Insurance Council of Australia

15 September 2025

Productivity Commission

By upload

Dear Ms Wood

Submission to the Interim Report on Creating More a Dynamic and Resilient Economy

Thank you for the opportunity to make a submission to the Productivity Commission's interim report on *Creating a More Dynamic and Resilient Economy*.

The Insurance Council of Australia (Insurance Council) is the representative body for the general insurance industry of Australia. Our members represent approximately 85 per cent of total premium income written by private sector general insurers, spanning both insurers and reinsurers.

General insurance has a critical role in the economy, insulating individuals and businesses from the financial impact of loss or damage to their insured assets. Our work with our members, consumer groups and all levels of government serves to support consumers and communities when they need it most. We believe an insurable Australia is a resilient Australia – and it's our purpose to be the voice for a resilient Australia.

The general insurance industry is uniquely positioned to provide feedback on the proposals made in the interim report as insurers provide the safety net that underpins all aspects of our economic and social activity, from becoming a driver to starting a business, and from buying a home to building multi-storey apartment blocks.

Our unique role makes our industry and its customers very sensitive to taxation and regulation settings and their impact on productivity.

Recommendations on taxation

Our industry is supportive of achieving effective corporate tax system reforms that create a more efficient mix of taxes. Reform should be considered in a way that promotes growth and investment by taking a holistic assessment of the tax system, maintaining international competitiveness, and how any proposed changes interact with existing taxes.

Any additional taxes on the insurance industry would inevitably be passed on to customers through their insurance premiums, which already face heavy, multiple taxation. In addition to the GST, other than in the ACT premiums are also subject to onerous state and territory stamp duties, while in New South Wales and Tasmania insurance customers also pay an emergency or fire services levy. State taxes add nine to 40 per cent to the cost of a premium and far exceed insurer profits; in FY2024-25, state governments collected $8.9 billion in insurance taxes, $1.6 billion more than the industry's cumulative profits as measured by APRA. This was in addition to the GST paid by insurance customers and corporate taxes and payroll taxes paid by insurance companies.

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Recommendation 1.1 should consider reforms to the taxation system more holistically, rather than siloing reform. As part of this recommendation, the insurance industry encourages consideration be given to how the Federal Government can incentivise state governments to remove insurance-based taxes. Several reviews have found these taxes to be inefficient because they distort behavior, lead to higher under- and-noninsurance rates, and are unproductive, increasing reliance on public funding in the event of natural disasters.

The insurance industry does not support the proposed 5 per cent Net Cash Flow Tax (NCFT) and is concerned it will have negative impacts on productivity and create an additional cost burden on insurance businesses. The proposal shifts the burden of tax reform cost-neutrality on to larger businesses, with additional taxation reducing larger business capacity for increased investment. It would also require companies to maintain dual accounting systems; one to manage existing arrangements for depreciation-based assets and another for immediate expensing under the NCFT.

The introduction of an NCFT is particularly problematic for insurance companies due to the unique nature of their business. Insurers experience cyclical profitability, reflecting periods of high claims events followed by lower claims periods. For example, total annual industry profit averaged $3.5 billion over the three years from FY17 to FY19, and then dropped to an annual average of $0.9 billion over the following three years of FY20 to FY22 because of a steady run of large and costly extreme weather events. The imposition of the NCFT would disadvantage insurers who use profit cycles to balance claim-intensive years with less claims intensive years and could not simply use more profitable years to increase investment then offset costs against an NCFT.

Australia’s prudential standards are vital to maintaining stability across the finance sector. An important feature of Australia’s regulatory environment that reflects insurer profit cycles is the APRA-mandated capital holdings requirements, which ensures insurers have the liquidity to pay out claims when they arise. This means insurers are not in a position to simply increase capital expenditure investment and offset it against an NCFT, thereby increasing the cost burden on insurers and their customers while reducing productive capacity.

The insurance industry would be supportive of the reduction to the headline corporate tax rate to 20 per cent if it included businesses with turnover above $1 billion. Large insurers have a greater capacity to spread risks, which enables them to deliver more affordable insurance premiums to consumers. They are vital to delivering on the government’s objective to improve insurance affordability and punishing them would create a perverse outcome. For insurers, reducing the headline corporate tax rate to a consistent 20 per cent would free up additional capital allowing for greater investment to boost productivity outcomes.

