



3 July 2026

Committee Secretary

Legislative Assembly Select Committee on Emergency Services Funding Reform

Dear Chair

### Emergency Services Funding Reform

The Insurance Council of Australia (Insurance Council) welcomes the opportunity to provide a submission on this important topic.

The Insurance Council is the representative body of Australia's general insurance industry. Our members account for approximately 90 per cent of total premium written by general insurers and reinsurers. As a foundational component of the Australian economy, the general insurance industry writes 90 million policies a year, paying out \$58.9 billion in claims in 2025 – an average of \$226 million every working day.

Reforming the funding of emergency services away from insurance premiums will lower insurance costs for many households and small businesses, removing the punishment for choosing to insure their property. At the same time, it will ensure those who have traditionally not contributed to the funding of New South Wales' emergency services but have the capacity to pay will contribute their fair share.

The outcome of this reform will be a funding model for emergency services that is fairer, simpler, more transparent and more sustainable, and which removes unnecessary pressure on insurance affordability in New South Wales.

#### *Economic analysis*

In support of our submission, we attach an Insurance Council-commissioned report by Lateral Economics titled *NSW Emergency Services Levy Economic Modelling*. Lateral Economics' work shows that the average household would be better off under a new model and those household in high-risk areas could save around \$565 on their insurance premiums. The reduction in insurance costs will translate to higher uptake rates of insurance and greater financial resilience for New South Wales households. Additionally, Lateral Economics predict that small businesses will among the biggest winners under a new emergency services funding model, with their analysis showing savings on business insurance premiums ranging between \$300 and \$2000 (or more) annually.<sup>1</sup> These savings will improve the financial resilience of households and small businesses alike, encouraging more investment in our State.

#### *Status quo: The case for change*

The current emergency services levy (ESL) collection mechanism is unfair because it places the greatest burden on those who do the right thing and insure their homes and businesses, while those who are uninsured or self-insure make no direct contribution through the levy. NSW Treasury notes that the ESL burden falls mainly on insured households and businesses and that New South Wales is

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<sup>1</sup> Lateral Economics. 2026. NSW Emergence Services Levy Economic Modelling. Page 14.

now the last mainland state still relying on an insurance-based levy to fund emergency services.<sup>2</sup> That is inequitable in principle and unsustainable in practice.

**The current model is also unfair because levy liability is driven not by a property owner's capacity to pay, but by the price of insurance and the risk profile of the insured asset.** The outcome of this arrangement is that households and businesses in areas exposed to flood, bushfire or storm risk can pay materially more, even where they have lower land values and lower capacity to absorb rising costs. To exemplify this unfairness, one can consider a large business which self-insures a major property asset in New South Wales and therefore does not contribute to the protection of its asset by emergency services alongside a strata complex with a statutory obligation to hold property insurance for full replacement value. Lot owners within such strata complexes, which include pensioners and first home buyers, are funding emergency services while self-insuring large businesses receive a free ride despite the financial capacity to contribute. Spreading the cost burden across all property owners will ensure those with the capacity to pay do pay and increase the accessibility of insurance for those who are asked to pay beyond their means under the current arrangements, which inadvertently deters insurance take up.

The ESL further compounds affordability problems because it is embedded in the cost of insurance and then attracts GST and stamp duty on top. Treasury estimates that the ESL has increased the cost of residential insurance premiums by 18 per cent on average since 2017–18 and non-residential premiums by 34 per cent on average. Treasury also identifies that residential insurance premiums increased by 48 per cent between 2017-18 and 2024-25, compared with a 25 per cent increase in the CPI over the same period. In other words, the current levy design not only adds to already rising premiums; it magnifies that burden through tax-on-tax effects.<sup>3</sup>

**The current ESL structure is economically and socially harmful because it drives underinsurance and non-insurance.** Treasury's analysis finds that removing the ESL would improve affordability, reduce severe insurance affordability stress for around 125,000 households, and increase insurance uptake by an estimated 20,000 additional households.<sup>4</sup> Most of the households benefiting from reduced affordability stress would be in the lowest income cohorts.<sup>5</sup> A funding model that pushes people out of the insurance market is not only inequitable; it is counterproductive to community resilience and disaster recovery.

