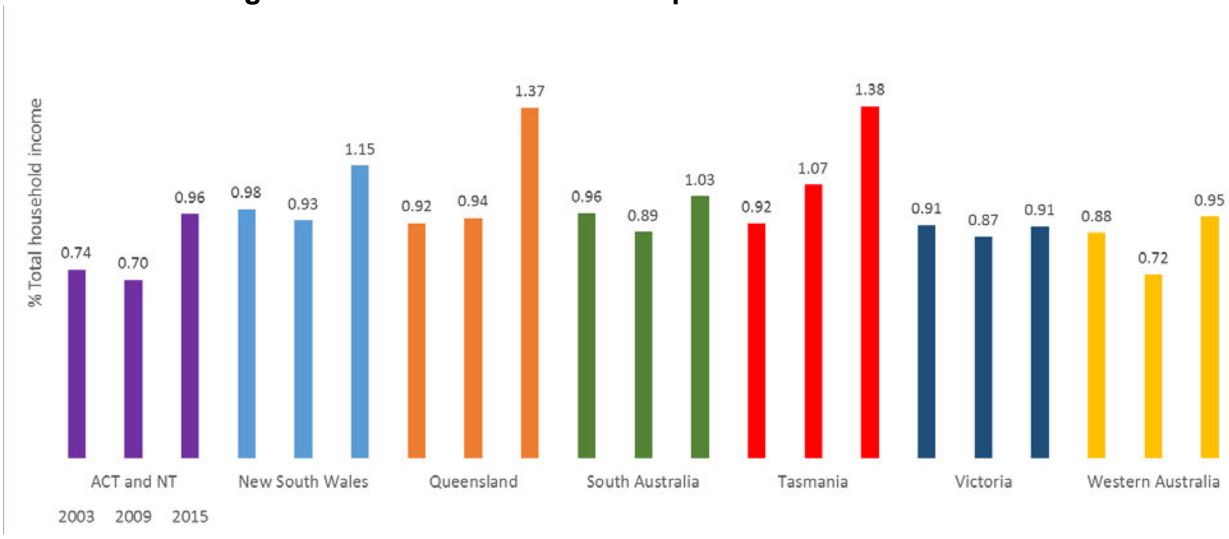
emergency services via the ESL on insurance premiums (see **Chart 4** on page 8).

In 2016, the NSW Government announced it would abolish its ESL from 1 July 2017. The insurance industry spent more than $40 million to help ensure a smooth transition from the ESL to a property-based tax.[9] However, in late May 2017 the NSW Government announced the postponement of this essential reform, with no date given for resumption of the process.

Insurers were therefore required to continue the collection of ESL on household, small business and some motor vehicle policies in NSW. The NSW Government's policy reversal has led to confusion among insurance customers and fluctuations in premiums, particularly for commercial insureds, as the ESL was reinstated upon renewals. Furthermore, the NSW Government committed in 2018 to funding an increase in NSW firefighters workers' compensation benefits through the ESL. While not questioning the policy reason for the increase, the Insurance Council regrets that this decision will further reduce the affordability of premiums in NSW.

Chart 2: Percentage of total household income spent on home and contents insurance



[9] Household expenditure represented in Charts 2 and 3 is tax inclusive

Chart 3: Percentage of total household income spent on food and drink (exc alcohol)

