

Wednesday July 1, 2020

Report highlights urgent need for comprehensive reform of NSW insurance taxes

The Insurance Council of Australia (ICA) strongly supports the reform of taxes on general insurance that are recommended in the draft NSW Review of Federal Financial Relations report (the Thodey report) published today.

The ICA welcomes the release of the report and agrees with the finding that there is “no principled case for applying a special tax on insurance”.

Insurance Council of Australia CEO Rob Whelan said: “This report is a significant contribution to Australia’s debate about the policies necessary to revitalise our economy and the relationship between the Commonwealth and the states and territories.

“Insurance taxes are a blow to customers who do the right thing and protect themselves and their assets. These taxes also sap the productivity of the economy.

“State taxes on insurance are especially damaging at present. Communities and businesses are struggling with the impact of natural disasters, COVID-19 and the recession, and these taxes are an unjustified impost.

“The situation in NSW is particularly dire for families, who are now paying more than 50 per cent in taxes on household policies, and small businesses, which are typically paying 70 per cent. This is because of the combined impact of the GST, state stamp duty of 9 per cent and the Emergency Services Levy (ESL).

“I applaud David Thodey in taking a strong and rational view to achieve the best broad-based outcomes for all NSW residents, and not just a simple lift and shift on taxation.

“We agree with the Thodey report that there is a pressing need for abolishing insurance taxes, with replacement revenue sourced from more efficient and equitable taxes.

“The industry urges NSW Treasurer Dominic Perrottet and Premier Gladys Berejiklian to accept the report’s findings in relation to insurance stamp duties and the ESL, and prioritise this vital reform process.”

The report warned of “serious human and social consequences from what has been dubbed ‘a national crisis of under-insurance’, especially for a country that relies heavily on insurance markets for recovery from disasters”.

The report highlighted:

- Taxes on insurance deter all households, but particularly those in NSW, from being properly insured or insured at all

-MORE-

Wednesday July 1, 2020

-CONTINUES-

- By deterring adequate insurance, taxes on insurance increase the cost to governments of disaster relief and hinder post-disaster recovery by delaying rebuilding
- Insurance taxes reduce the size of the insurance market and hence the scope for insurers to pool risk, leading to an increase in the cost of insurance premiums beyond first-round impacts
- By adding to the multiple layers of taxation on insurance, the emergency services levy amplifies the harmful impact on consumer and business behaviour.

The Insurance Council will review the draft report in consultation with its members and provide its feedback before the end of the month.

-ENDS-

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>