Reducing regulatory burden

The insurance industry supports the Productivity Commission's recommendations to reduce regulatory burden and red tape and commends the Government’s recent commitments to undertake regulatory reviews via the Council of Financial Regulators (CFR). The Government’s regulatory reform agenda should be guided by a set of core principles that deliver better

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productivity outcomes, transparency that delivers investor certainty, a view to long-term sustainability, and a mechanism for genuine review.

We believe that more can be done with the Government's Regulatory Initiatives Grid (RIG) to reduce duplication and better coordinate regulator reform and would like to see the CFR champion its use across regulators and AFCA.

Australian insurers are heavily regulated, with more than 100 pieces of regulation in force across different regulators; the Australian Securities and Investments Commission (ASIC), the Australian Competition and Consumer Commission (ACCC), and APRA. Insurers are also bound to implement findings from the Australian Financial Complaints Authority (AFCA), which can have significant implications on operational costs. We support the ACCC working with the CFR on the regulatory review agenda but would also like to see AFCA included. We believe that the ACCC should be a standing member of the CFR going forward to ensure competition is adequately considered.

The financial services sector has been subject to a high volume of regulatory reform in recent years including from the Hayne Royal Commission, House Economics Committee flood insurance inquiry, updates to Regulatory Guides and Prudential Standards, the Financial Accountability Regime, and Climate Risk Disclosure mandates. These reforms have resulted in duplicative and overlapping regulation, adding to the resource and cost burden that is ultimately borne by consumers. As a starting point, the Insurance Council recommends a review of changes made resulting from the Hayne Royal Commission which has been in force now for several years. Insurers are also eager to see Government respond to and implement the recommendations from the Australian Law Reform Commission's (ALRC) Review of the Legislative Framework for Corporations and Financial Services Regulation, which handed down its final report in January 2024.

We have provided further views on the Commission's draft recommendations below.

The impact of red tape is significant, which is estimated to currently cost 2-3 per cent of GDP or $68 billion in Australia. Australia's ranking in the IMD World Competitiveness Yearbook 2025 fell from 13th to 18th, with our business efficiency score dropping from 22nd in 2024 to 37th in 2025. Now is the time to improve regulatory efficiency and support businesses to invest in innovation.

Conclusion

The insurance industry welcomes the Productivity Commission's focus on improved regulatory efficiency and changes to enhance Australia's tax system. Regulation and taxation are important economic pillars that influence the productive capacity of businesses of all sizes, and reforms should be considered holistically rather than targeted at elements of the tax or regulatory systems. This submission details how component reforms can have unintended consequences and lead to adverse outcomes by harming some businesses rather than raising productive capacity across the board.

The submission also provides recommendations for the Commission to consider as part of its final report, including a post-implementation review of Hayne Royal Commission regulations,

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better coordination and oversight across departments on regulatory reform, and implementing more holistic tax reform with incentives to remove inefficient state insurance-based taxes.

We look forward to seeing the Commission’s final recommendations.

If you have any questions relating to our submission, please contact Brooke Noorbergen, Senior Strategic Policy Adviser, bnoorbergen@insurancecouncil.com.au.

Regards

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Appendix: A More Dynamic and Resilient Economy

Insurance industry response to the Commission's interim recommendations

Draft recommendation 1.1 – Pivot the corporate tax system to a more efficient mix of taxes

The insurance industry is generally supportive of moving toward a more efficient mix of taxes that reduces costs, promotes growth, and bolsters investment capacity. Current taxation arrangements are outdated and overly complex and require a holistic review by the Commonwealth and state governments. Currently, there is a heavy overreliance on income tax that distorts individual and business decisions, and limits capacity to invest and innovate.

A holistic assessment of the overall tax system should take into account international competitiveness, be guided by the principle of neutrality, and positively influence business and individual productive capacity.

