

26 November 2019

Mr Peter Achterstraat AM
NSW Productivity Commissioner
NSW Treasury
52 Martin Place
SYDNEY NSW 2000

KICK STARTING THE PRODUCTIVITY CONVERSATION

Dear Mr Achterstraat

The Insurance Council of Australia (Insurance Council)¹ welcomes the opportunity to contribute to the debate being encouraged by the NSW Productivity Commission on vitalising productivity growth with release of its paper “Kick Starting the Productivity Conversation” (the Discussion Paper). The Insurance Council believes this discussion is vital to ensure the long term economic growth necessary to maintain good wages and a high standard of living in NSW.

The Discussion Paper rightly identifies that, as part of the NSW Government’s productivity agenda, it is important to consider how insurance taxation arrangements can be improved. We attach for the consideration of the Commissioner a paper prepared by the Insurance Council which analyses the economic costs of insurance duties on household insurance, including in NSW. The paper argues that NSW would benefit from the abolition of insurance duties and their replacement with a broad based tax.

Insurance taxes in NSW have negative economic and social costs. Insurance duties add 9% to the cost of premiums and the Emergency Services Levy (ESL) adds around 21%. Increased premiums provide disincentives for individuals and businesses to insure. In fact, consumers are less likely to take up home and contents insurance in NSW than in any other state.

Underinsurance has consequences for productivity and the NSW Government’s exposure to risk. As the Discussion Paper recognises, in the event of natural disaster, individuals who are underinsured may be left without adequate resources to recover, and businesses may collapse and lead to a loss of market competition, employment and know-how. The

¹ The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Our members represent approximately 95 percent 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. June 2019 Australian Prudential Regulation Authority statistics show that the general insurance industry generates gross written premium of \$48.4 billion per annum and has total assets of \$128.4 billion. The industry employs approximately 60,000 people and on average pays out about \$151.4 million in claims each working day.

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).

Insurance Council expects that the economic cost of natural disasters in NSW will rise to \$10.6 billion a year by 2050, particularly with the ongoing impact of climate change.

The removal of insurance duties and the ESL and replacing them with more efficient taxes would contribute to lifting growth and removing distortionary effects to economic decision making that can hamper productivity. Research by the Insurance Council in 2015 estimated that the removal of ESL and stamp duty would reduce the number of non-insured households in NSW for house insurance by around 34% and reduce the number of households without contents insurance by 15%. Furthermore, the removal of stamp duties would stimulate spending in NSW by \$125 million and removing the ESL would increase insurance expenditure by \$226 million. Revenue for NSW and local government would increase by \$84 million.

Vital public services such as emergency services need to be sustainably funded into the future. The NSW Productivity Commission should explore how the removal of distortionary insurance taxes and their replacement with more efficient sources of revenue could lead to greater growth and productivity and therefore more effective and sustainable ways to fund the services upon which the citizens of NSW rely.

The Insurance Council thanks the Commission for its consideration. If you would like to discuss any of these matters further please do not hesitate to contact Mr John Anning, General Manager Policy, Regulation at janning@insurancecouncil.com.au or 02 9253 5121.

Yours sincerely



Robert Whelan
Executive Director & CEO