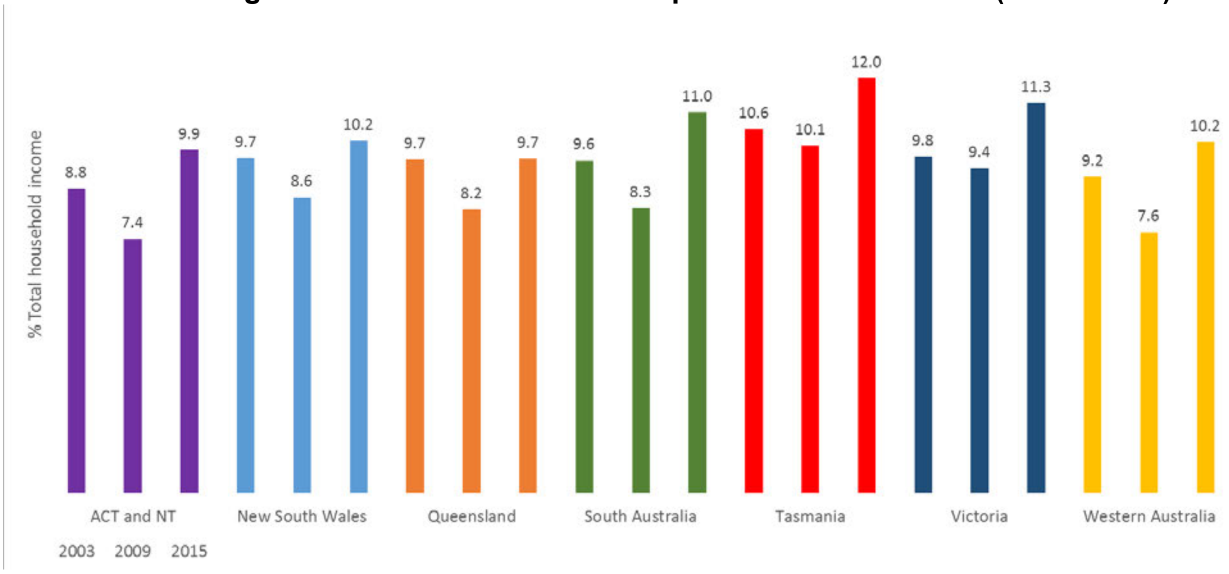
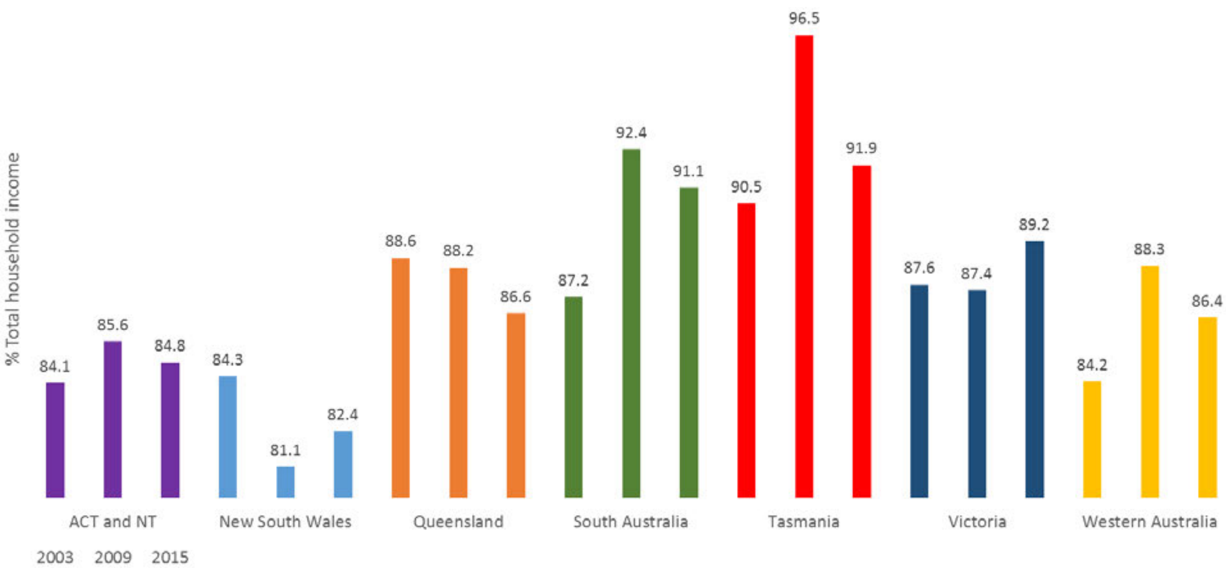


Chart 4: Percentage of households covered by home and contents insurance policies



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3. Decreased affordability contributes to underinsurance and non-insurance

According to data from the 2015-16 ABS Household Expenditure Survey, it is estimated that of the nine million households that could potentially purchase contents insurance, 30 per cent (about 2.7 million) did not have a contents policy. Of the 5.8 million potential buyers of home insurance[10], 5.7 per cent do not have a building insurance policy. The ABS data estimates are substantiated in **Table B**, with similar median percentages of non-insured households determined from the Insurance Council's policy-in-force (PIF) dataset.[11]

Table B[12]: Rates (percentage) of non-insured households in Australian suburbs from PIF dataset

1. State	2. Median suburb rate	3. Highest suburb rate	4. Lowest suburb rate
QLD North	5.68%	8.57%	3.61%
QLD South	5.87%	7.84%	3.34%
NSW	6.38%	9.37%	4.21%
VIC	6.12%	8.89%	2.44%
SA	6.23%	6.92%	3.53%
TAS	6.09%	9.09%	2.38%
WA	6.31%	7.93%	3.38%
ACT; NT	Not assessed		

The Insurance Council also recently conducted a national survey[13] that found more than 80 per cent of Australian homeowners and renters are likely to be underinsured for their home and contents and 63 per cent of renters do not have contents insurance.

Insurance duty increases the cost of insurance and may deter many householders and small business owners from taking up the appropriate level of insurance. The current insurance duty regime imposes a tax on people who protect their property, businesses, motor vehicles and personal possessions by insuring them.

The non-insured do not pay the insurance duty, while the owners of underinsured assets and businesses pay less than those fully insured. Apart from operating as a disincentive for owners of assets to purchase adequate insurance, when duties on the insurance industry are one of government's main own-source revenue mechanisms, this raises significant equity concerns.

The disincentive to appropriately insure is exacerbated by the combined effect of GST charged on insurance premiums and the ESL in NSW, which significantly reduces insurance affordability and increases the risk that a household or business will underinsure or not purchase insurance.

