

**NIBA Submission to the Senate  
Inquiry into Lessons to be Learnt  
in Relation to the Australian  
2019-20 Bushfire Season**



## 1. About NIBA

The National Insurance Brokers Association (NIBA) is the peak representative body for general insurance intermediaries representing over 90% of insurance brokers across Australia. NIBA's membership ranges from large international insurance brokerages to small firms and individuals.

Insurance brokers perform a number of valuable services for their clients including;

- Helping clients to understand, manage and minimise their risk exposure;
- Identifying and arranging appropriate insurance or other risk financing mechanisms;
- Acting as the client's advocate when an insured event occurs.

In performing these duties, insurance brokers act as agents of their client and have statutory, common law and professional obligations to act in the best interests of their 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 on behalf of its members and the public that purchases insurance not on behalf of insurance companies.

## 2. Introduction

NIBA welcomes the opportunity to provide a submission to the senate inquiry into lessons to be learned in relation to the Australian 2019-20 bushfire season

Australia has always been a land rocked by natural disasters but with climate change increasing the frequency and severity of natural disasters it is critical that all levels of government have a holistic, long-term strategy to support disaster mitigation, response and recovery.

On average, natural disasters cost the Australian economy \$18.2 billion every year, with that amount predicted to increase to \$39 billion by 2050.<sup>1</sup> Over 23,000 claims were lodged for damage arising from the 2019/20 fire season with insured losses reaching \$1.9 billion.

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<sup>1</sup> <https://www.iag.com.au/natural-disaster-costs-reach-39-billion-year-2050>

NIBA and its members are committed to helping their clients and the broader public through this difficult process, having established a Bushfire Community Support Initiative, whereby NIBA members offer their skills and expertise to advise and assist victims of the recent bushfires with their insurance claims.

Looking beyond the immediate recovery phase, NIBA has a number of concerns regarding the funding of fire services in both New South Wales and Tasmania as well as the opportunity for increased public and private mitigation works that would decrease bushfire risk.

### 3. Emergency Services Funding Models

Ensuring our emergency services are adequately funded is vital to state and territory governments' ability to respond to natural disasters. Emergency services funding arrangements are shaped by the Australian Constitution, which assigns the roles and responsibilities of each level of government. Most service delivery is the responsibility of state and local governments. Unlike other emergency services, such as the police force and ambulance services which are funded directly from consolidated revenue the State Emergency Services (SES) and state fire and rescue services are funded through a series of levies. The majority of state and territory governments fund their emergency services through a property-based levy. The exceptions being New South Wales and who fund their emergency services through insurance-based levies, the Northern Territory which funds their services through consolidated revenue and Tasmania who fund their emergency services through a combination of property and insurance-based levies. An outline of the various fire and emergency services funding models employed by the states is available below.



State	Fire Funding Model
Australian Capital Territory	<ul style="list-style-type: none"> <li>• Property based system.</li> <li>• Residential and rural properties pay \$91.20</li> <li>• Commercial properties levied on the basis of the average unimproved land value over three years.</li> </ul>
New South Wales	<ul style="list-style-type: none"> <li>• Statutory contributions system.</li> <li>• Insurers contribute 73.7% of funding, local government contributes 11.7% and State government 14.6%.</li> </ul>
Northern Territory	<ul style="list-style-type: none"> <li>• Funded through consolidated revenue</li> </ul>
Queensland	<ul style="list-style-type: none"> <li>• Property based system.</li> <li>• Urban Fire Levy contributes 73% of funding with State government and user charges making up the remainder.</li> <li>• Amount of levy is dependent on the "class" of the urban district (i.e. where the property is situated); the activity carried out on the property or the use to which the land is used and the size and nature of any improvements on the land.</li> </ul>
South Australia	<ul style="list-style-type: none"> <li>• Property based system.</li> <li>• Emergency Service Levy levied on capital values for fixed property and also on motor vehicles and other mobile capital.</li> <li>• Levy on fixed property is a fixed fee (\$50) plus a variable component derived from capital value, an "area factor", land use "factor" and the levy rate.</li> <li>• A fixed fee applies for motor vehicles.</li> </ul>
Tasmania	<ul style="list-style-type: none"> <li>• Statutory levy model.</li> <li>• Levy on insurance of 28% of gross premium for all commercial insurances against fire, including contractors all risk. For marine and cargo insurance levy is 2% of gross premium and for aviation 14% of gross premium.</li> <li>• Local government levies assessed on annual value of properties with minimum charges applicable.</li> <li>• A fixed fee of \$14 applies for motor vehicles.</li> </ul>
Victoria	<ul style="list-style-type: none"> <li>• Property-based system</li> <li>• Levy is a fixed fee plus a variable component derived from capital value improved, location and classification</li> <li>• Fixed charge varies for residential and commercial properties</li> </ul>
Western Australia	<ul style="list-style-type: none"> <li>• Property based system with emergency service levy applied on the gross rental value of all immobile properties.</li> <li>• No levy imposed on motor vehicles.</li> <li>• State is divided into fire levy categories according to level of service (i.e. extent of emergency service provision and access)</li> <li>• Minimum charge of \$43 with maximum levy payable by households of \$225 and commercial property owners \$130,000.</li> </ul>



