

Budget Policy Division
Department of the Treasury
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Via Email: prebudgetsubs@treasury.gov.au

28 January 2011

Dear Treasury

Insurance Council of Australia Submission to the 2011/12 Commonwealth Budget

The Insurance Council of Australia welcomes the opportunity of lodging the following submission as part of the Federal Government's 2011/12 Commonwealth Budget consultative arrangements.

Natural Disaster Mitigation & Improving the Resilience of the Community

In both its 2008/09 & 2009/10 Commonwealth Budget submission, the Insurance Council of Australia (ICA) argued the case for reviews and enhancements to the National Disaster Mitigation Plan.¹ In these submissions, the ICA highlighted that climate change scenarios predicting extremes in weather provided the case for increased investment in infrastructure and measures designed to mitigate the effects of natural disaster. In that regard, it is noted that over the two years of 2009/10 and 2010/11 the Commonwealth is expected to provide the States some \$948.3 million dollars in natural disaster assistance with around \$709 million (or 75%) targeted for Queensland alone.² The outlays on emergency assistance contrast sharply with the \$72 million provided in the Commonwealth Budget for payments to the States for the National Disaster Resilience Program.³

Given recent events of extreme weather in several States, the ICA again considers an enhancement of natural disaster mitigation measures to be both timely and appropriate. Moreover, given the large drag on State and Commonwealth budgets of providing emergency assistance, the ICA believes that investment in such infrastructure will serve to lessen future drag of natural disaster emergency assistance. In particular, the ICA contends that the specific initiatives below will assist in mitigating the impacts of extreme weather events.

1. The development of a national Digital Terrain Model (DTM) for universal and open access by all government agencies, planners, authorities, industry and the community, to improve flood mapping standards across the country and to encourage appropriate planning controls. This investment in digital mapping will serve to significantly improve natural disaster resilience particularly in the case of extreme flooding.
2. The modernization of the Building Code of Australia to ensure that property investment by Australians is underpinned by a minimum building durability standard designed to prevent building degradation due to increasing natural hazards.

¹ See Insurance Council of Australia (2008) "2008 Federal Budget Submission" and Insurance Council of Australia (2009) "Submission to the 2009/10 Commonwealth Budget".

² See Commonwealth of Australia "Budget Paper No 3, 2010/11" at page 100.

³ See Commonwealth of Australia "Budget Paper No 3, 2010/11" at page 101

Insurance Taxation Reform

The ICA agrees with the recommendations of the Review of Australia's Future Tax System (AFTS) - and reiterated by the Commonwealth Treasury in its incoming government brief - that State taxes on insurance products should be abolished.⁴

The ICA submits that the policy discussion of insurance taxation prepared by Treasury and the AFTS concurs precisely with that of the ICA.⁵ The ICA has been a strong advocate for improving State taxation bases and, specifically, for a State taxation reform project that sees State revenue dependency shift away from transaction style taxes (such as those applicable to general insurance) and towards those State taxes that are more efficient and offer the States a stable and dependable base to fund their expenditure obligations.

This policy prescription has seen the ICA advocate for "better" State taxes (such as payroll and land taxes) to replace transaction taxes such as those applicable to general insurance (including fire services levies).⁶ Notwithstanding that fundamental State taxation reform appears challenging, the ICA notes recent successes and in particular, those reform initiatives that have been undertaken independently by the States. For example, the ICA strongly endorsed the announcement by the then Victorian government to adopt the recommendation of the Royal Commission into the 2009 Victorian Bushfires to abolish the Fire Service Levy and replace the funding requirement for Victorian emergency service providers with a broad based property tax.⁷ Moreover, the ICA now welcomes the support of the incoming Victorian government for the recommendations of the Victorian Bushfire Royal Commission and in particular, the recommendation to abolish the FSL.

The ICA respectfully suggests that the bi partisan approach to Victorian FSL signifies a major development in State action on the recommendations of the AFTS Review. Simply put, the bi partisan example/precedent set in Victoria on FSL indicates the capacity of the States to independently pursue discreet tax reform directions that are aligned with the intent in the AFTS Review.

Accordingly, the ICA contends that the foreshadowed 2011 Federal Tax Summit offers a unique opportunity to place State taxation reform firmly on the policy making agenda, including reform of general insurance taxation (and transaction taxes more broadly). The ICA submits that a State taxation reform project that harnesses the powers of both the Federal Tax Summit and the Council of Australian Government (COAG) arrangements offers the best and most immediate scope to reform general insurance taxation in the short to medium term. Moreover, the ICA suggests that given these decision making frameworks are uniquely available in 2011, a failure to include State taxation reform as a priority agenda item would represent a significant setback.

⁴ See Australia's Future Tax: Report to the Treasurer (2009) "*Part 2: Detailed Analysis*" at page 474 and Commonwealth Treasury (2010), Incoming Government Brief- "Red Book" released under Freedom of Information provisions and available at <http://www.treasury.gov.au/contentitem.asp?ContentID=1875&NavID=007>

⁵ See Insurance Council of Australia submissions to the Review of Australia's Future Tax System, the NSW IPART State Taxation Review, the Victorian Government Green Paper on Fire Funding and the Victorian Parliamentary Committee on Economic Development & Infrastructure, State Taxation Review all available at www.insurancecouncil.com.au

⁶ The ICA has also supported efforts to improve the efficiency of the "better" State taxes through the removal of exemptions. For example, the removal of exemptions on payroll and land would significantly improve the efficiency of these State taxes

⁷ The then Victorian government announced on the 27th August 2010, the abolition of the FSL in Victoria.

Disability Care & Support

The ICA awaits with interest the release of the Productivity Commission (PC) Inquiry into the Disability Care & Support (DCS). The ICA agrees that reform of disability arrangements represents a major social policy reform objective and accordingly supports the conduct of the PC Inquiry.

As noted in the ICA submission to the AFTS Inquiry, private sector general insurance penetration and density levels in Australia are in the middle band of OECD nations.⁸ One of the distinguishing features of Australia's general insurance landscape is the extent to which state owned insurance schemes operate for personal injury loss, in particular losses that arise from motor vehicle accidents and employers liability. For example, only NSW, Queensland and the ACT offer privately provided compulsory third party insurance (CTP) with the other States operating their CTP arrangements through State owned and managed transport accident bodies. In the case of employers' liability, only the Northern Territory and Western Australia offer privately provided employers liability insurance.

The ICA, although welcoming the PC Disability Care & Support Inquiry, supports the provision (and extension) of privately underwritten general insurance schemes. In this regard, the ICA would view with concern the development of a National Disability Scheme that seeks to replace or "crowd out" private sector insurance markets for personal injury loss. Moreover, the ICA contends that any DCS initiative that duplicates existing private sector provision may also potentially be more costly and inefficient vis a vis a DCS proposal that takes into account existing private insurance arrangements. In this regard, the ICA urges policy makers to develop a DCS scheme that is compatible with existing private sector insurance arrangements.

Further contact

The Insurance Council of Australia welcomes the opportunity to lodge this submission as part of the Federal government's budget consultative process. In the event that further discussion or elaboration on this submission is required, please contact either myself on (02) 9253 5150 and email rwhelan@insurancecouncil.com.au or Alex Sanchez, General Manager, Economics & Taxation Directorate on (02) 9253 5130 and email asanchez@insurancecouncil.com.au

Yours sincerely



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⁸ See Insurance Council of Australia (2008) "Submission to the Review of Australia's Future Tax System" at page 5