[10] Potential buyers of home insurance are represented by households residing in a detached or semi-detached dwelling owned by the occupants outright or by mortgage.
[11] The PIF is an ICA collated dataset that contains policy records for approximately 10 million building insurance policies in Australia that were in-force as at 1 November 2017. This dataset is useful as it represents actual consumer behaviours, rather than anecdotal information and speculation. The PIF shows, for each address, what the policy holder purchased, including; the sum - insured, the premium paid, the age of the property and the excess payment preferred for making a claim.
[12] Columns 3 and 4 show the percentage of non-insurance in suburbs with highest and lowest rates of non-insurance per state, respectively.
[13] Quantum Market Research for Understand Insurance (the Insurance Council's financial literacy initiative). April 2016.

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The diminished affordability arising from the imposition of state and territory government stamp duties on insurance premiums reduces community resilience to insurable catastrophic events.

Exacerbation of non- and underinsurance by insurance duties ultimately increases the Australian and state and territory governments' own financial exposure to catastrophic events through strong political pressure to meet community expectations of recovery assistance.

It has been recently calculated that over the past decade the total economic cost of natural disasters in Australia averaged $18.2 billion a year and that the total economic cost of natural disasters will reach $39 billion a year by 2050, a growth rate of 3.4 per cent a year. [14]

Research from the Insurance Council in 2015 [15] examined the impact of removing state and territory insurance duties (and the Emergency Services Levy in NSW) on the take-up of house or contents insurance.

It was found that the removal of all insurance taxes and charges would result in a $643 million (or 13 per cent) increase in household expenditure each year on pre-tax insurance premium on house or contents insurance across Australia.

Also in 2015, the Insurance Council commissioned research [16] using computable general equilibrium modelling of the Australian economy [17] to determine the economic impact of removing all insurance-based taxes in all states and territories and replacing them with commensurate increases in municipal land rates/property taxes. The research found that this would lead to:

- A net increase in real private consumption across Australia of $5.52 billion
- A net increase in tax revenue collected by state, territory and local governments of $575 million after five years if this reform were implemented Australia-wide.

[14] Australian Business Roundtable for Disaster Resilience and Safer Communities, Media Release. 21 November 2017.
[15] Tooth, R, Sapere Research Group, (research commissioned by the Insurance Council), Analysis of demand for home and contents insurance, pages 24-30. August 2015.
[16] Insurance Council and Deloitte Access Economics. Impact of removing stamp duties on insurance. October 2015.
[17] Comparative static computable general equilibrium model of the Australian economy with a representative household to model the impact of these changes on private consumption (as a proxy for welfare) and government budgets is recent best practice of modelling the impact of taxes in Australia, according to Cao, L. et al. *Understanding the economy-wide efficiency and incidence of major Australian taxes*. The Treasury, Australian Government. 2015; KPMG, *CGE analysis of the Current Australian Tax System*. Canberra. 2010; and Deloitte Access Economics, *Analysis of state tax reform: Report for Insurance Council of Australia*. 2011.

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4. Designing an efficient tax system

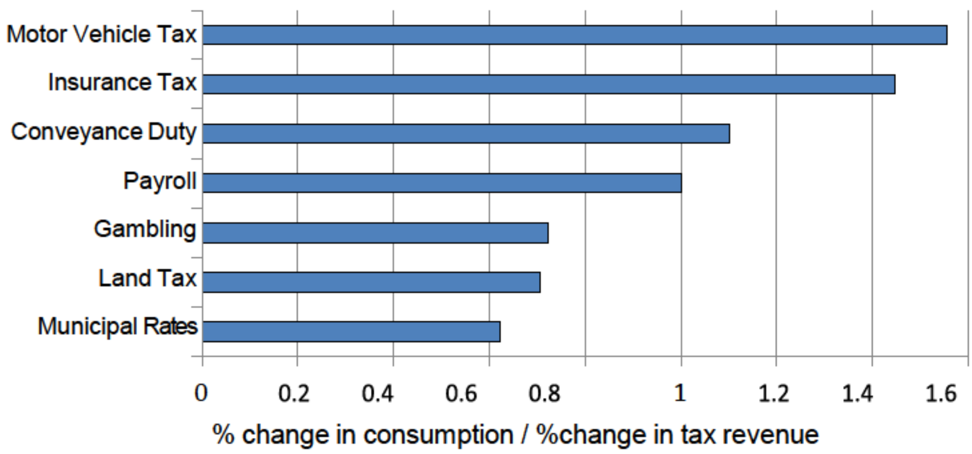
The effectiveness of a tax in achieving its purpose can be assessed against certain criteria, firstly by being equitable in terms of both horizontal and vertical equity (meaning that taxpayers with greater ability to pay, pay more tax). Furthermore, the effective tax should be:

- Transparent and simple to understand
- Unaffected by the imposition of separate taxes and levies
- Structured to minimise non-compliance
- Able to provide government/s with sufficient funding to adequately provide the services expected by the community.

Insurance duties imposed on general insurance policies do not satisfy these characteristics. Nor do they uphold the effective tax criteria of efficiency, in that the imposition of insurance duties raises premiums and as a consequence can affect consumers' choices to purchase insurance, increasing the likelihood of non-insurance and underinsurance (as discussed in earlier sections). The Insurance Council conducted an analysis[18] of the economic efficiency of state and territory government taxes to produce the rankings summarised in the chart below.

