

19 December 2019

The Hon Michael Sukkar MP
Minister for Housing and Assistant Treasurer
Parliament House
CANBERRA ACT 2600
Email: prebudgetsubs@treasury.gov.au

Dear Minister Sukkar

2020-21 Pre-Budget Submission

The Insurance Council of Australia¹ (Insurance Council) welcomes the opportunity to provide views on the priorities for the Australian Government's 2020-21 Budget.

As argued in previous pre-Budget submissions, the Insurance Council strongly believes that Federal Budget planning would be enhanced if greater recognition were given to the benefits of funding disaster mitigation. We also advocate that funding be prioritised for updating the Australian Bureau of Statistics' (ABS) 2007 *National Survey of Mental Health and Wellbeing*. More broadly, we reiterate our support for ongoing tax reform. This submission sets out the reasoning underpinning our proposals.

Funding of disaster relief

The Insurance Council recognises that having an appropriate level of insurance cover is an important part of everyday life in Australia, particularly in light of the devastating impact which natural disasters can repeatedly have on many Australian communities.

The Insurance Council welcomes the creation of the new National Drought and North Queensland Flood Response and Recovery Agency. However, as we have consistently argued, there needs to be an appropriate balance between the money spent on disaster response activities compared with the funding for disaster mitigation. As highlighted by APRA in its submission to the ACCC's Northern Australia Insurance Inquiry Second Update Report:

“Hundreds of millions of dollars each year are spent on disaster funding but about 97 per cent goes towards clean-up and recovery, with only 3 per cent directed to mitigation and prevention. Addressing this imbalance will save money in the long-term by reducing the physical loss and economic disruption caused by storms, floods, cyclones and bushfires”.

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. September 2019 Australian Prudential Regulation Authority statistics show that the general insurance industry generates gross written premium of \$49.5 billion per annum and has total assets of \$128.3 billion. The industry employs about 60,000 people and on average pays out about \$155.1 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).

Correction of this imbalance, in a manner that incentivises a systemic approach to reducing existing community exposures and preventing future planning mistakes, should be a national priority. Greater investment by the Australian Government in disaster resilience and mitigation programs would significantly help communities strengthen their ability to bounce back from natural disasters. The benefits of mitigation are manifold, including improved community safety and economic stability and lower insurance premiums. As observed by APRA:

“The experience of Roma in south-west Queensland after the 2012 flood event ... shows the way forward. Evidence suggests insurance premiums fell by 50 to 90 per cent following the completion of flood mitigation infrastructure”.

The Insurance Council believes the 2020-21 Budget should prioritise disaster mitigation funding in order to reduce the Australian community’s exposure to natural disasters. We acknowledge that mitigation funding has recently been increased by \$50 million. However, it still falls significantly short of the \$200 million annual total for mitigation funding that the Productivity Commission recommended in 2014 in its report on Natural Disaster Funding Arrangements. The Government could consider the possible synergies of devoting some of the money it has earmarked for infrastructure to projects which would increase the resilience of vulnerable communities.

Furthermore, the Insurance Council submits that to ensure that care is taken in identifying and selecting mitigation projects, increased mitigation funding should be conditional on matched funding contributions from the states and territories and implementation of best practice institutional and governance arrangements.

As a means of facilitating a better recognition of the benefits of mitigation measures, the Insurance Council strongly supports the Australian Government publishing estimates for the future costs of natural disasters in the Budget’s Statement of Risks. We also submit that the natural disaster recovery budget should be informed by catastrophe modelling, rather than the simple historical average of costs (as currently used in NSW).

In addition, the Insurance Council noted the release on 14 November 2019 of a draft Guidance Note for applications to the Treasurer for the economic infrastructure staples tax concession. The concession could potentially be used to encourage non-resident investment in nationally significant infrastructure facilities which mitigate the level of damage caused by natural disasters. The Insurance Council would welcome the opportunity to discuss further this possibility with Treasury.

Funding an update to the National Survey of Mental Health and Wellbeing

The Insurance Council recognises the important role the general insurance industry can play in facilitating financially inclusive outcomes; it has made valuable contributions through product innovations for vulnerable communities, such as older Australians and those on lower incomes.

Many features of a travel insurance policy are widely available for people with a mental health condition. However, there is understandably increasing demand for the coverage of general insurance products to be expanded and the premium differentials lowered for people suffering from a mental health condition. As general insurance policies are risk-based

products, insurers' access to sophisticated data is critical to their ability to assess and price risk that is specific to an individual.

One of the key challenges that insurers face is having the appropriate data at hand to quantify the risks associated with mental health conditions. The industry currently has access to public sector statistical data on mental health, the key publication being *the National Survey of Mental Health and Wellbeing* conducted by the ABS in 2007. This estimated that 45 per cent of people will suffer from a mental health condition in their lifetime.

While the number of public sector datasets regarding mental health is considerable, much of the data is not adequate for insurance underwriting. In order to create the right conditions for improved access to general insurance for those with a mental illness, more granular, up-to-date data is essential to accurately assess the risk of providing cover for mental illness related claims.

As a first step, the Insurance Council urges that the Australian Government prioritises updating nationwide mental health data, by directing the ABS to update the 2007 *National Survey of Mental Health and Wellbeing* (the survey) immediately. This survey is the most comprehensive national publication capturing mental health data. *The National Survey of Mental Health and Wellbeing* was first conducted in 1997 and the 2007 update followed to provide relevance for the next decade.

Over another decade has passed since it was last published and it would be prudent for the Government to include expenditure to renew the survey in the 2020-21 budget. At a time when reported incidence of mental illness and the number of Australians affected by mental health continues to increase, this is an important public health concern which requires more up to date information. Conducting the survey would contribute to the public's understanding of mental health issues and provide a quantifiable basis of the impact of mental health conditions for government policy making.

This would be consistent with the Australian Government's objective to further develop the evidence base on mental health conditions, as stated in its response to the National Mental Health Commission's review of mental health programme and services. The Insurance Council estimates that the cost to update the survey and conduct follow-up analysis is relatively modest at \$17-18 million.

Tax reform

As the Federal Government considers lessons in light of the current catastrophic bushfire season and the impact that climate change will have in making bushfire seasons longer and more severe, tax reform is a vital consideration for community resilience, risk management and ensuring that citizens can recover from a disaster.

Nationally, the Insurance Council estimates that GST and stamp duties add 21% to the cost of premiums in Victoria, 19.9% in Queensland, 21% in Western Australia, 22% in South Australia, 21% in Tasmania, 21% and 21% in the Northern Territory. (We note that the ACT has phased out stamp duties on insurance products.) When GST, stamp duty and the Emergency Services Levy are combined, it leads to an effective tax of 45% on a home insurance policy premium in NSW. Higher costs mean consumers are disincentivised from adequately insuring and this presents a challenge for governments at all levels as climate change increases their exposure to liability for natural disasters.

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 Review²
- Various Productivity Commission reports³

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 Insurance Council encourages the Federal Government to work with State and Territory Governments to progress tax reform.

If you have any questions or comments in relation to our feedback, please contact John Anning, the Insurance Council's General Manager Policy, Regulation Directorate, on (02) 9253 5121 or janning@insurancecouncil.com.au.

Yours sincerely



Robert Whelan
Executive Director and CEO

² See GST Distribution Review, Final Report. October 2012.

³ 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).