Budget Policy Division
Department of the Treasury
Langton Crescent
PARKES ACT 2600

31 January 2013

Dear Treasury

Insurance Council Submission to the 2013/14 Commonwealth Budget

The Insurance Council of Australia (ICA) [1]is pleased to be able to prepare this submission as part of the Commonwealth government's 2013/14 Pre Budget consultations. The ICA seeks that this current submission be considered in conjunction with previous ICA pre Budget submissions [2] and that priorities and proposals submitted by the ICA in previous years remain for consideration during the current consultation.

Nevertheless, and notwithstanding the above, the ICA submits that for the current round of consultation, the Commonwealth Budget planning would be enhanced if consideration were given to the following priorities. These include:

- Ongoing attention to the task of mitigating against natural disasters
- Reform of State taxation and in particular, the clear establishment and commencement of a "road map" for the abolition of State insurance taxes.
- Efforts to improve insurance affordability with adjustment to Centrepay arrangements

These initiatives are outlined in more detail below.

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[1] The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Our members represent more than 90 percent 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 2012 Australian Prudential Regulation Authority statistics show that the private sector insurance industry generates gross written premium of $37.9 billion per annum and has total assets of $115.7 billion. The industry employs approx 60,000 people and on average pays out about $116 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).

[2] See ICA annual pre budget submissions for the period 2007/08 to today available at www.insurancecouncil.com.au

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Mitigation against Natural Disasters

In its 2012/13 Commonwealth Budget submission[3], the ICA urged the Commonwealth to both enhance funding under the National Disaster Resilience Program (NDRP) and also to improve the flexibility of the program to allow the States and local authorities to better access funding available under the program. With respect to the latter, the ICA pointed to anecdotal evidence from local communities that suggested complexity in the program was arguably leading to the abandonment of projects. The ICA submission also noted the significant disparity between outlays from the Commonwealth on ex ante natural disaster mitigation against post event spending for recovery.

Given the recent spate of natural disaster events, the ICA reaffirms its position from the 2012/13 Budget submission and seeks Commonwealth support to enhance the allocation for the National Disaster Resilience Program (NDRP) both in the 2013/14 year and through the forward estimates.

State Taxation Reform

The ICA welcomes the Commonwealth's clear interest in reforming State taxes, and in particular, encouraging a shift away from State transaction taxes (such as taxes on insurance premiums) towards State taxes exhibiting more efficient characteristics. The ICA, in supporting the fundamental position adopted in the Henry Tax Review that all specific taxes on insurance premiums should be abolished as a priority, has also been actively leading the case for State tax reform in accordance with the Henry Tax Review principles in all available forums.[4]

Although there remains substantial work to do to fully implement the recommendation of the Henry Tax Review on insurance taxes, the ICA notes that the States have moved significantly since the Henry report's release and a pathway to abolition of State insurance taxes is underway. For example, the Victorian government has legislated to abolish statutory fire levies on insurers from 1 July 2013 (to be replaced by a property based charge) with NSW engaged in a community consultation process to pursue a similar reform. In the ACT, the government has announced the phased abolition of stamp duties (over a five year period) on insurance commencing 1 October 2012. Only the Tasmanian government has taken a step backwards in insurance tax reform by announcing in its 2012 budget an increase in stamp duties.

The ICA contends that although these reforms to insurance taxes have not enjoyed significant notoriety, they nevertheless represent a significant change to State taxation arrangements and that importantly, they offer the scope to extend these reforms into a broader goal of removing all State insurance taxes by 2015.

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[3] See ICA submission to the 2012/13 Commonwealth Budget

[4] See for example, statements from the ICA to the Federal Tax Summit and the ICA submission to the Tasmanian State Tax Review

The ICA notes that the estimated cost of removing State stamp duties on insurance premiums is relatively modest at $3.5 billion – or around 6% of all State taxes. The ICA urges that governments at all levels prioritise insurance stamp duty reform with a commitment to abolish such taxes by no later than 2015. By setting this goal, the reforms undertaken in Victoria and the ACT, together with the proposed changes in NSW, can be articulated as steps in the path to fully implementing a key recommendation of the Henry Tax Review by 2015.

