

Monday July 13, 2020

SA bushfire review adds weight to tax reform debate

The Insurance Council of Australia (ICA) today backed the removal of stamp duty from home insurance as recommended in the Independent Review into South Australia's 2019-20 Bushfire Season.

The ICA agrees with the finding that “the removal of taxes from insurance would encourage a wider section of the community to take out insurance”.

At present, SA applies a stamp duty of 11 per cent to household premiums. This financial year, the SA Government expects to collect \$518 million in insurance stamp duties. The cumulative impact of GST and stamp duty is an effective 22 per cent tax rate on policies.

The report also suggested stamp duty concessions could be provided on insurance, particularly for low-income earners.

Insurance Council of Australia CEO Rob Whelan said: “The report is another voice in the call for removing unfair and inequitable taxes on insurance.

“Stamp duties are an unfair burden on South Australian households and businesses that do the right thing in insuring their assets against bushfires, storms and floods as well as everyday risks. Stamp duties make insurance more expensive and lead to underinsurance and non-insurance.

“The ICA agrees there is an immediate need to remove stamp duty from insurance for low-income earners and those in high-risk areas. However, this should only be a transition mechanism ahead of the removal of all state taxes on insurance products for all customers.”

“State taxes are especially damaging at present. SA communities and businesses are struggling with the impact of the bushfires, COVID-19 and the recession. Keeping this style of tax is indefensible by any state or territory.

“The economic case for the abolition of insurance-based state taxes and levies is widely accepted, having been canvassed in numerous federal, state and territory government reviews. The ACT was able to remove its stamp duties on insurance and find fairer and more efficient revenue sources. All state governments, including SA, should prioritise this reform.”

The report also outlines the prudent measures needed to establish better ways to deal with the evolving climate and lengthening bushfire season. One of the key recommendations is for South Australian government agencies to share risk modelling data with the ICA.

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Monday July 13, 2020

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Mr Karl Sullivan, Head of the Risk and Operations Directorate at the ICA, said: “The ICA looks forward to working with South Australian government agencies.

“The insurance industry supports the need for real-time risk intelligence data and idea of creating an Australian standard for property resilience.”

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ABOUT THE INSURANCE COUNCIL OF AUSTRALIA:

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.

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).

March 2020 Australian Prudential Regulation Authority statistics show that the general insurance industry generates gross written premium of \$51 billion a year and has total assets of \$133.8 billion. The industry employs about 60,000 people and on average pays out about \$169.4 million in claims each working day.

Over the 12 months to March 2020 the industry’s net profit after tax (NPAT) was \$1.5 billion – a 56.7 per cent decrease from the prior year’s NPAT of \$3.5 billion. The industry’s underwriting result was also \$1.5 billion, falling by 47 per cent from \$2.8 billion in the prior year. <http://www.insurancecouncil.com.au/about-us>