### 3.1 New South Wales

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 general insurance policies as a percentage of the base premium. Policies that attract ESL include; residential building and/or contents insurance, commercial property insurance, motor vehicle insurance, marine and baggage insurance, and some forms of crop and livestock insurance.

General insurance contributions account for almost 75 per cent of emergency services funding, with councils and the state government contributing the remainder. The general insurer contribution for the 2020-21 financial year has been set at \$1,089,966,770 up from \$898,000,000 the previous year.

### 3.2 Tasmania

In Tasmania emergency services are funded through a combination of residential property levies collected by local councils and a tax imposed on commercial, and motor vehicle insurance. In Tasmania insurance levies account for only 19.1 per cent of fire service contributions. Current levies on insurance are 28% of gross premium for all commercial insurances against fire, 2% gross premium for marine and cargo insurance and 14% of gross premiums for aviation.

## 4. Unfair funding models

Unlike property levies which spread the burden of funding emergency services across the broadest range of beneficiaries, insurance-based levies have been widely criticised for being inequitable, forcing responsible property owners to pay for a service that is beneficial to all of society, whilst those who do not insure their risks continue to receive the benefits.

According to standard taxation principles, a well-designed tax system is characterized by efficiency, equity, simplicity and transparency<sup>2</sup>. A number of public inquiries, including the HIH

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<sup>2</sup> <https://www.aicpa.org/advocacy/tax/downloadabledocuments/tax-policy-concept-statement-no-global.pdf>

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. While 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.

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, referred to insurance taxes as "bad taxes" and said that a tax on a broader base would be more efficient, equitable and transparent.

## 5. Compounding tax systems and their effects

### 5.1 Compounding tax systems

Any realistic assessment of insurance levies cannot ignore the effects of other state and federal taxes on premiums. The current insurance-based arrangements require the levying of ESL, GST, and stamp duty on top of the base premium in that order. This compounding of taxes causes a significant increase in premiums that can have serious consequences for policyholders who may already struggle with insurance affordability. In NSW taxes and levies can increase the cost of some insurance policies by up to 70 per cent. In Tasmania, premiums can be increased by almost 34 per cent as a result of taxes and levies. Recognising the impact these taxes have on insurance affordability and risk mitigation, the ACT abolished stamp duty on all insurance premiums, meaning policyholders only pay a single transaction tax (GST) on their insurance premiums.

For policyholders, many of whom are facing an uncertain economic future, these taxes make insurance an unaffordable luxury, rather than a necessity of home ownership. Policy holders may be forced to reduce the sum insured value of their property or forgo insurance entirely, leaving them open to significant financial liability if a disaster were to occur. The recent bushfires on the Mid North Coast highlighted multiple instances where owners lost their properties and did not hold appropriate insurance and were instead forced to rely on government assistance and community volunteers to begin recovery efforts.