The ICA is observing closely the status of Commonwealth/State discussions on State tax reform managed through COAG and the process overseen by the NSW and South Australia's Treasurers. Regrettably, the ICA believes that progress in this area has been glacial and that the apparent impasse in Commonwealth/State Financial relations has also been a brake on reform of even a modest sort – such as the abolition of insurance stamp duties. To this end, the ICA respectfully suggests that a clear short to medium term plan across all governments to abolish all insurance taxes by 2015 could serve to reinvigorate the Commonwealth/State financial discussions.

Finally, the ICA notes steps taken by the Commonwealth to commence the establishment of the National Disability Insurance Scheme (NDIS) including committing to funding in the 2012/13 budget, the introduction of legislation in late 2012 and the drawing up of agreements with key States for the implementation trials. In this regard, the ICA respectfully submits that as part of the ongoing negotiations on the long term funding of the NDIS, that the Commonwealth not lose sight of the potential to leverage funding of the NDIS to achieve State tax reform, as urged by the Productivity Commission. The ICA has previously presented to the Commonwealth proposals to undertake an NDIS funding/State tax reform "swap" and believes that such opportunities to achieve lasting reforms in both social policy and Commonwealth/State financial relations remains.

Financial Inclusion & Centrepay

The ICA notes that the Minister for Human Services, the Hon. Senator Kim Carr has announced a review into Centrepay [5] including examining which businesses and services should have access to the Centrepay and how Centrepay can be used to build the financial capability of its customers. The ICA welcomes the Review and will be responding to the review by way of a submission.

The Natural Disaster Insurance Review (NDIR) recommended that the Government arrange with Centrepay the opportunity for Centrepay customers to pay their insurance premiums through this facility. [6] The ICA has been working with Centrepay, NGO's and government

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[5] See the Hon. Senator Kim Carr, Minister for Human Services " *Independent Review of Centrepay*" (Media Release, 12th November, 2012)

[6] See Recommendation 30, *National Disaster Insurance Review* (September, 2011).

agencies to overcome some of the administrative and system design obstacles that constrain the ability to manage premium deductions on a fortnightly basis [7].

Fundamentally, the key consideration restricting the scope for implementation of Centrepay arrangements for insurance premium is the mismatch between Centrepay's fortnightly dispersals and insurer periodic payment arrangements which are designed as payable by the month. The extent to which such systems can be reconciled will facilitate the opportunity for Centrepay customers to meet their insurance premiums through this facility.

With this in mind, the ICA contends that the 2013/14 Budget process allow sufficient capacity to take into account the pending Centrepay review and in anticipation of the reviews findings, that the 2013/14 Budget provide a funding enhancement to Centrepay to facilitate Centrepay's systems/arrangements ability to accommodate insurance premium deductions. As mentioned previously, it is the intention of the ICA to submit to the Review the value of Centrepay arrangements being augmented to accommodate insurance premium periodic payments which allows for progress on the NDIR recommendation. Further, the ICA contends that a budget enhancement that facilitates Centrepay's ability to enhance its systems/arrangements to accommodate insurance premium payments would be the least cost way of implementing the NDIR recommendation.

Further Information

The ICA is pleased to be able to lodge this submission. If further engagement on the proposals contained herein are required, please do not hesitate to contact Mr Alex Sanchez, General Manager, Economics & Taxation on (02) 9253 5130 or asanchez@insurancecouncil.com.au

Yours sincerely

Robert Whelan
Executive Director & CEO

[7] See Government response to Natural Disaster Insurance Review (NDIR), 14th November 2011 and available at http://www.treasury.gov.au/~/media/Treasury/Publications%20and%20Media/Publications/2011/NDIR%20Recommendations/Downloads/Gov_responseNDIR.ashx

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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 2011/12 [4] 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

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[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]

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[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.

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[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.

INSURANCE COUNCIL OF AUSTRALIA

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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