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NSW Department of Treasury  
52 Martin Place  
Sydney  
NSW 2000

## **SMALL BUSINESS STRATEGY 2020 CONSULTATION**

The National Insurance Brokers Association of Australia (NIBA) welcomes the opportunity to provide comment on the NSW Treasury Small Business Strategy 2020.

NIBA represents over 90% of insurance brokers in Australia. Our members operate in cities, towns and regional areas across New South Wales and nationally. While NIBA represents large international broking firms, many of our members are small business owners who assist other small business owners to appropriately manage their risk and protect their livelihood.

Insurance brokers play an integral role in helping their clients;

- Understand, manage and minimise their risk exposure;
- Identify appropriate insurance arrangements or other risk financing mechanisms;
- Obtain insurance cover from Australian or overseas markets in accordance with the client's needs;
- Act as the client's advocate when an insured event occurs;

In performing these functions, insurance brokers act for and on behalf of the client and have statutory, common law and professional duties to act in the best interests of the client at all times. Insurance brokers hold and operate under Australian Financial Services licences, and are subject to regulation by ASIC at all times. Insurance broking firms are members of Australian Financial Complaints Authority, and NIBA members subscribe to the Insurance Brokers Code of Practice. It is important to note that insurance brokers do not sell insurance to their clients. Rather they purchase insurance on behalf of their clients.

Insurance brokers process around \$22 billion in insurance premiums each year in the Australian and international insurance markets, around half of the total Australian general insurance premium pool.

NIBA has two main areas of concern that significantly impact small business owners in NSW, the levying of emergency services funding on general insurance premiums and workers compensation.



The current model for funding NSW emergency services places an unfair burden on responsible business owners who take out insurance to cover themselves and their business operations if a major loss occurs. The combination of GST, stamp duty and the Emergency Services Levy (ESL) increases the cost of property insurance by up to 70% for NSW small businesses. This “tax on a tax on a tax” can have unfortunate and undesirable consequences for small business owners.

The most serious consequence is the unaffordability of property insurance in New South Wales. The high level of taxes and levies placed on general insurance products means that business owners often cannot or are not willing to pay the cost of full insurance cover for their business, thereby leaving potentially significant risks uninsured or having insufficient insurance cover if a major loss occurs. Brokers are regularly arranging sub-optimal insurance cover for their small business clients, because of the impact of these charges on the cost of property insurance in New South Wales

In some cases, the high cost of insuring their business results in business owners forgoing insurance entirely. Many examples have been publicised in recent months of businesses on the South Coast of NSW having insufficient or no insurance cover for losses sustained as a result of the bushfires.

Secondly, the impact of taxes and charges on insurance premiums provides a significant incentive for business owners to find risk financing mechanism other than traditional insurance. These mechanisms can take many forms; however, the most common is a discretionary mutual pool. In these cases, contributions to the mutual pool are not considered insurance premiums, and thus are not subject to the ESL. While this is a reasonable outcome for the business that has access to these mechanisms, each time this occurs traditional insurance clients have to carry a higher proportion of the ESL, as the ESL funding model requires insurance companies to collect a dollar amount, not a % rate on premiums.

All other mainland States have abandoned the insurance-based levy in favour of a fairer, more broad-based property levy, whereby property owners contribute to the funding of emergency services via their council rates. Changing to a property levy would ensure those that receive the benefit of the emergency services - all property owners - contribute to the funding of those services, not just those who take out traditional insurance policies. Importantly, the Victorian Royal Commission into the Black Friday bushfires recommended the scrapping of insurance based levies as they were “inequitable”. The commission also highlighted the effect of the levy and stamp duty on levels of under/non-insurance. Previous independent examinations of the ESL have also recommended its abolition.



NIBA members and their clients have highlighted a number of issues with the operation of the NSW workers compensation scheme. These concerns were reported to the State Insurance Regulatory Authority review of the management of the Nominal Insurer and were confirmed by the Dore Report to SIRA late in 2019.

While SIRA and icare are continuing to implement the 21-point plan, NIBA members and their clients have reported ongoing issues and concerns similar to those previously identified in the Dore report. NIBA continues to liaise with SIRA and with icare to seek to achieve improvements in the operation and management of the workers compensation scheme in New South Wales, for the benefit of both employers and injured workers.

Failure to address these ongoing issues and concerns will most likely lead to significant increases in insurance premiums, significant reductions in benefits provided to injured workers, or both. Neither of these outcomes would be considered acceptable by any of the parties affected by this scheme.

NIBA remains committed to helping small business in New South Wales appropriately manage their risks. As part of this commitment, NIBA and its members have extended their services to small business and consumers alike who have suffered losses in fire-affected areas as part of our community support initiative. Insurance brokers are willing and ready to assist people and business owners in fire-affected areas with their insurance claims, on a pro bono basis. NIBA continues to promote this service in regions affected by bushfires.

Should the department have any further questions on the issues NIBA has raised, NIBA would be pleased to discuss these issues in further detail.

Sincerely,

**Dallas Booth | CEO National Insurance Brokers Association**