



## **NATIONAL INSURANCE BROKERS ASSOCIATION OF AUSTRALIA (NIBA)**

### **PRE BUDGET SUBMISSION**

**1 February 2012**

#### **ABOUT NIBA**

NIBA is the voice of the insurance broking industry in Australia. NIBA represents 500 member firms and over 2000 individual Qualified Practising Insurance Brokers (QPIBS) throughout Australia. Brokers handle almost 90% of the commercial insurance transacted in Australia, and play a major role in insurance distribution, handling an estimated \$16 billion in premiums annually and placing around half of Australia's total insurance business. NIBA member firms also place large and special risks into the world insurance markets.

Over a number of years NIBA has been a driving force for change in the Australian insurance broking industry. It has supported financial services reforms, encouraged higher educational standards for insurance brokers and introduced a strong independently administered and monitored code of practice for members. The 500 member firms all hold an Australian financial services (AFS) licence under the Corporations Act that enables them to deal in or advise on Risk Insurance products.

#### **ABOUT INSURANCE BROKERS**

The traditional role of insurance brokers is to:

- assist personal, small business and commercial customers to assess and manage their risks, and provide advice on what insurance is appropriate for their needs;
- assist customers to arrange and acquire insurance; and
- assist customers in relation to any claim that may be made by them under the insurance.

In doing the above the insurance broker acts on behalf of the customer as its agent.

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*Your association. Your industry. Your profession. Your future.*

Insurance brokers offer many benefits to consumers:

- assistance with selecting and arranging appropriate, tailored insurance policies and packages
- detailed technical expertise including knowledge of prices, terms and conditions, benefits and pitfalls of the wide range of insurance policies on the market
- assistance in interpreting, arranging and completing insurance documentation
- experience in predicting, managing and reducing risks
- assistance with claims and a higher success rate with settlements (often 10 per cent higher than claims made without a broker).

In limited cases insurance brokers may act as agent of the insurer not the insured but where such a relationship exists the customer must be clearly advised up front.

### **NIBA'S PRE BUDGET SUBMISSION**

On behalf of the millions of Australians and Australian businesses who purchase insurance each year, NIBA strongly urges the Federal Government to strongly lead the process for the reform of insurance taxes in Australia.

Insurance taxes directly affect the affordability of insurance in Australia. As such, they contribute directly to the under-insurance and non-insurance concerns across the community. This is directly contrary to good social policy. Insurance is the main source of funds for restoration and recovery from natural and other disasters, and lack of comprehensive insurance cover results in real ongoing detriment to individuals, families and communities across Australia.

### **Triple Taxation**

Policyholders in New South Wales and Victoria currently pay triple taxes on their insurance premiums – GST, stamp duty and fire service levies. Policyholders in Victoria pay insurance taxes of up to 150% of the insurance premium. NIBA has welcomed the decision by the Victorian Government to phase out fire service levies on insurance premiums during the 2012/2013 financial year.

New South Wales policyholders pay insurance taxes of up to 60% on their insurance premiums. The New South Wales Government has shown no sign of any desire to remove the fire service levy in this State, and the combined taxes will continue to create a heavy burden for those who wish to protect their assets through comprehensive insurance coverage.

## **Double Taxation**

Virtually all Australian policyholders pay at least double taxation on their general insurance premiums – GST and state or territory stamp duties. These double taxes increase the cost of insurance by around 20%, or one fifth.

Following the natural disasters across Australia in 2010 and 2011, there has been widespread commentary to the effect that insurers and reinsurers will be increasing the cost of insurance in 2012. Many policyholders are already seeing the impact of those increases.

Double taxation of insurance increases issues regarding the affordability of insurance, and is likely to result in higher levels of under-insurance or, even worse, non-insurance in the community.

## **Inefficient Taxes**

A number of inquiries and reviews, as long ago as the HIH Royal Commission and as recently as the (Henry) Report on Australia's Future Tax System (December 2009) have consistently noted the inefficient nature of insurance taxes, and the need for reform. The Henry Tax Review summed the matter up succinctly –

“Imposing specific taxes on insurance deters people from insuring their property and encourages them to bear unnecessary risks, rather than pooling risk with others. Rates of non-insurance (for building and content insurance) generally are higher at lower incomes, yet low-income people are less able to bear the risk.”

The report recommended a systematic review, leading to the removal of these inefficient taxes.

At the tax summit of 2011 there was virtually total consensus on the need to reform and remove inefficient insurance taxes.

## **Alternative Revenue Sources**

NIBA acknowledges that stamp duties on insurance premiums raise significant revenue for the States and Territories, and the removal of those taxes would most likely require replacement revenue streams.

Technical work by the Insurance Council of Australia and others has identified possible alternative sources of revenue for the States and Territories.

## **Leadership**

With overwhelming evidence in support of the need to reform and remove inefficient insurance taxes, and with credible options having been identified for alternative revenue streams, NIBA strongly submits that it is now appropriate for the Federal Government, through the Federal Budget process, the Council of Australian Government and other inter-governmental arrangements, to lead the process of reform and change.

This reform will not benefit insurance brokers. It will not benefit insurance companies. It will directly benefit the millions of Australians and Australian businesses who purchase insurance each year.

Reform is long overdue. Leadership is now required to ensure reform occurs.

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