

Budget Policy Division
Department of the Treasury
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Via email: prebudgetsubs@treasury.gov.au

24 January 2012

Dear Treasury

Insurance Council of Australia (ICA) submission to the 2012/13 Commonwealth Budget

The Insurance Council of Australia (ICA) welcomes the opportunity of lodging the following submission as part of the Commonwealth Government's 2012/13 Budget consultations.

National Partnership on Disaster Resilience

In 2011, the ICA welcomed the release of the National Resilience Strategy (NRS) which defined priorities for identifying and mitigating risk as well as educating the community on how to improve resilience to extreme weather events. The ICA contends that programs that support the NRS to achieve its objectives will need recurrent funding support beyond the current outlays.

The ICA continues to urge the Commonwealth government to enhance funding under the National Disaster Resilience Program (NDRP).¹ As the 2011/12 Mid Year Economic & Fiscal Outlook (MYEFO) indicates, estimated cash payments to the States under the Natural Disaster Relief and Recovery Arrangements (NDRRA) will total approximate \$6 billion in the four years to 2014/15 as opposed to an outlay of approximately \$120 million over the equivalent period under the NDRP program.² Moreover, as the MYEFO indicates, spending under the NDRP program in 2011/12 is likely to fall below the estimated \$35m in the 2011/12 budget.³

The ICA contends that, in comparison to post event funding under the NDRRA arrangements, Commonwealth support for natural disaster mitigation is particularly modest. For example, spending of \$30 million in 2011/12⁴ represents a mere \$300 per property identified by the Natural Disaster Insurance Review as being at risk of high or extreme flooding.⁵ The ICA submits that this level of funding is insufficient to mitigate against the risk of natural disasters and requires considerable augmentation. The ICA also agrees with

¹ See Insurance Council of Australia submissions to the Commonwealth Budget in 2008/09 2009/10 and 2011/12.

² See 2011/12 Mid Year Economic & Fiscal Outlook (MYEFO) at Table 3.25 on page 70 and Budget Paper No 3, "Australia's Federal Relations: 2011/12" at page 89

³ See MYEFO at Table A.7 at page 121.

⁴ As indicated in MYEFO

⁵ The Natural Disaster Insurance Review, using Insurance Council of Australia data, states that some 115,445 properties are classified as being of high or extreme risk of flooding. See *Natural Disaster Insurance Review Final Report*, September 2011, at page 34.

sentiments expressed by the Federal Attorney General that the returns to the community from targeted investment in mitigation are high.⁶

Furthermore, the ICA suggests that the NDRP could also be improved by providing for additional flexibility in terms of the shared funding approach with the States and local governments. Although the ICA concurs that resilience against natural disasters is a shared responsibility across all sections of the community (governments, business and individuals), the ICA submits that the matched funding arrangements in the NDRP can act as a disincentive to pursue larger mitigation projects beyond the financial scope of local authorities/communities.⁷ Moreover, the ICA has received anecdotal evidence that the requirement that both States and local authorities match each other's contributions prior to application introduces an element of complexity to the funding challenge resulting in projects being abandoned. Accordingly, given the recent spate of natural disasters and the clear advantages that arise from mitigation works, the Commonwealth should augment considerably the NDRP funding in the 2012/13 budget (and forward estimates) as well as introduce more flexibility into the matched funding arrangements.

Fixing Flood Insurance – Key Facts Sheet Consumer Testing

The ICA notes the Commonwealth government's announcement in "*Fixing Flood Insurance*" of its intention to implement a requirement for insurers to provide customers with a Key Facts Sheet for all home and contents policies.⁸ The ICA also notes that the announcement indicates that prototypes of the Key Facts Sheet will be subject to consumer testing prior to finalisation.