NIBA recognises that taxes form an integral part of the fiscal social contract that exists between governments and their people. However, inefficient and poorly designed tax systems should not be stacked on top of each other for the sole purpose of collecting revenue at the expense of the public good.

## 5.2 Under and non-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 nationwide. 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.

NIBA was saddened to hear that following the Black Summer bushfires 27 per cent of homes lost were not insured<sup>3</sup>. There is currently no publicly available data to indicate the number of homes which were underinsured, however based on the rate of non-insurance, NIBA expects this figure to be high. Following the 2013 Blue Mountains bushfires, more than 65 per cent of households

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<sup>3</sup> <https://www.smh.com.au/national/nsw/the-fighting-force-behind-the-bushfire-recovery-effort-20200501-p54owk.html>

affected were underinsured.<sup>4</sup> Meanwhile an Insurance Council of Australia (ICA) report into non-insurance<sup>5</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>6</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.

### 5.3 Abandonment of traditional insurance methods

The artificial inflation of premiums caused by these taxes acts as incentive for property owners to arrange alternative risk financing mechanisms, such as mutual pools and captive insurance, which do not attract the levy.

Unlike the Tasmania model where levies are calculated as a percentage of premiums, the NSW model requires that each general insurer contribute a pre-determined dollar amount towards funding emergency services. This means that when a policyholder leaves the traditional insurance model, the remaining policyholders must shoulder a higher proportion of the ESL.

## 6. A fairer system for fire services funding

All other mainland States have abandoned the insurance-based levy in favour of a fairer, more broad-based property levy, whereby those who receive the benefits of the emergency services (property owners) contribute to their funding via council rates. Such an arrangement would overcome the major deficiencies of the current insurance-based models, identified within this submission.

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<sup>4</sup> [https://www.legalaid.New South Wales.gov.au/data/assets/pdf\\_file/0003/19722/Submission-Natural-Disaster-Funding-Arrangements-June-2014-final.pdf](https://www.legalaid.New South Wales.gov.au/data/assets/pdf_file/0003/19722/Submission-Natural-Disaster-Funding-Arrangements-June-2014-final.pdf)

<sup>5</sup> <https://www.insurancecouncil.com.au/assets/report/the%20non%20insured%20-%20report.pdf>

[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)



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.

## 7. Mitigation

Like Emergency Services funding, natural disaster management is also the responsibility of the various state, territory and local governments, who determine the level of recovery measures to be adopted after a disaster occurs. State and territory governments bear a significant level of disaster relief and recovery expenditure; however, the Commonwealth also plays a major role in providing assistance to help alleviate the burden on states and territories and ensure that affected communities receive assistance in a timely manner.

Under the Disaster Recovery Funding Arrangements, the Commonwealth will reimburse up to 75 per cent of state and territory eligible expenditure in relation to relief and recovery assistance. These funding arrangements are disproportionately weighted towards disaster recovery, meaning there is little economic incentive for state, territory and local governments to invest in disaster mitigation.

Natural disaster mitigation has many benefits; improved community safety and resilience, a reduction in property damage, faster recovery and reduction in the economic impact of natural disasters. There are a diverse array of mitigation measures. These which may be carried out by the state and its agencies (public mitigation works), or the property owner (private mitigation works).

