

24 August 2020

Australian Small Business and Family Enterprise Ombudsman

Insurance Inquiry

**SUPPLEMENTARY SUBMISSION BY NATIONAL INSURANCE BROKERS' ASSOCIATION
OF AUSTRALIA (NIBA)**

We refer to our Submission to the ASBFEO Insurance Inquiry dated 21 August 2020. We would like to offer the following supplementary submission on a matter that was not covered in that submission. We would like to specifically address the issue of affordability of insurance cover.

**Terms of Reference 2: other issues affecting availability and coverage
including.....insurance policy affordability**

The cost of general insurance policies is normally influenced by the following factors:

- The historical cost of claims in the particular area of insurance, and the projected cost of claims likely to be incurred during the forthcoming policy period;
- The cost of administering insurance arrangements; and an allowance for compensation to the providers of capital which supports the prudential standing of the insurance company;
- Taxes and charges that might be applicable to the insurance policy, including GST, state and territory stamp duty on insurance policies and (in NSW and Tasmania) the Emergency Services Levy.

In July 2020 NIBA provided evidence to the Senate Finance and Public Administration Reference Committee on the impact of the summer bushfires. Following that discussion, we provided information to the Committee in relation to the impact of insurance taxes and charges on insurance policies relating to property in the Australian Capital Territory and in Queanbeyan, New South Wales.

I attach our letter to the Committee, and the attached analysis of insurance taxes and charges payable in each jurisdiction in recent years.

It can be seen that in early July 2020, insurance taxes and charges were increasing the cost of property insurance in the ACT by 10%, being the GST applicable to the premium.

In Queanbeyan, New South Wales, insurance taxes and charges increased the cost of property insurance by 65.4%, which includes the impact of the GST, stamp duty on the insurance premium and the Emergency Services Levy collected by the insurance company on behalf of the NSW Government.

NIBA has been arguing for many years that the Emergency Services Levy in New South Wales is extremely unfair and inequitable. All property owners in NSW receive the benefit of the fire and emergency services, but only those who take out property insurance policies contribute to the cost of those services! If individuals and businesses chose to self insure their property damage risks, or have the capability to finance those risks other than through traditional insurance policies, they do not pay stamp duty on the insurance premium or the emergency services levy.

In Tasmania, the Fire Services Levy applies to commercial insurance premiums, and adds to the cost burden of insurance in that State.

Numerous independent inquiries and Royal Commissions have recommended the removal of the emergency services levy from insurance premiums. Victoria removed the fire services levy on insurance premiums in that State following recommendations from the “Black Saturday” Royal Commission. The NSW Government had previously decided to reform the emergency services levy from 1 July 2017, but in May 2017 decided not to proceed with the reform.

Conclusion

While there are difficulties and challenges in the insurance markets at the present time because of extensive claims costs in recent years, one way of providing significant relief to small business owners, especially in New South Wales and Tasmania, is the reform of the fire and emergency services levies.

We also submit that the rest of Australia can and should follow the lead of the ACT and remove stamp duty on insurance premiums, and move to more fairer and efficient revenue mechanisms.

We would be pleased to provide further information on any of the foregoing, and to answer any questions the Small Business Ombudsman may have in relation to these matters.

Dallas Booth
Chief Executive Officer, National Insurance Brokers Association of Australia

NIBA

National Insurance Brokers Association.



30 July 2020

The Chairman
Senate Finance and Public Administration
References Committee
Parliament House
CANBERRA ACT 2600

Dear Chairman,

Inquiry into lessons to be learned in relation to the Australian bushfire season 2019-2020

I refer to the letter from the Committee Secretary dated 23 July 2020 and to the associated Question on Notice arising from the evidence given to the Committee by representatives of the National Insurance Brokers Association on 10 July 2020.

The Question on Notice relates to a comparison of insurance taxes and charges in relation to property in Queanbeyan and in Canberra over the past three or four years.