Chart 5 shows that the change in consumption reduces as tax becomes more efficient. The efficiency rankings are based on the ratio of the percentage change in real consumption to the percentage change in tax revenue and then indexed to payroll tax, which is assigned a value of 1. Accordingly, the higher the ranking the less efficient is the tax.

Chart 5: Australia-wide efficiency rankings of state and territory taxes



The analysis shows that of the primary sources of taxes and duties collected by state and territory governments, motor vehicle taxes, insurance taxes and conveyance duty are the least efficient when compared with the more efficient municipal rates, land taxes, gambling and payroll taxes.

[18] Analysis conducted in 2009 by Deloitte Access Economics in conjunction with the Insurance Council using the Access Economics General Equilibrium model to assess the efficiency of state government taxes as part of project examining stamp duty reform. The efficiency of an individual tax in the model is measured by the change in household consumption that comes from raising an extra dollar of revenue via the tax while at the same time decreasing lump sum taxes by a dollar (equivalent to raising Government transfers by a dollar). The consumption response is dependent on the size of the demand and supply elasticities incorporated into the model.

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4.1 Stamp duty is a regressive tax

In 2015, the Insurance Council sourced data on average premiums, average sums insured and the number of policies at the post code level from members and combined this data with Australian Taxation Office postcode-level income data to determine the average stamp duty burden [19] at the postcode level [20].

Analysis of the data demonstrated that as incomes increase, the stamp duty burden tends to decrease. This reflects the fact that households on higher incomes have a greater propensity to reduce premiums (for a given sum insured) by adopting self-insurance strategies such as increased deductibles or implementing household mitigation strategies.

The regressive nature of insurance stamp duties should be an important equity issue for policy makers.

4.2 Stamp duty reforms

In the past two years the NSW and Victorian governments announced stamp duty exemptions for several forms of insurance covers.

In NSW, a stamp duty exemption for lenders' mortgage insurance took effect from 1 July 2017 while exemptions for certain small business and crop and livestock insurance covers took effect from 1 January 2018. [21] In Victoria, stamp duty exemptions for certain crop, livestock and agricultural machinery insurance covers took effect from 1 July 2017. [22]

While only a start on reform, the Insurance Council strongly supports the policy goals underpinning these important exemptions, chiefly as they collectively contribute to helping address the issue of underinsurance and non-insurance in Australia, which can have a devastating financial impact on people's lives.

The Insurance Council's members have invested significant resources in complying with the NSW and Victorian stamp duty exemptions. Insurers have been required to implement extensive changes and needed considerable time to develop, test and implement new systems, largely reflecting the complexity of the insurance covers that fall within scope of the exemptions. For example, many crop and livestock risks can be insured under generic commercial product lines (such as grouped or blanket commercial property covers), rather than specific, stand-alone agricultural lines. Because of this, insurers have typically needed to significantly alter systems to apply the exemptions in accordance with the new laws.

Implementing the exemptions has been a challenging experience for industry, particularly in light of the relatively short timeframes provided by governments and the complex nature of many of the insurance covers. The Insurance Council believes that more thorough industry consultation would have helped to facilitate a smoother transition process for all parties involved. For example, earlier consultation would have provided Insurance Council members with a better opportunity to identify potential technical challenges and work with governments on possible solutions. Given these experiences, the Insurance Council encourages all State

[19] Stamp duty burden is defined as total stamp duty paid divided by income for each Australian post code.
[20] Aggregated member data from Insurance Statistics Australia database for the Insurance Council's submission in response to the Australian Government's Tax Discussion Paper. June 2015.
[21] See Revenue NSW website.
[22] See Victorian State Revenue Office website.

and territory governments, in developing any insurance stamp duty exemptions, to consult early on any proposed changes and provide a sufficient time frame for industry implementation.

4.3 Government reliance on insurance taxation revenue

The Insurance Council examined the total insurance taxation revenue collected by each state and territory government over the past 12 financial years (2007-08 to 2018-19) and the forecasted collections from financial year (FY) 2019-20 to FY2022-2023.

Over the past 12 years, state and territory governments together collected $54.7 billion. NSW collected the most revenue at $18.2 billion, followed by Victoria ($15.7 billion), reflecting the higher number of dwellings in each state and the growth in population and new housing developments. The ACT collected the least ($314 million). This is broken down in **Chart 7** (on page 15).

As illustrated in **Chart 6** below, over the past 12 years, each state and territory governments' insurance taxation revenue has steadily increased. The total insurance taxation revenue collected in FY2007-08 was $3.41 billion and $5.41 billion in FY2018-19, an increase of 58.6 per cent. This is projected to increase another 22.0 per cent in forecasts to FY2022-23.[23] The only state or territory that experienced any notable decline in collections over these periods is Victoria in FY2013-14. This occurred due to the abolition of the insurance-based Fire Services Levy.

[23] Estimated percentage increase in total forecasted insurance taxation revenue from FY2018-19 to FY2022-23 for the states and territories that published forecasted insurance revenue figures (NSW, Victoria, Queensland, WA and SA. ACT abolished stamp duties in FY2016-17).

