



*National Insurance Brokers Association.*



2 April 2009

Leave to Appear  
2009 Victorian Bushfire Royal Commission  
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The National Insurance Brokers Association (NIBA) seeks leave to appear before the 2009 Victorian Bushfire Royal Commission.

NIBA is the national association for insurance brokers in Australia. NIBA members are responsible for the placement of around 90% of all insurance for commercial purposes in Australia.

Insurance brokers represent the interests of the purchasers of insurance, the policy-holders, and not those of insurance companies. Consequently the comments made in this application are made not on behalf of insurance companies but on behalf of the public and business community that purchases insurance.

**NIBA's primary concerns are the method of funding fire services in Victoria and the effect that taxes and charges have on the insurance of property in Victoria.**

Victoria has a worldwide reputation for extremely high levels of taxation on insurance policies. Country Victorian insurance policy-holders pay almost \$1 in taxes and charges for each \$1 of basic insurance premium.

There are three taxes and charges that apply to the insurance policies taken out by Victorian residents and businesses, namely:

- Fire services levy
- GST
- Stamp duty.

These three taxes and charges are cascading. That is, one tax is applied to another tax. There are in fact taxes on taxes on taxes!

The cascading effect of the various taxes and charges can be seen by considering the

taxes and charges levied on the property insurance policies of country businesses in Victoria. For every \$100 of basic insurance premium that is paid by such a business a further staggering \$97.23 is paid in taxes and charges. The calculation is as follows:

\$100.00	Basic premium
<u>63.00</u>	63% Fire services levy
163.00	
<u>16.30</u>	10% GST
179.30	
<u>17.93</u>	10% stamp duty
<u><b>197.23</b></u>	Total

Having a single broad-based tax such as the GST applying to insurance is reasonable. Having three taxes (two of which are specific insurance taxes), on top of one another, is inappropriate and places an unjust burden on those who are prudent and insure.

Such a system of cascading taxes and charges is inequitable and cannot be justified on any economic or efficiency grounds. It penalises those people who take positive action to protect themselves and their assets by way of insurance and also encourages underinsurance and non-insurance. Those that do not fully insure do not make an appropriate contribution to government services, particularly the fire services.

Numerous government inquiries have been critical of the arrangement. Such an archaic system requires urgent adjustment and NIBA believes that this important issue should be considered by the Royal Commission.

Indications are that with changing weather patterns the number and severity of severe weather events (storms and floods as well as fires) are likely to increase over time. If individuals are not to be discouraged from taking out insurance as a means of protecting their property from such events this unjust tax burden on insurance has to be removed.

NIBA considers that other more equitable ways of funding Government services in Victoria, particularly the fire services, than loading up insurance policies should be actively considered by the Royal Commission.

NIBA intends to lodge with the Royal Commission a more detailed submission on this issue.

Yours sincerely



Noel Pettersen  
Chief Executive Officer