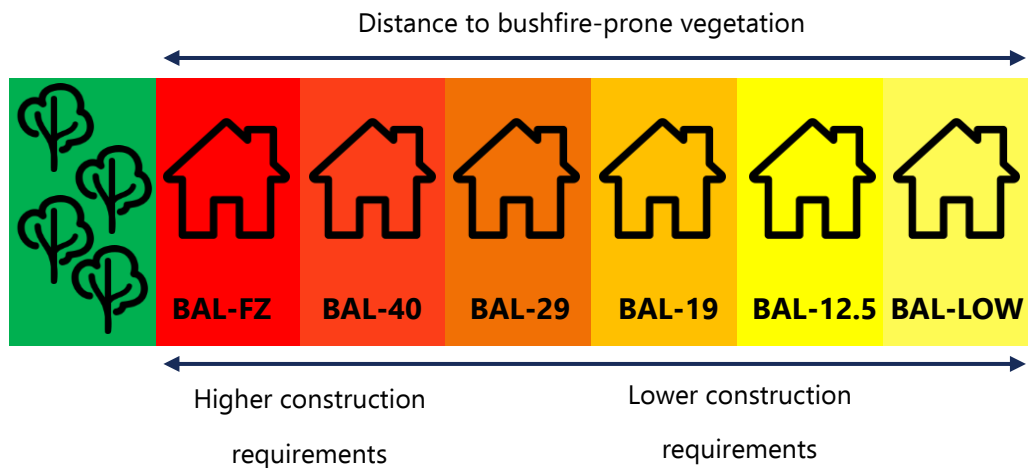
### 7.1 Public mitigation

Public mitigation options may include both structural and non-structural measures, for examples building standards, land-use planning, mechanical vegetation management, hazard reduction

burning, replacement of aging or faulty power infrastructure, fire surveillance and early warning systems.

It is NIBA's view that current public mitigation works are insufficient to decrease bushfire risk. While anecdotal evidence from state fire services suggests that climate change has negatively impacted hazard reduction windows, it is vital that hazard reduction burning and mechanical vegetation management are not considered the panacea to all bushfire risk but rather part of a greater, holistic approach to bushfire mitigation.

Ensuring that properties are built to reduced bushfire risk is vital, especially as those who lost property in the Black Summer bushfires begin to rebuild. Currently only properties with a Bushfire Attack Level (BAL) rating of 12.5 and above are required to meet specific bushfire construction requirements. This means that properties may be built in bushfire-prone areas and not be required to meet these requirements if they are far enough away from bushfire prone vegetation to be given a BAL-LOW rating.



NIBA appreciates that building standards are applied on a cost-benefit basis and that maintaining the balance between safety and affordability is both financially and politically delicate. However, it is not clear to NIBA that the cost benefits of exempting some homes in bushfire-prone areas outweigh the risk to life and property. NIBA recommends that all new developments in bush-fire prone areas be required to meet BAL-12.5 standards at a minimum. While this would increase build costs, mitigation expenses could be recouped through lower insurance costs and the reduced likelihood of the building sustaining damage during bushfire events.

Natural disaster mitigation has been ignored by consecutive governments, despite numerous inquiries into disaster mitigation and preparedness recommending governments transition spending from post-event recovery to pre-event mitigation. A 2014 Productivity Commission report into national disaster funding arrangements stated that governments “over-invest in post-disaster reconstruction and under-invest in mitigation that would limit the impact of natural disasters in the first place.”<sup>7</sup> A Deloitte report, also published in 2014, found that for every \$10 spent on post-disaster recovery, only \$1 is spent on mitigation<sup>8</sup>. This is despite research released by the American Federal Emergency Management Agency (FEMA) which shows that \$1 spent on disaster mitigation saves society \$6 in future disaster costs.<sup>9</sup>

As communities begins to rebuild, we must not allow the mistakes of the past to be repeated. All rebuilding works must be undertaken with future disaster mitigation as one of the core focuses. By building mitigation into the current recovery efforts government can reduce the economic impact of future events and the amount of future ex-gratia assistance provided to affected communities.

Past inquiries have highlighted that current funding arrangements reduce the incentive for state and territory governments to invest in disaster mitigation as the federal government shoulders most of the burden for disaster recovery. One method to encourage greater state and territory investment in disaster mitigation is to lower the federal government contribution towards disaster recovery with state and territory government shouldering a greater share of the costs. The unspent federal funds would be then be allocated towards disaster mitigation which would be co-funded by state and territory governments or private companies. These reforms would give greater autonomy to state, territory and local governments in how they prepare for, respond to and recover from natural disasters.

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<sup>7</sup> Australian Productivity Commission 2014, *Natural Disaster Funding Arrangements*, Inquiry Report no. 74, Canberra.