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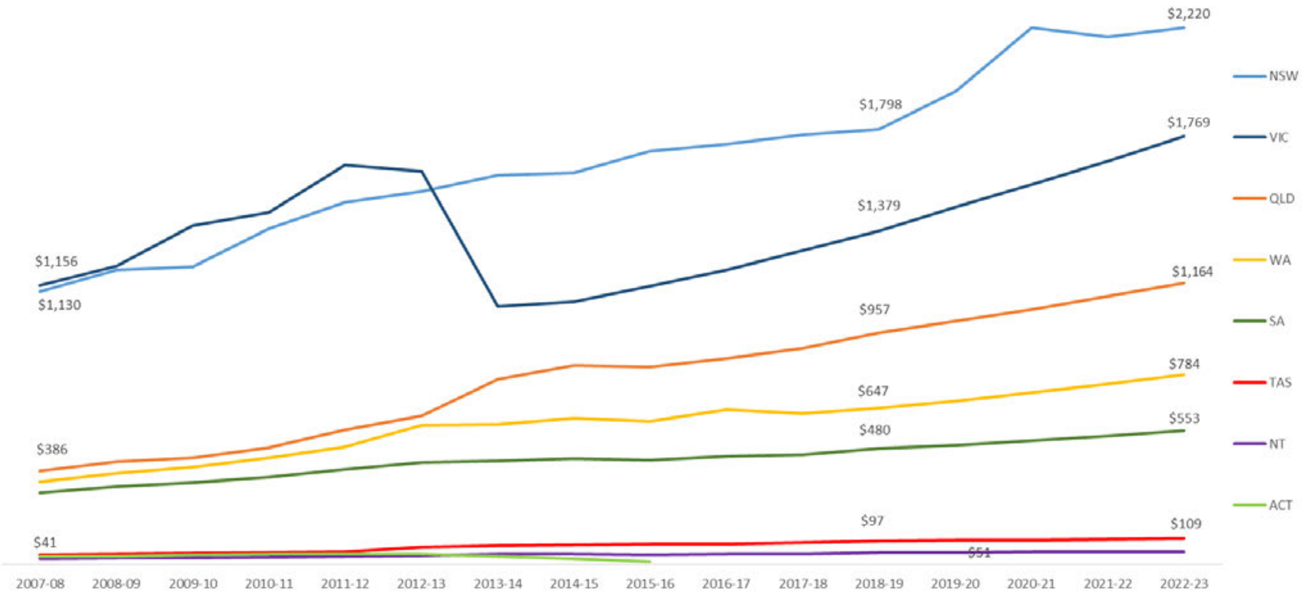
Chart 6: State and territory government insurance duties and levies collected and forecasted between financial years 2007-2008 and 2022-23 ($ million)



Source: Budget and forecast figures retrieved by the Insurance Council from each respective state and territory's budget papers, for all financial years inclusive of 2007-08 to 2018-19 (current).

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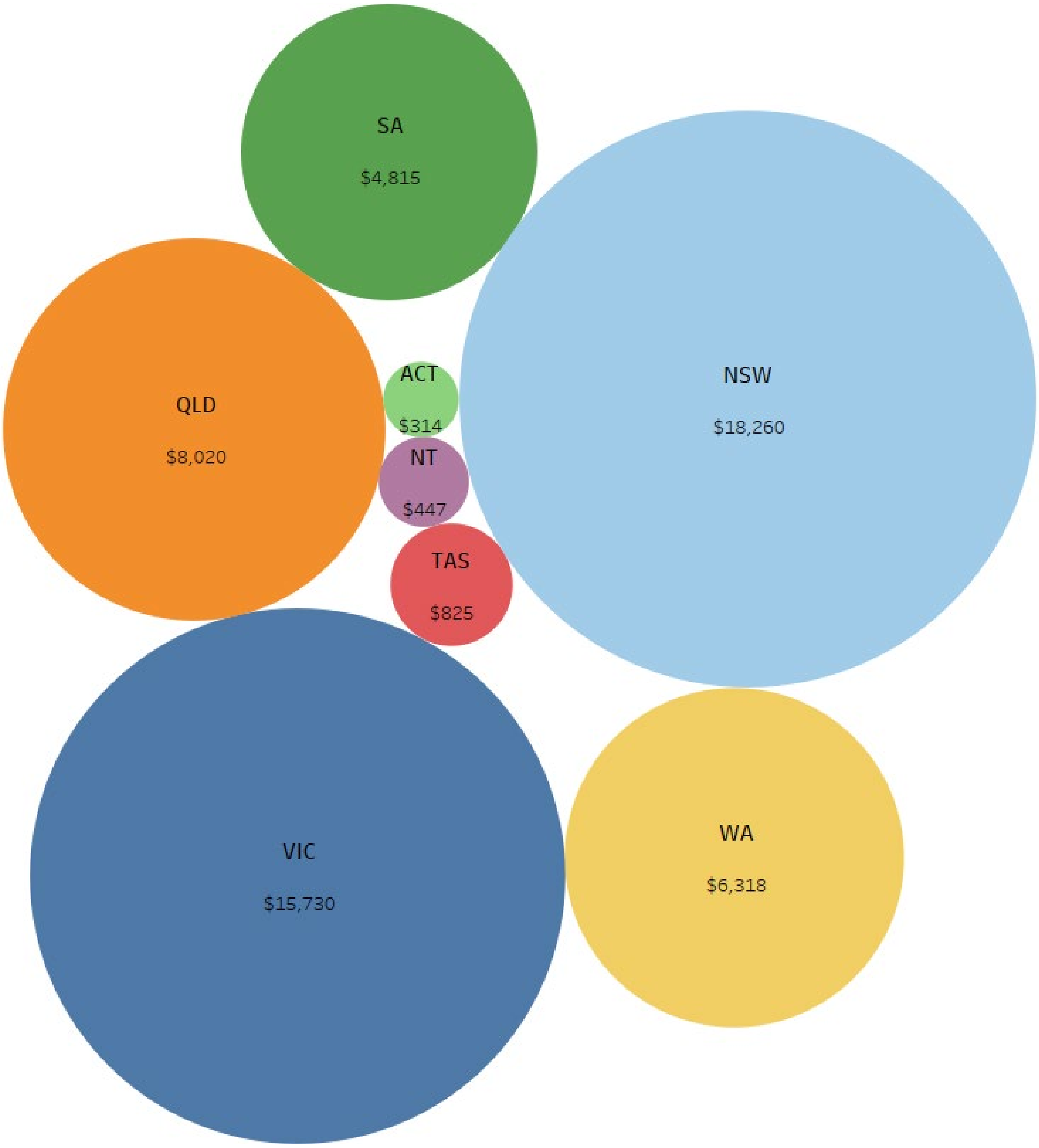
Chart 7: State and territory government insurance duties and levies collected between financial years 2007-2008 and 2018-19 ($ million)