**Greater insurance coverage will have additional benefits for the New South Wales budget and economy.** For the budget, greater insurance coverage means fewer uninsured or under-insured households requiring government assistance for repairs after natural disasters.<sup>6</sup> Specifically, the NSW Government should expect to see lower expenditure through its Disaster Relief Grants (DRG) as household reliance on DRG is replaced with insurance coverage. For the wider economy, higher levels of insurance coverage give businesses and households more confidence to invest, such as in property renovations, knowing their property and investment are financial protected.

The problem will only worsen if reform is delayed. Treasury's paper shows emergency services funding requirements have been rising significantly, with the 2025-26 funding target totalling \$1.89 billion and increasing at an average rate of 8 per cent per year since 2017-18.<sup>7</sup> Treasury projects the ESL would increase by 164 per cent in real terms between 2024–25 and 2065–66, with climate-related impacts

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<sup>2</sup> NSW Treasury. 2026. *Emergency services funding reform: Options paper*.

<sup>3</sup> NSW Treasury. 2026. *Emergency services funding reform: Options paper*. Page 11.

<sup>4</sup> Ibid. Page 13.

<sup>5</sup> Ibid.

<sup>6</sup> Lateral Economics. 2026. *NSW Emergence Services Levy Economic Modelling*. Page 5.

<sup>7</sup> NSW Treasury. 2026. *Emergency services funding reform: Options paper*. Page 12.

accounting for around 41 per cent of that increase.<sup>8</sup> Put simply, retaining an insurance-based levy means loading escalating emergency services costs onto a shrinking base of insured policyholders at precisely the time when affordable insurance is most important.

Inequity under the current model is not limited to households. Lateral Economics' modelling work on behalf of the Insurance Council notes that ESL is often a "significant cost to small businesses" with businesses likely having a heavier per-policy burden than households.<sup>9</sup> This burden is more pronounced in disaster-exposed areas of New South Wales. Businesses in these areas of New South Wales, most of which are outside greater Sydney, must make difficult decisions about insurance coverage under the current systems where ESL drives up their cost of insurance. Where small businesses in disaster exposed regions are not properly insured and disaster strikes, the knock-on effects can be substantial for the town centres those businesses occupy, the local teams and events they sponsor and the communities they bring together. Improving the resilience of regional businesses and communities is at the heart of ESL reform.

The present system is also unnecessarily complex and opaque. Treasury notes that the ESL is attributed by insurers across different policies and classes of insurance, and that the resulting burden varies significantly even between properties with similar land values. This makes the current system harder for consumers to understand, harder to explain publicly, and less transparent than a straightforward property-based levy. A reform model that is simpler to understand and more predictable for households and businesses is therefore preferable on both equity and governance grounds.

For these reasons, the ICA supports the replacement of the current ESL with a broad-based property levy that spreads the burden more fairly across the community, removes a distortive tax on insurance, and supports a more resilient and adequately insured New South Wales. Treasury's own modelling indicates that around 55 per cent of insured properties would have paid less under a replacement levy and insured residential property owners would have saved an average of \$65 per year under the modelled replacement levy settings.

### *The path forward: reform model*

The Insurance Council considers *Option C: Six tiers of fixed charges* (Option C), to be the strongest starting point for reform, because it best balances fairness, efficiency, transparency and simplicity. Treasury's paper explains that Option C introduces additional tiers at the bottom and top of the distribution, improving alignment with capacity to pay while moderating some of the sharper discontinuities found in lower-tier-count models. In practical terms, Option C provides a more equitable distribution of contributions than a simpler four-tier model while remaining much easier to understand and administer than a fully ad valorem approach. Lateral Economics' analysis supports this conclusion.<sup>10</sup>

From the insurance industry's perspective, Option C has two important virtues. First, it removes the direct link between emergency services funding and insurance premiums, which is the core reform objective. Secondly, it uses additional tiers to better smooth levy outcomes across the property value distribution. Treasury notes that any fixed-tier model will involve jumps at thresholds; the advantage of Option C is that more tiers reduce the bluntness of those jumps and better match levy amounts to the land-value distribution.