Moreover, the Commission should give consideration to the tax share arrangements between state and federal governments. State governments are overly reliant on stamp duties and other inefficient taxes that have repeatedly been found to be distortionary. For example, in New South Wales property owners are charged three different taxes (Emergency Services Levy, stamp duty, and GST) on their insurance premiums, which add around 40 per cent of the cost of a home insurance premium and more to some commercial premiums.

While New South Wales is the only mainland state yet to abolish the ESL (Tasmania maintains a Fire Services Levy on commercial lines), the reliance on stamp duty by all state governments will see more than $9.4 billion collected across all jurisdictions in insurance-based taxation in FY26.

The insurance industry recommends consideration is given to how state and federal taxation arrangements could be balanced to reduce the reliance on insurance stamp duties by state governments. Reform of insurance-based taxes will help to close the insurance protection gap so that more properties are covered in the event of a natural disaster, reducing the reliance of state and federal budgets to foot regular multi-million dollar bills to fund recovery and clean-up efforts.

Draft recommendation 1.2 – Lower the headline company tax rate to 20% for businesses with a turnover under $1 billion

While the insurance industry is supportive of lowering the headline company tax rate, the proposal to lower the headline company tax rate to 20 per cent should be broad-based, rather than targeted at businesses with turnover under $1 billion. The current proposal is limited by the application of budget neutrality to corporate tax reform where some businesses will enjoy a boost to productive capacity through lower taxes, while other businesses will experience reduced productive capacity by essentially covering the tax gap.

In a business environment where capital is mobile, the corporate tax rate is a factor that may drive investors to allocate funds to other jurisdictions where the after-tax returns are higher.

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The thresholds proposed to qualify for the reduced headline company tax rate are based on domestic sales and exports, which will disadvantage businesses with existing operations in Australia (compared to large multinationals in start-up phase in Australia). The thresholds are inconsistent with those used in existing tax law to classify Significant Global Entities / Country-by-Country Reporting Entities, which adds to implementation and compliance complexity.

Draft recommendation 1.3 – Introduces a net cashflow tax of 5% for businesses with a turnover above $` billion

The proposed NCFT will ultimately lead to an increased tax burden on larger businesses and is particularly complicated for the insurance industry to implement. Importantly, the Commission's Interim Report recognised there are challenges with applying an NCFT to the financial services sector. It is anticipated that this kind of arrangement would create substantial complexity with associated implementation and compliance burden (particularly in relation to accounting, systems, and audit requirements).

While it may assist in achieving the Productivity Commission's budget neutrality goals, the proposed design of the NCFT lacks the structure to free up capital for investment because it is an additional tax, with no reduction in the headline tax rate for businesses over $1 billion. The result of this approach would pressure large businesses to increase investment in order to limit possible exposure to the NCFT, however without facilitating funds to provide for that investment, businesses will either need to rely on accessing retained earnings (reducing profit and funds available to return to shareholders), or increase prices to fund those investments (an approach which may also increase potential exposure to the NCFT because of higher inflows).

Turnover and cashflow do not appear to be appropriate measures to assess insurers because of the volatility and unpredictability of insurer operations. Specific issues for any NCFT proposal relating to general insurance are outlined below.

1. **Claims reserves:** These reserves are not deductible until payment, however they sit on insurer balance sheets and will impact cashflow assessment, particularly for long-tail claims (e.g. workers compensation, liability claims, Comprehensive Third Party).
2. **Reinsurance:** Reinsurance premiums are outflows and would be immediately deductible. However, reinsurance recoveries may be treated as inflows. This may impact insurers' approach to reinsurance arrangements and meeting APRA capital requirements.
3. **Volatility:** Insurers already experience significant volatility in cashflow and returns, arising from variable natural hazard experience and investment markets. Under the current Corporate Tax regime, tax liabilities are relatively predictable due to treatment of claims reserves, resulting in tax stability. In contrast, NCFT outcomes would be significantly more volatile – from large liabilities in lower claims years, to negative cashflow in years with higher natural hazard experience.
4. **Capital and Prudential Requirements:** Impacts to after-tax profit will affect retained earnings, and therefore insurers' compliance with APRA's capital adequacy requirements. Increased volatility in after-tax profits may increase pressure on capital buffers for larger insurers, particularly those with high exposure to natural hazard risk (which is most general insurers in Australia).