I attach a comparison chart, which can be understood as follows.

The comparison shows actual rates and charges that were applied to insurance premiums for property insurance policies in Queanbeyan and Canberra over a series of dates from March 2016 to July 2020. The taxes and charges are for a commercial property insurance policy, including policies for small business owners.

We have assumed a premium of \$1,000. Of course, the actual premium will always depend on the specific property in question, the business that is being undertaken at the property, the insurance company providing cover, and any special terms and conditions that might apply for the policy. The taxes and charges apply for each \$1,000 of premium, or part thereof.

In March 2016, the ACT applied stamp duty on insurance premiums of 2%. By June that year the stamp duty had been totally removed, so that from June 2016 the only tax on insurance premiums in the ACT was GST. We

commend the ACT Government for its reform of stamp duty on insurance policies.

In 2016 the NSW Government had announced the abolition of the Emergency Services Levy on insurance premiums (ESL) from 1 July 2017. It can be seen that prior to abolition, the ESL rate went as high as 44%, but by June 2017 the actual ESL applied to insurance policies was 0%, in keeping with the NSW Government's previous announcement.

In May 2017, the NSW Government announced that the abolition of ESL on insurance premiums would not proceed, and that ESL would continue to be collected from insurance companies beyond 1 July 2017 – with the effect that insurance companies would pass on the levy to policyholders. Insurers were not prepared for this decision, and in fact it took insurers 6 – 8 weeks to change their pricing systems to reinstate the ESL on insurance premiums. Hence, there was no ESL in July 2017, but the ESL applied from October 2017 and continues today.

It can be seen that the rate of the ESL on insurance premiums changes over time. This is because the NSW Government collects a specified dollar amount from insurers each financial year, and insurers have to estimate the levy that will need to apply to insurance premiums in order to meet their ESL levy obligations to the State Government. The NSW Government does not set a specified rate for the levy to be applied for each policy.

For the 2020/2021 financial year, the NSW Government has announced it will collect over \$1 billion from property insurance premiums in the State, to fund the fire and emergency services. This has required insurance companies to increase the amount of the ESL on their policies, and in the attached table the ESL increased from around 30% for the 2019/2020 financial year to 38% in the 2020/2021 financial year.

At the present time, the total taxes and charges on commercial property insurance premiums in NSW is around 65%. As stated in our submission to the Committee, this is a massive disincentive to take out adequate insurance to protect property in case of major loss. It adds a serious burden to the affordability of insurance cover in NSW. It is a major reason why so many property owners could not afford to fully insure their property against the fires that occurred over the recent summer.

The Emergency Services Levy on insurance premiums is seriously unfair and unjust. The levy applies to property owners who take out traditional insurance cover, but it does not apply to people who do not take out insurance, or who finance their risk of loss by other mechanisms. Nevertheless, all property owners in NSW receive the benefit of the emergency services.

A further unjust aspect of the way the taxes are levied is as follows. It can be noted that at July 2020, the GST on a \$1,000 premium in Queanbeyan was not \$100 (10% of \$1,000). In fact, the GST was \$150.42, being 10% of the insurance premium plus the ESL plus stamp duty. GST is collected on two taxes, not just on the insurance premium.

We hope this assists the Committee in its consideration of these matters.

Please do not hesitate to contact me if you have any questions on any of this material.