The ICA supports the initiative of the Commonwealth on the Key Facts Sheet and has provided samples to the Treasury to assist in advancing this proposal.⁹ The ICA support for the Key Facts Sheet follows from the industry's commitment to support improved disclosure as part of the industry's 10 point plan to tackle disasters.¹⁰

Given the above, the ICA believes there is merit in the Commonwealth Budget including enhanced Treasury funding in 2012/13 to provide for detailed consultation and consumer testing of the proposed general insurance Key Facts Sheet. The ICA submits that prior to implementation of the Key Facts Sheet detailed research and market testing of proposals should take place with Treasury responsible for both the funding and coordination of such testing. This will ensure that the results of the testing are not only objective but seen to be objective. The 2012/13 Commonwealth budget provides the opportunity to secure such funding for the Treasury to allow for the expeditious development and implementation of the Key Facts Sheet. As previously discussed with Treasury's Financial Systems Division, development of the Key Facts Sheet could be the first stage of a comprehensive examination of general insurance disclosure documents by Treasury's Financial Services Disclosure

⁶ See for example, Attorney General, the Hon Robert McClelland, "*Mayo Lecture*", James Cook University Townsville, 6th October 2011 available at <http://pandora.nla.gov.au/pan/21248/20111214-1249/www.attorneygeneral.gov.au/Speeches/Pages/2011/Fourth%20Quarter/6-October-2011---Mayo-Lecture.html>

⁷ For example, Commonwealth funding is limited to 50% irrespective of the agency or local authority initiating the application. In the case of local government, at least 25% funding is required with matching State contributions at 25%.

⁸ See Joint Media Release of the Assistant Treasurer & Attorney General "*Fixing Flood Insurance*" issued 14 November 2011.

⁹ See ICA Media Release "*Insurers welcome standard definition*" issued 14 November 2011.

¹⁰ See ICA Media Release "*10 point plan to tackle disasters*" issued 27 January 2011.

Advisory Panel. This would help address long standing consumer and industry concerns about the effectiveness of this disclosure.

Reform of Insurance Taxation

The ICA recognises that over the last few years considerable progress has been made by all governments in advancing the abolition of general insurance taxation. For example, the Review of Australia's Future Tax system (AFTS) recommended the abolition of all insurance taxes with the October 2011 Commonwealth Tax Forum providing a venue and setting for the advancement of proposals to give this recommendation effect.¹¹ Similarly, the Victorian government has announced the abolition of insurance fire service contributions/levies from 1 July 2013 and the NSW government is embarking on a project examining the feasibility of abolishing its insurer fire levies, consistent with both the AFTS Review and the findings of the NSW Independent Pricing & Regulatory Tribunal (IPART).

The ICA submits that following the decision of the Victorian government to abolish insurer fire levies (and the likelihood of NSW following) that the scope of insurance taxation reform has been made considerably easier. For example, assuming that insurer contributions to the fire services were to be abolished in Victoria and NSW (the only States to retain such arrangements) then the quantum of the remaining taxes on insurance (i.e. stamp duties) would amount to little more than \$3.5 billion Australia wide or less than 6% of all State taxes.¹² Accordingly, the ICA contends that the full implementation of the AFTS recommendation to abolish insurance taxes is clearly achievable by governments and an immediate target to do so should be pursued.

To this end, the ICA submits that a target date should be set to abolish all insurance taxes by 2014/15 or 2015/16 at the latest. The setting of a clear target to abolish insurance taxes would serve to obligate State and Commonwealth governments to arrive at alternate revenue or expense measures that would accommodate the funding requirement of abolishing State insurance taxes.¹³ Moreover, the setting of an abolition goal would act in a similar way to the setting of State tax reform targets included in the Intergovernmental Agreement between the Commonwealth and the States in 2000. That is to say, the setting of targets would serve to hold all governments to account in the community for their tax reform commitments. The ICA respectfully suggests that only by the setting of a clear and unambiguous target for the removal of insurance taxes will there be concerted action towards this end.

National Disability Insurance Scheme (NDIS) & the National Injury Insurance Scheme (NIIS)

The ICA welcomes the release of the Productivity Commission report into Disability Care & Support and the government's commitment to pursuing the establishment of the NDIS and the NIIS. The ICA is assisting government with policy making on the NIIS as a member of the NIIS Advisory Group.¹⁴

¹¹ See www.futuretax.gov.au for an outline of proceedings including transcripts, announcements and participant statements.

