

## About NIBA

The National Insurance Brokers Association (NIBA) represents over 90% of insurance brokers in Australia. Our members operate in cities, towns and regional areas across New South Wales and nationally.

Insurance brokers play an integral role in helping their clients;

- Understand, manage and minimise their risk exposure;
- Identify and arrange appropriate insurance arrangements or other risk financing mechanisms;
- 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 represent the interests of the purchasers of insurance, the policy-holders, and not those of insurance companies. Consequently, comments made by NIBA and its members are made not on behalf of insurance companies but on behalf of the public that purchases insurance.

## Introduction

NIBA welcomes the opportunity to provide a submission to the New South Wales Government Independent Bushfire Inquiry. NIBA will also be making a submission to the Royal Commission into National Natural Disaster Arrangement, however there are a number of issues specific to the state that impact natural disaster preparedness that NIBA wishes to make comment on.

Most concerning for NIBA is the current inequity that currently exists with the funding of emergency services in New South Wales and the effect the levy and other government taxes have on rates of under and non-insurance.

## The Emergency Services Levy

New South Wales emergency services are currently funded by the Emergency Services Levy (ESL) which is levied on all general insurers in Australia, based on their market share. This charge is then passed on to the policyholders in the form of an ESL component on individual policies as a percentage of the base premium. In 2019 the New South Wales government announced that the ESL would be increased to \$967 million in 2020 and \$1.13 billion in 2021.

According to standard taxation principles, a well-designed tax system is characterized by efficiency, equity, simplicity and transparency<sup>1</sup>. A number of public inquiries, including the HIH Royal Commission, have been critical of insurance taxes because they perform poorly against these basic principles. The 2008 New South Wales IPART Review concluded that fire services funding was amongst the least inefficient state taxes. The Victorian Royal Commission into the Black Saturday bushfires found that a similar insurance-based levy was "inequitable" as it forces responsible property owners - those who have adequately insured their properties against loss- to shoulder the costs of funding the emergency services rather than a fairer system in which all property owners collectively fund state emergency services.

This system also acts as an incentive for property owners to arrange alternative risk financing mechanisms, such as mutual pools and captive insurance, that do not attract the levy. While these arrangements have many benefits for property owners each time this occurs traditional policyholders have to carry a higher proportion of the ESL, as general insurers are each levied a pre-determined dollar amount and not a percentage rate on premiums.

The ESL has also been criticised for being a needlessly opaque and complex funding model. The ESL is generally poorly understood by the public, while individual policyholders may not be aware of the extent to which they are funding New South Wales emergency services. Furthermore, due to the unpredictable nature of the insurance market, the amount collected by insurance companies as the ESL may not equate to actual statutory contributions made.

Dr Ken Henry, the Chair of the Commonwealth's Review of Australia's Future Tax System (AFTS) and head of the Commonwealth Treasury, Dr Ken Henry, referred to insurance taxes as "bad taxes" and said that a tax on a broader base would be more efficient, equitable and transparent.

## GST & Stamp Duty

Any realistic assessment of the ESL cannot ignore the effects of taxes on contributions. The current insurance-based arrangements require the levying of ESL, GST, and stamp duty on top of the base premium in that order. Using the government's 2021 ESL levy amount this would see the New South Wales state government collect up to \$118.87 million in additional revenue in stamp duty alone. This figure does not include the GST component collected by the federal government, a portion of which would flow back to the state. This compounding of government taxes has a significant effect on premium, with taxes accounting for up to 70% of some insurance premiums. This has a negative impact on

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<sup>1</sup> <https://www.aicpa.org/advocacy/tax/downloadabledocuments/tax-policy-concept-statement-no-1-global.pdf>

individual policy holders who may be forced to reduce the sum insured value of their property or forgo insurance entirely. The recent bushfires on the Mid North Coast highlighted a number of property-owners that were not appropriately insured and were relying on government assistance to begin recovery efforts.

## Under Insurance

Under-insurance is generally regarded as occurring when the sum insured is insufficient to enable full replacement of the damaged or destroyed property or the reestablishment of the business where a commercial enterprise is involved. This amount can differ significantly from the "market value" of the property, which is also commonly used in insurance.

Often under-insurance only comes to light following a large-scale insurable event, such as the recent bushfires. Because of this it is extremely difficult to estimate the rate of under-insurance in New South Wales. Similarly, it is not always easy to establish the replacement value of a property or business at the time a policy is taken out; as the replacement value of a property can vary based on inflation, new building standards, or circumstances arising at the time of the claim.

Notwithstanding the difficulties involved in quantifying the extent of under-insurance in New South Wales available evidence indicates that it remains a significant problem. Following the 2013 Blue Mountains bushfires, more than 65 per cent of households affected were underinsured.<sup>2</sup> Meanwhile an ICA report into non-insurance<sup>3</sup> found that states with higher tax rates on insurance premiums have higher rates of noninsurance for both building and contents insurance.

The ACCC Northern Australia Insurance Inquiry, is currently investigating high insurance premiums in parts of Northern Queensland, Western Australia and the Northern Territory. Unsurprisingly, their second interim report found that a leading contributor to a property owners decision to underinsure or not insure their property was affordability.<sup>4</sup> Modelling by the ICA shows that the increase in premiums as a result of ESL increases will result in a \$20 million reduction in pre-tax expenditure on insurance.

Non-insurance has an important flow on effect to Governments, in that if property owners can be encouraged to put in place appropriate measures to mitigate risk, then the incidence of Governments being called upon to provide ex-

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<sup>2</sup> [https://www.legalaid.nsw.gov.au/data/assets/pdf\\_file/0003/19722/Submission-Natural-Disaster-Funding-Arrangements-June-2014-final.pdf](https://www.legalaid.nsw.gov.au/data/assets/pdf_file/0003/19722/Submission-Natural-Disaster-Funding-Arrangements-June-2014-final.pdf)

<sup>3</sup> <https://www.insurancecouncil.com.au/assets/report/the%20non%20insured%20-%20report.pdf>

<sup>4</sup> [https://www.accc.gov.au/system/files/Northern%20Australia%20Insurance%20Inquiry%20second%20interim%20report%202019\\_0.PDF](https://www.accc.gov.au/system/files/Northern%20Australia%20Insurance%20Inquiry%20second%20interim%20report%202019_0.PDF)

gratia assistance to individuals and businesses affected by disasters will be reduced.

## A more equitable model

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. Such an arrangement would overcome the major deficiencies of the current insurance-based model, identified within this submission.

There are a number of property-based models from which the New South Wales government could borrow in developing their own, with Victoria, Queensland, Western Australia, South Australia and the ACT each providing examples for New South Wales to follow.

NIBA strongly supports a move to funding fire services by way of a property levy. Such a move would increase efficiency, effectiveness, simplicity and transparency. It would eliminate the current compounding of state and federal taxes and encourage individuals and businesses to appropriately mitigate their risks, reducing reliance on government assistance post event.

## Conclusion

The current inequitable system of emergency services funding cannot be allowed to continue. In these increasingly uncertain times, property owners must be encouraged and supported to adequately insure their risks. NIBA members assist property owners in making these informed decisions, daily. However, it is the New South Wales governments' responsibility to ensure that barriers that impede responsible property ownership, such as the ESL, are removed, especially as the Australian public becomes more price sensitive.

NIBA urges the New South Wales government to revisit the Emergency Services Levy reform it postponed in 2017 and complete any outstanding modelling for the new emergency services property levy and to make a regulation under section 152 of the Fire and Emergency Services Levy Act 2017, appointing a start date for the levy.



Dallas Booth  
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