Yours sincerely,

Dallas Booth
Chief Executive Officer

**Premium Comparison
Quenbeyan vs Canberra**

Policy Effective Date		Queanbeyan		Canberra	
Mar-16	Insurers Basic Premium		\$ 1,000.00		\$ 1,000.00
	Emergency Services Levy	34%	\$ 340.00	0%	\$ -
			\$ 1,340.00		\$ 1,000.00
	Stamp Duty	9%	\$ 120.60	2%	\$ 20.00
			\$ 1,460.60		\$ 1,020.00
	GST	10%	\$ 146.06	10%	\$ 102.00
	Total		\$ 1,606.66		\$ 1,122.00
Jun-16	Insurers Basic Premium		\$ 1,000.00		\$ 1,000.00
	Emergency Services Levy	38%	\$ 380.00	0%	\$ -
			\$ 1,380.00		\$ 1,000.00
	Stamp Duty	9%	\$ 124.20	0%	\$ -
			\$ 1,504.20		\$ 1,000.00
	GST	10%	\$ 150.42	10%	\$ 100.00
	Total		\$ 1,654.62		\$ 1,100.00
Jul-16	Insurers Basic Premium		\$ 1,000.00		\$ 1,000.00
	Emergency Services Levy	41%	\$ 410.00	0%	\$ -
			\$ 1,410.00		\$ 1,000.00
	Stamp Duty	9%	\$ 126.90	0%	\$ -
			\$ 1,536.90		\$ 1,000.00
	GST	10%	\$ 153.69	10%	\$ 100.00
	Total		\$ 1,690.59		\$ 1,100.00
Oct-16	Insurers Basic Premium		\$ 1,000.00		\$ 1,000.00
	Emergency Services Levy	44%	\$ 440.00	0%	\$ -
			\$ 1,440.00		\$ 1,000.00
	Stamp Duty	9%	\$ 129.60	0%	\$ -
			\$ 1,569.60		\$ 1,000.00
	GST	10%	\$ 156.96	10%	\$ 100.00
	Total		\$ 1,726.56		\$ 1,100.00
Mar-17	Insurers Basic Premium		\$ 1,000.00		\$ 1,000.00
	Emergency Services Levy	31%	\$ 310.00	0%	\$ -
			\$ 1,310.00		\$ 1,000.00
	Stamp Duty	9%	\$ 117.90	0%	\$ -
			\$ 1,427.90		\$ 1,000.00
	GST	10%	\$ 142.79	10%	\$ 100.00
	Total		\$ 1,570.69		\$ 1,100.00
Apr-17	Insurers Basic Premium		\$ 1,000.00		\$ 1,000.00
	Emergency Services Levy	18%	\$ 180.00	0%	\$ -
			\$ 1,180.00		\$ 1,000.00
	Stamp Duty	9%	\$ 106.20	0%	\$ -

	GST	10%	\$ 1,286.20		10%	\$ 1,000.00
	Total		\$ 128.62		10%	\$ 100.00
			<u>\$ 1,414.82</u>			<u>\$ 1,100.00</u>
Jun-17	Insurers Basic Premium		\$ 1,000.00			\$ 1,000.00
	Emergency Services Levy	0%	\$ -		0%	\$ -
			\$ 1,000.00			\$ 1,000.00
	Stamp Duty	9%	\$ 90.00		0%	\$ -
			\$ 1,090.00			\$ 1,000.00
	GST	10%	\$ 109.00		10%	\$ 100.00
	Total		<u>\$ 1,199.00</u>			<u>\$ 1,100.00</u>
Jul-17	Insurers Basic Premium		\$ 1,000.00			\$ 1,000.00
	Emergency Services Levy	0%	\$ -		0%	\$ -
			\$ 1,000.00			\$ 1,000.00
	Stamp Duty	9%	\$ 90.00		0%	\$ -
			\$ 1,090.00			\$ 1,000.00
	GST	10%	\$ 109.00		10%	\$ 100.00
	Total		<u>\$ 1,199.00</u>			<u>\$ 1,100.00</u>
Oct-17	Insurers Basic Premium		\$ 1,000.00			\$ 1,000.00
	Emergency Services Levy	36%	\$ 360.00		0%	\$ -
			\$ 1,360.00			\$ 1,000.00
	Stamp Duty	9%	\$ 122.40		0%	\$ -
			\$ 1,482.40			\$ 1,000.00
	GST	10%	\$ 148.24		10%	\$ 100.00
	Total		<u>\$ 1,630.64</u>			<u>\$ 1,100.00</u>
May-18	Insurers Basic Premium		\$ 1,000.00			\$ 1,000.00
	Emergency Services Levy	25%	\$ 250.00		0%	\$ -
			\$ 1,250.00			\$ 1,000.00
	Stamp Duty	9%	\$ 112.50		0%	\$ -
			\$ 1,362.50			\$ 1,000.00
	GST	10%	\$ 136.25		10%	\$ 100.00
	Total		<u>\$ 1,498.75</u>			<u>\$ 1,100.00</u>
Dec-18	Insurers Basic Premium		\$ 1,000.00			\$ 1,000.00
	Emergency Services Levy	28%	\$ 280.00		0%	\$ -
			\$ 1,280.00			\$ 1,000.00
	Stamp Duty	9%	\$ 115.20		0%	\$ -
			\$ 1,395.20			\$ 1,000.00
	GST	10%	\$ 139.52		10%	\$ 100.00
	Total		<u>\$ 1,534.72</u>			<u>\$ 1,100.00</u>
Jul-19	Insurers Basic Premium		\$ 1,000.00			\$ 1,000.00
	Emergency Services Levy	31%	\$ 310.00		0%	\$ -
			\$ 1,310.00			\$ 1,000.00
	Stamp Duty	9%	\$ 117.90		0%	\$ -
			\$ 1,427.90			\$ 1,000.00
	GST	10%	\$ 142.79		10%	\$ 100.00