<sup>8</sup> Deloitte Access Economics, *Building our nation's resilience to natural disasters*, 2014, accessed at <http://australianbusinessroundtable.com.au/assets/Natural%20Disaster%20Roundtable%20Paper%20Web%20version%20January%202014.pdf>

<sup>9</sup> Multihazard Mitigation Council (2017) *Natural Hazard Mitigation Saves 2017 Interim Report: An Independent Study – Summary of Findings*. National Institute of Building Sciences, Washington.



## 7.2 Encouraging private mitigation

While bushfire building standards have been gradually updated since they were first introduced in 1990, existing buildings continue to fall further behind in their ability to withstand natural disasters. Most bushfire-prone areas exist outside the capital cities and major population centres. These areas experience much lower turnover rates of housing stock and as such, the buildings in these areas are less likely to comply with current disaster specific building codes. According to the Bushfire Building Council of Australia over 90 per cent of building stock in bushfire-prone regions is not built to bushfire standards.<sup>10</sup> A survey of buildings damaged during the 2009 Black Saturday bushfires found that less than 6 per cent complied with bushfire building standards at the time.<sup>11</sup>

In order to bridge the gap between new and existing infrastructure NIBA recommends that state and territory governments provide grants to owners of non-compliant infrastructure in bushfire-prone regions to undertake private mitigation works.

These works can include;

- Establishing suitable water supply arrangements for firefighting purposes where there is not access to a reticulated water source.
- Installing fire-proof window shutters.
- Replacing windows with safety glass.
- Replacing roof materials with non-combustible alternatives
- Installing a sprinkler system for fire defence purposes
- Replace decking and external doors with non-combustible material
- Enclosing timber subfloors
- Installing sarking behind weatherboards or other external cladding
- Cover external walls with non-combustible or bushfire-resistant materials
- Clearing land of vegetation to create an Asset Protection Zone

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<sup>10</sup> <https://www.abc.net.au/news/2020-01-20/government-buybacks-for-properties-extreme-bushfire-danger-zones/11851884>

<sup>11</sup> <https://www.bbca.org.au/property/>



### 7.3 Effects of Mitigation on Insurance Rates

Previous mitigation programs have shown that both public and private mitigation works have a positive impact on home building insurance premiums.

In Northern Queensland, the Household Resilience Program, provides grants to homeowners for the purposes of undertaking cyclone resilience works to their property. These works can include roof replacement, installation of cyclone shutters or roof tie down systems and replacing of external doors. On average, homeowners that participated in this program saved over \$300 on their insurance premiums<sup>12</sup>.

Following devastating flooding in 2012 Roma undertook widespread flood-mitigation works, including the construction of a flood levee and a diversion drain. Following the completion of these works, the flood risk level for more than 500 properties was downgraded.<sup>13</sup>

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.

While NIBA believes that the most efficient way to reduce insurance affordability is through the abolition of inefficient taxes and levies, where premiums are high due to high risks posed by natural disasters mitigation programs are effective in reducing risks and consequently lowering premiums. Improving affordability removes barriers to insurance and enables more homeowners to appropriately manage their risks.

## 8. Conclusion

Few events in recent history have impacted such a significant portion of the population across every state. Government inquiries such as this and the Royal Commission present an enormous

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<sup>12</sup> <http://statements.qld.gov.au/Statement/2020/5/19/cyclone-resilience-program-to-kickstart-regional-job-recovery>

<sup>13</sup> <http://statements.qld.gov.au/Statement/2019/9/17/flood-mitigation-works-reduce-risk-for-500-roma-properties>



opportunity for governments to come together on a long-term, strategic approach to disaster mitigation, response and recovery.

Ensuring that our emergency services are well funded is vital but equally important is ensuring that the methods by which these funds are raised do not prevent property owners from mitigating their risks or cause undue financial hardship to Australian families and small businesses.

Mitigation works also have an important role to play in reducing the likelihood of property damage and decreasing the economic impact of future disasters. State governments should be encouraged to undertake these works as a matter of both public safety and fiscal responsibility. Government also has a role to play in facilitating private mitigation works through grants, which in turn will reduce the financial burden on government post disaster.