Source: The Insurance Council retrieved budget and forecast dollar amounts from each respective state and territory's budget papers, for all financial years inclusive of 2007-08 to 2018-19 (current).

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5. Alternative model for revenue collection

Proposals to abolish insurance duties and levies, inevitably raise the question of alternative sources of revenue. A decision to reform an inefficient tax which is diminishing community welfare would be justifiable on its economic merits alone.

However, given the practical considerations in forgoing such a significant source of revenue, an alternative is to replace insurance duties with a commensurate increase in a broad-based property levy subject to safeguards as to its impact.

The Insurance Council's research presented earlier found that this would result in an increase in real private consumption and a net increase in revenue collected by each state and territory overall. As shown earlier in **Chart 5**, a broad-based municipal or land tax is highly efficient when compared with other possible sources of taxation revenue, including taxes on insurance. The efficiency rankings highlight the scope for economic gain if state and territory governments were to shift the composition of their taxation revenue away from transaction taxes on insurance to taxes of a more fixed nature, such as municipal rates and land taxes.[24]

The Insurance Council respectfully submits that state and territory governments should implement a tax reform strategy designed to shift their reliance from inefficient, narrow-based transaction taxes to broad-based, more efficient taxes.

Provided there is adequate consideration of each jurisdiction's specific characteristics, the Insurance Council is confident that governments will be able to implement an effective broad-based property levy in the same manner most had transitioned away from insurance-based emergency services levies.

For example, in Queensland, the emergency services levy incorporates stipulated risk factors depending on the activity carried out on the property; in Western Australia, the levy is a function of service levels with minimum payments and maximum caps in place; South Australia employs a land-use factor for its emergency service calculation. The fire services property levy in Victoria is made up of a residential or commercial fixed charge and a variable charge component. The variable charge is calculated by applying the appropriate land use classification rate[25] to the capital improved value of the land.

[24] This is consistent with the understanding in the Henry Tax Review and the IPART State Tax Review. The policy objective of shifting state taxes away from transactional taxes to taxes on immobile bases was also discussed at the Commonwealth Taxation Forum in October 2011.
[25] The State Revenue Office of Victoria uses 12 variable levy rates; a metropolitan and regional rate for 6 property classifications.

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6. Conclusion

Many federal, state and territory government reviews and inquiries have recommended to abolish insurance-based taxes across Australia. In recent years these have included the Australian Government's Review of Australia's Future Tax System (the Henry Tax Review), the NSW Independent Pricing & Regulatory Tribunal Review into State Taxation, the 2009 Victorian Bushfires Royal Commission, the NSW Government 2012 review: *Funding our Emergency Services*, ACT Review of Taxation, the GST Distribution Review[26] and Productivity Commission reports.[27]

A strong body of economic analysis consistently demonstrates the inequities and economic inefficiencies of taxation on insurance, including emergency services levies.

There are numerous examples across the states and territories that exhibit the successful reform of insurance-based taxes for potential social and fiscal benefit.

Broad-based taxation remains the most economically effective, equitable and efficient method to fund Australia's state and territory governments. Transaction-based insurance duties are distortionary to pricing and reduce the affordability and take-up of insurance.

