22 November 2019

Mr David Thodey AO
Chair, Review Panel
NSW Review of Federal Financial Relations
NSW Treasury
52 Martin Place
SYDNEY NSW 2000

Dear Mr Thodey

REVIEW OF FEDERAL FINANCIAL RELATIONS

The Insurance Council of Australia (Insurance Council)[1] welcomes the opportunity to provide comment on the NSW Review of Federal Financial Relations Discussion Paper (the Discussion Paper).

The Insurance Council recognises that this review presents a significant and much needed opportunity for the NSW Government to evaluate its taxation arrangements to ensure that as many impediments to economic growth as possible are removed and that revenue is sustainable into the future. This is particularly important if NSW is to continue to provide the high quality vital services such as emergency services, health and education, on which the people of NSW depend.

The Insurance Council also welcomes the opportunity for national debate that this review affords; for States, Territories and the Commonwealth to consider how the vertical fiscal imbalance can be reformed for better social outcomes. As the Discussion Paper made clear, there are serious issues which need to be worked through in regard to the exemptions, concessions and tax free thresholds which heavily impact the revenue raising capacity of some of the most economically efficient taxes available to State/Territory governments (pages 12 and 13). Given the significant amount of revenue sourced from insurance stamp duties by each State/Territory, the Insurance Council believes that reform can only come from a co-ordinated effort between States, Territories and the Commonwealth.

The Insurance Council submits that the Review Panel should consider the economic and community benefits nationally which an abolition of all insurance duties across all States and Territories would bring. It would be timely for the Review Panel to recommend that the NSW

[1] The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Our members represent approximately 95 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. June 2019 Australian Prudential Regulation Authority statistics show that the general insurance industry generates gross written premium of $48.4 billion per annum and has total assets of $128.4 billion. The industry employs approximately 60,000 people and on average pays out about $151.4 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).

Government abolishes insurance stamp duty and revisits its 2015 commitment to reform the Emergency Services Levy (ESL).

We attach for the consideration of the Review Panel a paper prepared by the Insurance Council analysing the economic effect of insurance duties on household insurance. The paper compares the effect of general insurance taxes on consumers in different states and argues that consumers are better off in states that have decreased their reliance on inefficient stamp duties and levies. It argues that insurance taxes are socially harmful, and there would be great community benefit in all States and Territories in abolishing insurance duties.

Over many years, the Insurance Council has argued consistently for tax reform. Insurance based taxes distort decision making and drive up the cost of insurance for consumers. Between 2007/2008 and 2018/2019, state and territory governments collected $54.7 billion in insurance taxes. At present, the NSW Government levies $1.8 billion worth of insurance based taxes, including insurance duties and the ESL. 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.

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.) The Insurance Council estimates that stamp duty adds 9% to the cost of premiums and the ESL adds 21% to home and contents premiums in NSW. When GST, stamp duty and the ESL are combined, it leads to an effective tax of 45% on a home insurance policy premium in NSW, which is the highest of any state. Consumers are less likely to take up home and contents insurance in NSW than in any other state.

The Insurance Council believes that all States and Territories would be better off if the State revenue were more reliant on broad based taxes which minimise the distortion of decision making by consumers. Research from the Insurance Council in 2015 showed that removing insurance stamp duties in NSW would stimulate spending by $125 million and removing the ESL would increase insurance expenditure by $226 million. Revenue for NSW and local government would increase by $84 million. The removal of all insurance based taxes across Australia and replacing them with broad based taxes would lead to an increase in consumption of $5.52 billion and an increase in tax revenue collected by state and local governments of 0.69%.

The economic case for the abolition of insurance based taxes has been widely accepted by numerous State and Federal Government reviews including the Henry Tax Review and recently the 2018 ACCC Northern Australia Insurance Inquiry. Notably, the 2009 Victorian Bushfires Royal Commission also recommended their abolition. As the Federal and NSW Governments necessarily consider 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.

It is important to ensure that consumers are not deterred from adequately insuring. Tax reform and increasing incentives for people to insure is vital to reducing the financial exposure of all levels of Government to natural disasters. The economic cost of national disasters is expected to reach $39 billion a year by 2015, with NSW's exposure estimated to reach $10.6 billion a year by 2050. The Insurance Council's research has shown that the removal of ESL and stamp duty would reduce non-insured households by 34% and reduce the number of households without contents insurance by 15%. Nationally, the removal of all insurance taxes and charges would lead to a $643 million increase in household expenditure on insurance premium on house or contents insurance.

Vital services such as emergency services must be sustainably funded into the future. The Insurance Council recommends that the Review Panel looks at the abolition of insurance duties and their replacement with broad based and more efficient sources of revenue. With regard to the ESL, the Insurance Council submits to the Panel that broad based taxes are a more equitable way to fund emergency services, so that those who insure their property do not unfairly bear the cost of the State's emergency services budget while those who don't insure their property make no contribution.

The Insurance Council thanks the Panel for its consideration. The Insurance Council hopes that the recommendations of the Panel will spark a national discussion which will lead to a fairer, more efficient and sustainable tax system that strengthens the Australian community's resilience against natural disasters, lowers premiums and removes disincentives to insure. As demonstrated by the NSW Government's decision in 2017 to postpone substantive reform of the ESL because of the strong dissatisfaction of several stakeholder groups, careful attention needs to be given to balancing the impacts of tax reform to ensure that there is widespread recognition that it serves the overall interests of the entire community

The Insurance Council looks forward to engaging further with the Panel on the importance of tax reform. We will also continue to engage with Government bodies such as the NSW Productivity Commission on the importance of ensuring that the social and economic costs of tax arrangements are minimised.

If you would like to discuss any of these matters further please do not hesitate to contact John Anning, General Manager Policy, Regulation at janning@insurancecouncil.com.au or 02 9253 5121.

Yours sincerely,

Robert Whelan
Executive Director & CEO