¹² See ABS "Taxation Revenue" Cat No 5506.0

¹³ It should be noted that the ICA has proposed in its submissions to the AFTS Review and the Commonwealth Tax Forum alternative funding proposals to accommodate reform of general insurance taxation.

¹⁴ See Minister for Financial Services & Superannuation Media Statement "National Injury Insurance Scheme Advisory Group" 2 November 2011.

The ICA notes that, as yet, no announcement has been made with respect to the funding mechanism for the NDIS although the Productivity Commission suggested a special hypothecated surcharge on personal income as a possible source of revenue.¹⁵ Moreover, the ICA also notes that in arriving at a solution on funding for the NDIS, the Commonwealth has the opportunity to advance insurance State tax reform through relieving the States of their disability outlays and thereby providing the necessary funds to abolish inefficient State taxes.¹⁶

The ICA contends that the Commonwealth government would be well placed to join together considerations on funding of the NDIS with the goal of State tax reform. As mentioned previously, the extent of general insurance state tax reform is well within the budget realm of a policy package that relieves the States from their disability funding obligations under an NDIS.

In this regard, the ICA proposes that the Commonwealth may wish to consider the implementation of a national exemption free payroll tax and administered through the Business Activity Statement (BAS) to fund the NDIS and as an alternative to a hypothecated surcharge on personal income tax.¹⁷ Such an arrangement would see the Commonwealth adopt a pre 1971 position (where payroll tax was broadly based and applicable to all payrolls without exemptions) as a means of funding the NDIS but also to provide the opportunity for the States to “piggy back” on the new BAS arrangements to improve their payroll tax bases.¹⁸ In other words, the Commonwealth would make available to the States the ability to increase the payroll tax rate beyond what is needed to fund the NDIS (to allow for a new source of own State revenue) but the States would be prohibited from altering the payroll tax base.¹⁹ The advantage of this proposal is that States are provided with a new source of stable (and growth) revenues, with the constraint placed on the States that in exchange for this arrangement, the States are unable to engage in practices that alter the efficiency of the tax base. Further, given the Commonwealth “takeover” of NDIS funding, the States would be required to remove inefficient State taxes, such as insurance, to the amount the States would have otherwise outlaid on disability services.

The ICA sees the above proposal as a potential circuit breaker to the simultaneous goals of establishing the NDIS in the timeframe suggested by the Productivity Commission and achieving lasting reform in State taxation. The ICA would welcome the Commonwealth giving consideration to the proposal and would be happy to assist the Commonwealth in research and analysis of the proposal.

¹⁵ See Productivity Commission “*Disability Care & Support: Overview & Recommendations*” (July, 2011) at page 34.

¹⁶ This opportunity was also identified in the PC report. For example, the PC report stated that “*the Commission proposes that the quid pro quo for the exclusive funding role of the Australian government would be some relief for Australians generally from inefficient state and territory taxes*” see PC, *op cit*, at page 34.

¹⁷ The ICA estimates that, using compensation of employees as the applicable base (consistent with the approach of the Commonwealth Grants Commission) a national exempt free payroll tax of around 2.2% would generate \$13.5 billion in revenue.

¹⁸ As noted in the AFTS Review, payroll tax is an efficient tax if applied without exemptions. The deadweight costs associated with current payroll taxes arise from the application of exemptions according to thresholds and business size.

¹⁹ Under this proposal, the States would be allowed to “opt in” to the piggy backing arrangements using the BAS and the broader payroll tax base or alternatively, retain their existing payroll tax arrangements with the concomitant exemptions. In this way, the reform seeks to avoid distributive issues (for example as in the case of the Grants Commission and GST) and concerns over vertical fiscal imbalance.

Further Contact

The ICA is happy to participate in further discussions with the Commonwealth on the proposals contained in this submission. In the event that further elaboration is desired, then please feel free to contact me on (02) 9253 5150 or email rwhelan@insurancecouncil.com.au or Alex Sanchez, General Manager, Economics & Taxation on (02) 9253 5130 and email asanchez@insurancecouncil.com.au

Yours sincerely



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