	Total		<u>\$ 1,570.69</u>		<u>\$ 1,100.00</u>
Oct-19	Insurers Basic Premium		\$ 1,000.00		\$ 1,000.00
	Emergency Services Levy	31%	\$ 305.00	0%	\$ -
			<u>\$ 1,305.00</u>		<u>\$ 1,000.00</u>
	Stamp Duty	9%	\$ 117.45	0%	\$ -
			<u>\$ 1,422.45</u>		<u>\$ 1,000.00</u>
	GST	10%	\$ 142.25	10%	\$ 100.00
	Total		<u>\$ 1,564.70</u>		<u>\$ 1,100.00</u>
Feb-20	Insurers Basic Premium		\$ 1,000.00		\$ 1,000.00
	Emergency Services Levy	29%	\$ 290.00	0%	\$ -
			<u>\$ 1,290.00</u>		<u>\$ 1,000.00</u>
	Stamp Duty	9%	\$ 116.10	0%	\$ -
			<u>\$ 1,406.10</u>		<u>\$ 1,000.00</u>
	GST	10%	\$ 140.61	10%	\$ 100.00
	Total		<u>\$ 1,546.71</u>		<u>\$ 1,100.00</u>
May-20	Insurers Basic Premium		\$ 1,000.00		\$ 1,000.00
	Emergency Services Levy	30%	\$ 300.00	0%	\$ -
			<u>\$ 1,300.00</u>		<u>\$ 1,000.00</u>
	Stamp Duty	9%	\$ 117.00	0%	\$ -
			<u>\$ 1,417.00</u>		<u>\$ 1,000.00</u>
	GST	10%	\$ 141.70	10%	\$ 100.00
	Total		<u>\$ 1,558.70</u>		<u>\$ 1,100.00</u>
Jul-20	Insurers Basic Premium		\$ 1,000.00		\$ 1,000.00
	Emergency Services Levy	38%	\$ 380.00	0%	\$ -
			<u>\$ 1,380.00</u>		<u>\$ 1,000.00</u>
	Stamp Duty	9%	\$ 124.20	0%	\$ -
			<u>\$ 1,504.20</u>		<u>\$ 1,000.00</u>
	GST	10%	\$ 150.42	10%	\$ 100.00
	Total		<u>\$ 1,654.62</u>		<u>\$ 1,100.00</u>