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<sup>8</sup> Ibid.

<sup>9</sup> Lateral Economics. 2026. NSW Emergence Services Levy Economic Modelling. Page 35.

<sup>10</sup> Lateral Economics. 2026. NSW Emergence Services Levy Economic Modelling. Page 67.

That said, the ICA submits that Option C should be refined further with additional tiers or smoothing mechanisms to reduce tax “cliff” effects as land values change over time. This could be achieved by:

- introducing one or two further tiers in sectors where land values are especially compressed around threshold points
- adopting narrower bands in the middle of the residential distribution, where many owner-occupiers may otherwise move abruptly into a higher levy tier
- applying a graduated phase-in where a property crosses a threshold, so part of the increase is deferred or capped in the first year
- periodically recalibrating thresholds to land-value movements in a transparent way so bracket creep does not undermine fairness over time.

As Lateral Economics suggests, Option C could be augmented, such as with additional tiers, to improve the progressivity.<sup>11</sup>

Refinement of the model may need to include particular case-by-case considerations such as mixed strata complexes. Mixed strata complexes (those with both commercial and residential lots) should involve a reweight costs toward higher-value and higher risk components (often commercial lots). Commercial strata lots typically attract higher insurance costs and premiums, partly due to risk profile. Removing the levy from insurance would reduce insurance premium for commercial occupants, however reimposing it via property value may increase their share, depending on their valuations. Residential owners in lower-value units would typically see relative relief. A standalone levy would be more visible and predictable than one embedded in insurance premiums and could improve budget transparency for owners’ corporations and require adjustments to levy structures and disclosure in mixed-use schemes.

The Insurance Council also considers that implementation settings matter as much as the underlying model. The Insurance Council supports a carefully managed transition, overseen by the Independent Pricing and Regulatory Tribunal as Insurance Monitor, that delivers premium relief quickly but also gives consumers, governments and billing systems time to adjust. We do note that insurance premiums will still be subject to pricing change due to risk exposure and pricing, claims inflation, reinsurance costs and sum insured changes among others. Given this, it is important that activities undertaken by the Insurance Monitor as part of the transition focus solely on the removal of the ESL component of insurance premiums distinct from the other drivers of insurance pricing.

We stress that careful consideration of the practicality and timeliness of transitioning to a new revenue base is required to avoid any risk of consumer detriment. The transition arrangements to the new funding model will be important to provide sufficient time to enable insurers to practically implement a withdrawal of ESL and any other related transitional obligations, when legislation comes into effect.

Insurers and their intermediaries will need sufficient legislative certainty, with appropriate lead time to implement changes across their businesses, including in pricing, billing, policy administration, renewals, endorsements, cancellations and refunds, disclosure and customer communications. This is particularly important where insurance policies are distributed or administered through multiple channels. Additionally, the insurance industry will welcome early decisions and communications on implementation specifications including cutover rules, treatment of renewals and mid-term adjustments, refunds and cancellations, invoicing and disclosure requirements, the treatment of goods

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<sup>11</sup> Lateral Economics. 2026. NSW Emergence Services Levy Economic Modelling. Page 76.

and services tax and stamp duty and reconciliation expectations. These outcomes will help avoid consumer confusion and other implementation risks.

If insurers do not have sufficient time to undertake the transition, such as amending collection rates and updating their systems, there will be an increase in the risk of errors which ultimately risks causing unnecessary stress or confusion for consumers in New South Wales.

While Option C is the insurance industry's preferred reform model, the Insurance Council emphasises that it is open to other models, or hybrids of the options in the paper, provided they meet the underlying objectives of equity, efficiency, simplicity, sustainability and affordability. The Insurance Council therefore welcomes continued consultation on refinements, including additional tiers, tailored concessions, regionally sensitive settings where evidence justifies, and transitional arrangements that support the integrity of insurance pricing and protect vulnerable households.