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Draft recommendation 2.1 – Set a clear agenda for regulatory reform

Insurers support the Government having a clear plan for regulatory reform and would like to see efficient coordination across Government agencies and regulators to minimise the engagement burden and costs.

The Treasurer has written to the Council of Financial Regulators (CFR) to identify additional areas of regulation to review and has set a priority area of investigation to look at duplicative data requests from regulators. Insurers support reducing duplicative data requests and would like to see better collaboration across regulators and government agencies in sharing the data collected from industry.

Over the last 10 months, the ICA has made at least 44 submissions to different government consultation processes on regulation and policy impacting the industry. The general insurance sector also responded to over 90 recommendations made by the Parliamentary Flood Inquiry. Looking ahead, insurers are expecting at least 26 regulatory reform processes to be led across different levels of government.

Critically there is a role for the CFR to champion regulatory review coordination, specifically the wide adoption of the Regulatory Initiatives Grid (RIG). The RIG is meant to create transparency of upcoming changes to the financial sector regulations and improve engagement between the sector, Government and regulators. However, without a requirement for Government agencies and regulators to use the RIG, the forward plan has not been comprehensive and there continues to be ad hoc reform processes. For example, ASIC's consultation paper 383 on Reportable Situations and Internal Dispute Resolution Data was published in April 2025 and not included on the RIG. To ensure the effectiveness of the RIG its use should be mandated and enforced within Government. The CFR should also engage with AFCA on the RIG and ensure AFCA data requests are included. The CFR should engage regularly with the financial services sector to discuss industry trends and insights and provide transparency over how regulatory reform is prioritised.

The Insurance Council recommends the CFR review regulation introduced as a result of the Hayne Royal Commission as these recommendations have been in force for several years. The Insurance Council is undertaking a more thorough analysis of regulatory burden for insurers, specifically regarding where productivity improvements can be made. The Insurance Council will be able to provide the Productivity Commission and the CFR further advice on priority reform areas when this analysis is completed.

Draft recommendation 2.2 - Bolster high-level scrutiny of regulations

The volume of regulation faced by the insurance industry is messy and creates inefficiencies. For example, across the 12 legislative instruments regulating insurers, at least four deal with information management and security, including the *Corporations Act 2001*, *Australian Securities and Investments Commission Act 2001 (ASIC Act)*, *Insurance Contracts Act 1984*, *Privacy Act 1988*, *Financial Accountability Regime Act 2023*, *Australian Prudential Regulation Authority Act 1998*. These are regulated by three different regulators.

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Insurers support the Government leveraging external regulatory reviews and recommends the Government implement recommendations from the Australian Law Reform Commission's Report 141 released in 2024. This review made 58 recommendations which would reduce regulatory complexity and reduces costs to business.

Insurers support stronger scrutiny of regulation to avoid duplication and ensure reforms deliver genuine productivity gains. It is essential that industry can contribute to cost-benefit analyses and regulatory impact analyses – particularly by providing data on implementation costs – to ensure decisions are based on accurate and comprehensive information. To facilitate this, the Government should adopt a minimum 90-day consultation period for any proposed regulatory changes, allowing sufficient time for meaningful engagement.

Draft recommendation 2.3 – Enhance regulatory practice to deliver growth, competition and innovation

Insurers support policy and regulatory settings that foster competition and drive innovation across the economy. To help achieve this, the ACCC should become a standing member of the Council of Financial Regulators (CFR), serving as a dedicated advocate for competition within the regulatory framework.

Critically, innovation is stifled when businesses are left in regulatory limbo. Greater transparency is needed around the Government's regulatory reform agenda – particularly reforms carried over from the previous term. Several initiatives commenced during the 47th Parliament, such as the Privacy Act review and the proposed introduction of Unfair Trading Practices into the Australian Consumer Law, but there is currently limited visibility on whether and when these will progress. This uncertainty undermines business confidence and investment planning.

The Government should also consider reviewing regulator performance to ensure alignment with broader economic objectives, including growth, competition, and innovation. Given the significant influence of AFCA's determinations on business operations and industry standards, AFCA should be included within the scope of such a review.

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