Insurance taxes create an incentive for the policy holder *not* to insure by penalising them for effectively managing their risks. Accordingly, the imposition of insurance-based taxes exacerbates the serious problem of non-insurance and underinsurance. This ultimately increases the financial exposure to all levels of government when providing recovery assistance during catastrophic events

The Insurance Council urges state and territory governments to commit to and prioritise the abolition of insurance-based taxes. This would immediately improve insurance affordability and increase the take-up of insurance. Furthermore, it would reduce the need for government funding in the aftermath of natural disasters, thereby shifting the burden of disaster recovery from the public to private sector.

State and territory governments have the opportunity, through the removal of insurance taxes, to strengthen the long-term integrity of their revenue bases.[28]

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[26] See GST Distribution Review, Final Report. October 2012.
[27] Multiple Productivity Commission (PC) reports have recommended the abolishment of insurance-based taxes including Rec 4.8 – *Natural Disaster Funding Inquiry* (December 2014); Rec 4.8 – *Shifting the Dial: 5 Year Productivity Review* (October 2017) and; Rec 14.3 – *Inquiry Report; Competition in the Australian Financial System* (August 2018).
[28] For example, the PC's October 2017 Draft Report on its Inquiry into Australia's system of horizontal fiscal equalisation underpinning the distribution of GST revenue to the states and territories.

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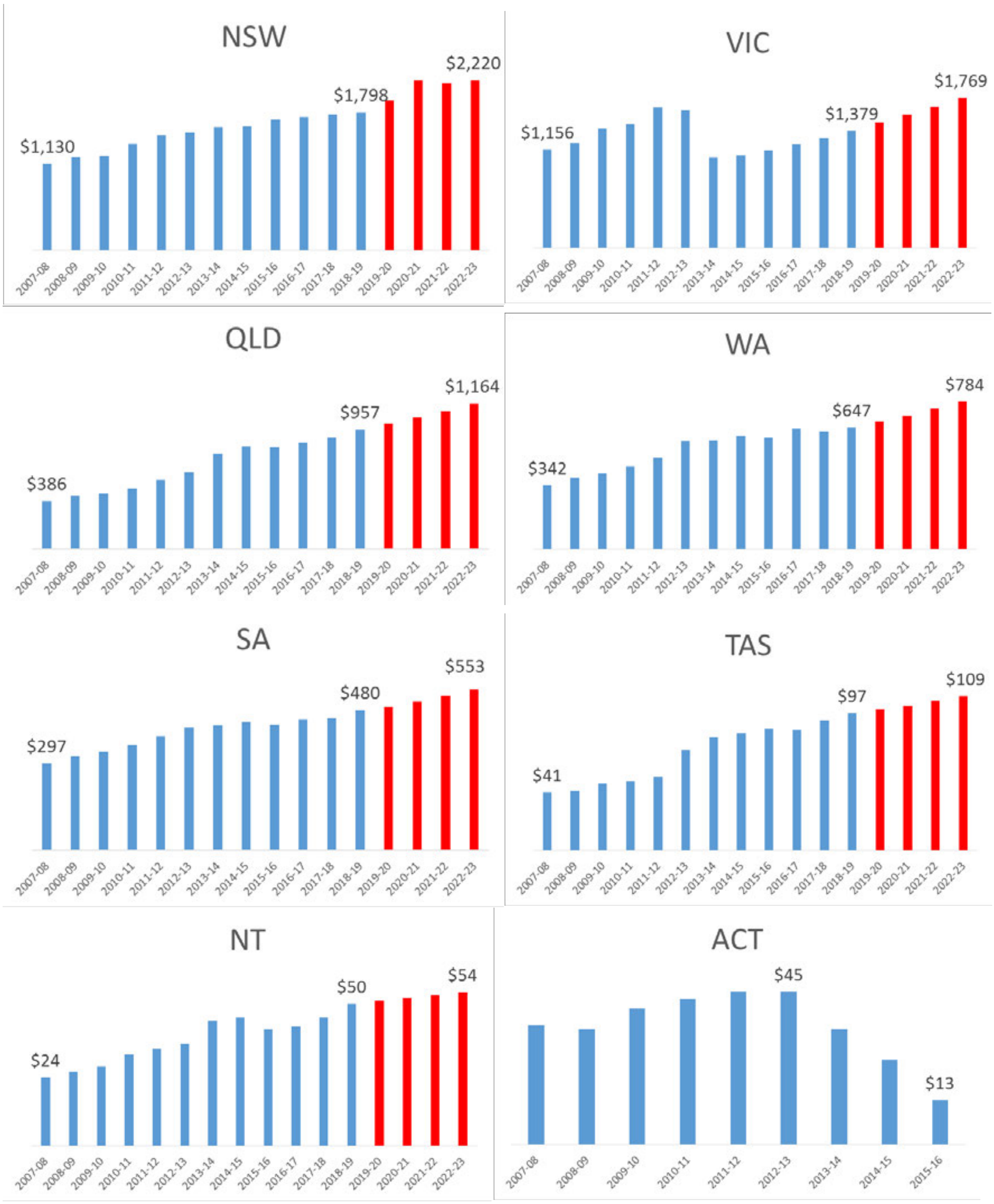
7. Appendix

