

Thursday 16th June

NIBA Submission: NSW Government Small Business Strategy

The National Insurance Brokers Association of Australia (NIBA) welcomes the opportunity to help inform the New South Wales Governments Small Business Strategy for the next three years.

There is no doubt that the events of the past 24 months have had a significant impact on small businesses across a range of industries. Rising costs across most areas of business has resulted in many small business owners becoming increasingly price sensitive.

Unfortunately, repeated natural disasters impacting many areas of New South Wales and the hardening of the general insurance market has resulted in an increase in premiums for many small businesses, who are now unable to afford their insurance premiums. This unaffordability is further exacerbated by insurance-based taxes and levies which significantly increase premiums, resulting in higher levels of under-insurance and negatively impacting the resilience of small businesses

[About NIBA](#)

NIBA is the peak representative body for the intermediated general insurance industry. NIBA represents approximately 450 member firms and 15,000 individual brokers including large, multinational insurance brokers, Australian broker networks, and small to medium-sized businesses located in cities and regional areas right around Australia.

NIBA aims to promote the role of insurance brokers and the role they play in supporting and advising their clients on risk and insurance matters. NIBA provides this knowledge and expertise to governments and government agencies to promote understanding of the operation of general insurance markets.

General insurance brokers work with their clients to –

- understand, assess, and manage their risks;
- develop appropriate risk-transfer and risk financing strategies;
- seek cover from insurance markets that meet the above needs and strategies in a cost-effective manner;
- act as the client's advocate during a claim; and
- assist with renewing insurance and recommend changes;

In performing these duties, insurance brokers act as agents of their clients and have statutory, common law and professional obligations to act in the best interests of their clients at all times. At times, brokers may act on behalf of an insurer when providing certain services. When this occurs, brokers have a duty to communicate this to their clients.

NIBA member firms all hold an Australian financial services licence (**AFSL**), issued by the Australian Securities and Investments Commission (**ASIC**) under the *Corporations Act 2001 (Cth)*, which enables them to deal in and/or advise on risk insurance products.

Insurance brokers represent the interests of the purchasers of insurance, the policyholders, 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.

The Emergency Services Levy

New South Wales state fire and 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 2022-23 financial year has been set at \$1,172,878,520.

New South Wales is the only state to fund its emergency services in this way, with the Tasmanian Government announcing their intention to transition to a property-based funding model earlier this year.

In 2015 the NSW Government at the time announced its intention to abolish the Emergency Services Levy in favour of a property-based funding model with the Levy to be phased out by 30 June 2017. In May 2017, the transition to the new Fire and Emergency Services Levy (FESL) was deferred. Since then, the amount of ESL collected by insurers has increased significantly, having risen 48 per cent since the 2017/18 financial year.

The Emergency Services Levy: an inequitable funding model

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. 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.

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 many small business owners 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. This may result in policyholders paying different amounts throughout the financial year based on how accurately insurance companies are able to predict their total funding contribution.

Compounding tax systems and their effects

The current system sees ESL, GST, and stamp duty levied on top of the base premium in that order. This compounding of taxes can have serious consequences for small businesses that may already struggle with insurance affordability as a result of the hard insurance market and rising business costs.

In NSW taxes and levies can increase the cost of insurance for small businesses by up to 70 per cent. 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 small businesses, many of whom are facing an uncertain economic future, the artificial inflation of premiums caused by these taxes makes insurance an unaffordable luxury, rather than a necessary cost of conducting business.

In order to limit the impact of increasing premiums, many small businesses may be forced to reduce their level of cover for certain risks or forgo insurance entirely, leaving them open to significant financial liability if a disaster were to occur.

An Insurance Council of Australia (ICA) report into non-insurance found that states with higher tax rates on insurance premiums also had higher rates of noninsurance. Additionally, ICA modelling has shown that the increases in premiums as a result of increases to the ESL contribution target will result in a \$20 million reduction in pre-tax expenditure on insurance.

While it is difficult to measure the rate of underinsurance prior to a widespread loss event, current estimates by the Insurance Council of Australia (ICA) indicate that only 60% of businesses have building insurance.

Underinsurance significantly decreases the ability of businesses to withstand natural disasters and other insurable events, forcing small business owners to rely on ex-gratia government support which is unlikely to restore them to their pre-event position.

The artificial inflation of premiums taxes acts as an incentive for small-business owners to seek out alternative risk-transfer mechanisms that do not attract the levy. These mechanisms can take many forms; including captive insurance arrangements, mutual pools, derivatives and other alternative insurance products.

Payments made by small businesses as part of these alternative risk-transfer mechanisms are not considered insurance premiums and thus are not subject to the ESL. While this is a positive outcome for businesses that are able to access 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 fixed amount (known as the contribution target) rather than a percentage of their total premium pool.

With climate change resulting in an increase in the frequency and severity of natural disasters, this means there is an increasing risk, being funded by a declining pool of participants.

All other States have abandoned insurance-based funding models in favour of a fairer, more broad-based property funding model, whereby property owners contribute to the funding of emergency services via a levy on council rates.

Transitioning to a property-based funding model 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, while also increasing the affordability of insurance for small business owners.

NIBA strongly supports the abolition of the Emergency Services Levy in favour of a more equitable property-based funding model which would provide relief to small businesses and encourage small business owners and individual householders to appropriately manage their risks, thus increasing business and community resilience.

Should you have any queries about any queries, or wish to discuss any aspect of this submission please don't hesitate to contact me or my office.

Yours sincerely,



Philip Kewin

Chief Executive Officer

National Insurance Brokers Association.