Finally, whatever new model is adopted will change where funds are collected and the amount individual taxpayers pay. This represents a significant upheaval to the current complex, opaque and generally not well-known system. Given this, we recommend the Government, in consultation with the insurance industry, undertake a high visibility public communication campaign ahead of any changes.

### *Ensuring equity: protecting vulnerable cohorts*

The Insurance Council also strongly supports targeted protections for vulnerable cohorts, consistent with Treasury's design framework and the Government's stated objective of protecting pensioners and other vulnerable members of the community from additional cost-of-living pressures. Treasury's paper already contemplates a fixed pensioner discount, hardship provisions, discounts for vacant land, and transition arrangements. The Insurance Council supports these features and recommends that the final model include several specific carve-outs and protections. We expect Treasury would produce additional modelling to ensure these cohorts are no worse off and note Lateral Economics' modelling suggests many of these cohorts will be better off under a reformed system.

We note that Lateral Economics' modelling finds that many small businesses will be better off under a reformed system.<sup>12</sup> That said, small businesses should be explicitly protected under any new funding arrangement, particularly where they operate from owner-occupied premises or have limited capacity to absorb sudden increases in fixed property charges. Treasury's paper contemplates hardship support for non-residential property used in connection with a small business and emphasises the importance of moderating material changes in levy burdens through design and transition settings. In the Insurance Council's view, that support should be clearly embedded in the final model through mechanisms such as phased implementation, capped annual increases, or an accessible hardship and deferment pathway, so that small businesses are not unfairly exposed to abrupt levy increases due to modest land value movements alone. This would help ensure the transition to a fairer property-based system is equitable, proportionate and workable for NSW small businesses.

Additionally, we expect that the emergency services funding load on individual small businesses will be lessened as the business community's overall contribution is broadened, including too large, self-insuring businesses.

For primary producers, the Insurance Council supports explicit protection mechanisms, noting Treasury's recognition that farms should be levied at lower rates than commercial and industrial properties, and that safeguards are appropriate because land values make up a much higher share of total asset value for farms. In the Insurance Council's view, any final model should preserve sector-

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<sup>12</sup> Lateral Economics. 2026. NSW Emergence Services Levy Economic Modelling. Page 75.

specific settings for primary producers and consider targeted drought- or disaster-related hardship arrangements where appropriate.

For pensioners and households on low and fixed incomes, the final model should include meaningful concessions, a hardship mechanism, and the ability to defer or phase in levy increases where households are asset-rich but income-poor. Treasury's paper expressly contemplates a pensioner discount and hardship provisions for people unable to meet levy payments after basic living expenses. We recommend those settings be enacted and made simple to access.

For first home buyers, the Insurance Council recommends a transitional rebate or temporary concession for a defined initial ownership period, particularly where new borrowers are already managing high mortgage servicing costs. This would be consistent with the broader reform objective of not worsening barriers to entry into home ownership while NSW transitions away from a tax that currently inflates insurance costs. Treasury's concern with moderating abrupt changes in levy burdens supports this kind of temporary cushioning mechanism.

For renters, the Committee should recognise that while the levy would be imposed on property owners, costs may ultimately flow through to tenants in some parts of the market. The design could therefore minimise sharp year-on-year impacts for landlords of lower-value rental stock and consider transitional arrangements that dampen pass-through risk. Treasury's analysis of transition arrangements and its emphasis on moderating burden changes provide a basis for this approach.

We recommend Treasury undertake further segmented modelling for cohorts most exposed to transitional impacts including those groups discussed above. This modelling will support confidence that the final model is equitable, proportionate and administrable.

New South Wales has a clear opportunity to replace an outdated, inequitable and distortionary funding mechanism with a model that better reflects community benefit, supports insurance affordability and is more resilient in the face of climate risk. The Insurance Council and our members are committed to supporting this transition and look forward to working with the Government and other parties through the process.

We thank the Committee for the opportunity to comment and look forward to engaging further throughout this inquiry. Should you have any questions in the meantime, please contact Eamon Sloane, Senior Adviser Strategic Policy, at [esloane@insurancecouncil.com.au](mailto:esloane@insurancecouncil.com.au).

Regards



**Andrew Hall**  
Executive Director and CEO