Total general insurance taxes and levies collected ($ million) – Actual and Projected



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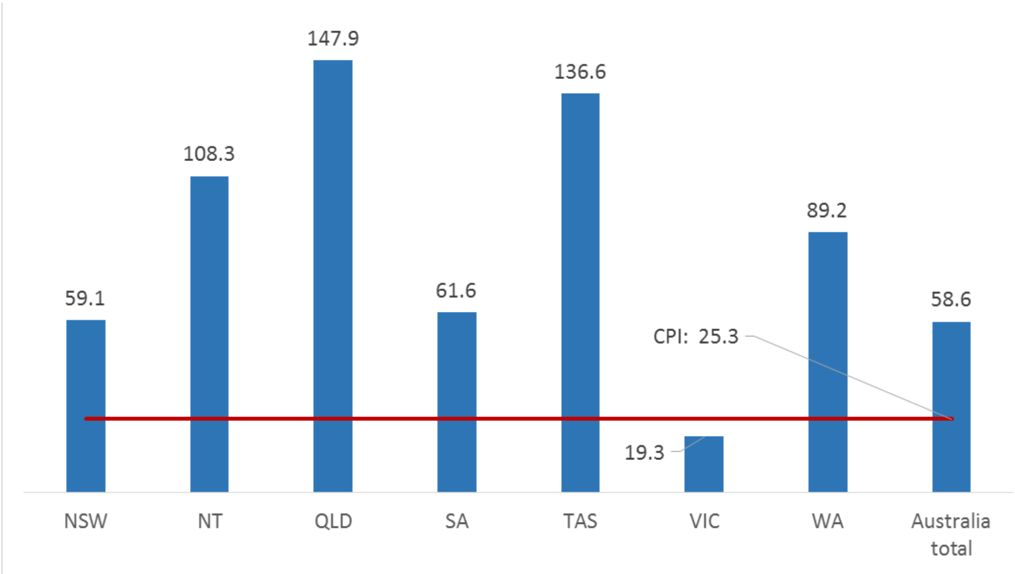
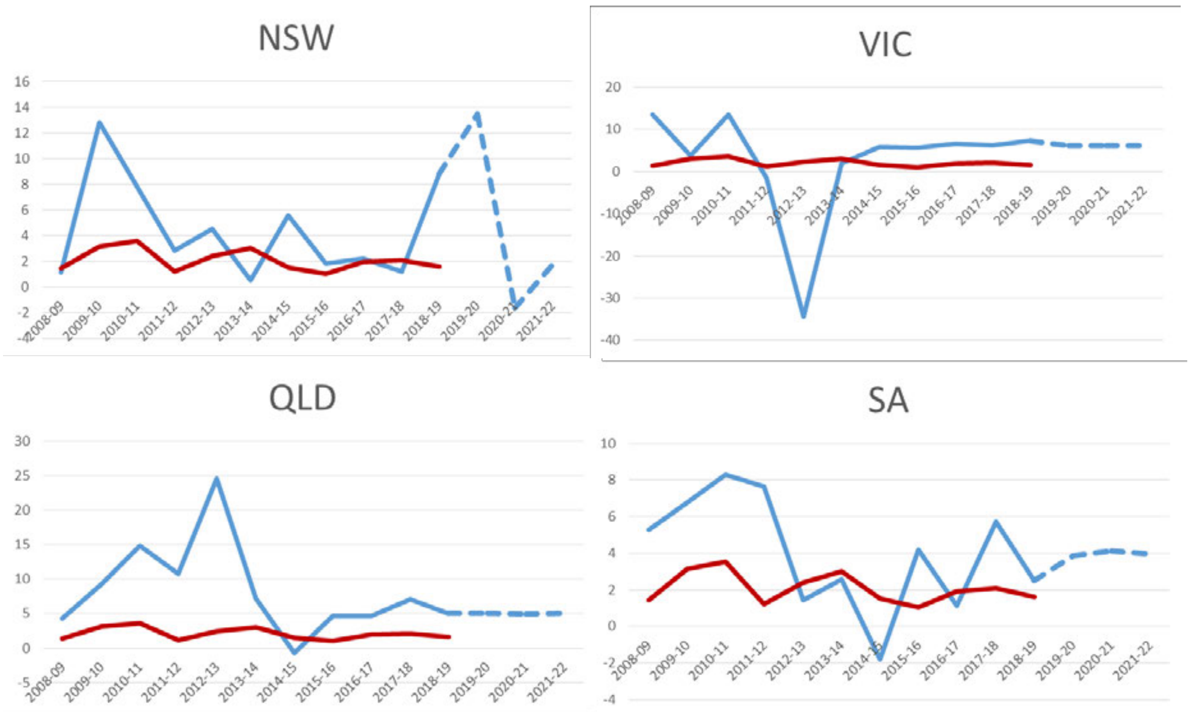
Change (%) in insurance tax collected (blue) Vs Change (%) in CPI, 200-08 to 2018-19 (red)



Year-on-year change (%) in insurance tax collected (blue) vs CPI (red) – Actual and Projected (dotted)



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