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Mr Michael Harris
Chief Officer & Chair
Tasmania Fire Service

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SUBMISSION TO THE TASMANIAN FIRE SERVICE REVIEW 2018

Summary

The Insurance Council of Australia (**ICA**) welcomes this opportunity to provide a submission to the Review of the Tasmanian Fire Service Review (the **Review**).

The Insurance Council is the representative body of the general insurance industry in Australia and our members, both insurers and reinsurers, are a significant part of the financial system. They provide insurance products ranging from those usually purchased by individuals (such as home and contents, travel and motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability, professional indemnity, commercial property, and directors and officers insurance).

For the purposes of the Review, this submission is limited to comments on the insurance levy imposed on commercial insurance products.

Insurance Levy in Tasmania

Tasmania and NSW are the only remaining jurisdictions in Australia that collect a fire services levy on insurance products. NSW is set to abolish this practice and move to a land-based levy in the near future, having delayed the original transition date of 1 July 2017. Each of the remaining jurisdictions fund, or partly fund, fire services via a land-based levy rather than an insurance-based levy.

The ICA considers the economic case for the abolition of insurance-based taxes is widely accepted, having been canvassed in numerous Federal and State Government reviews and inquiries. The ICA and its members have long advocated for the abolition and replacement of insurance-based levies with equitable property-based levies, which are fairer and more equitable.

In the 2016-2017 financial year, the revenue for the Tasmanian fire services in 2016-2017 was \$89,584,000. Approximately 19.1% of this funding - \$17,141,000 - is sourced via an insurance levy on commercial insurance products. At present, the insurance levy is 2% on the premium for marine cargo insurance, 14% on the premium for aviation hull insurance, and a 28% levy of the premium on other classes of commercial insurance.

In many cases, there are no regulatory requirements for businesses to take out commercial insurance and only about 60% of businesses have any building insurance. The balance of businesses have no commercial insurance and therefore make no contribution to funding the fire services via the insurance levy. Therefore, 19.1% of the fire services funding is sourced from only approximately 60% of businesses. The remaining uninsured businesses receive the same benefit of an effective fire service despite making no contribution to its funding via the insurance levy.

Fair and equitable funding of a fire service

The ICA concurs with this Review's issue paper that "*insurance based levies can create a disincentive for commercial insurance or an incentive to under insure.*" With the present levy on commercial insurance ranging between 2% and 28% of premiums, the insurance levy can significantly increase the cost of insurance. As a result, the insurance levy may encourage business owners to minimise their insurance or avoid arranging insurance altogether.

The broad economic risk of underinsured or uninsured businesses in a community cannot be easily overstated. Businesses that underinsure or don't insure carry a greater risk of failure following damage or loss. Following natural disasters or other large loss events, businesses that have minimised insurance to the point of being underinsured, or have avoided insurance altogether, will often have inadequate capital required to repair, rebuild or replace stock/inventory. This can lead to a significant long-term impact to the local economy through reduced commerce, services and employment opportunities.

In light of the above, the ICA considers that the insurance levy creates a moral hazard by incentivising underinsurance or non-insurance of businesses in Tasmania. Furthermore, the cost of providing a fire service to underinsured or non-insured businesses is subsidised by businesses that have increased their own resilience by being adequately insured.

The ICA believes the preferred policy approach would incentivise and reward businesses that are financially resilient to disaster and have contingent funds available (such as insurance policies) to rebuild effectively. At the very least, the ICA submits that the funding of the fire services should be structured fairly and equitably across the community regardless of whether or not the constituent has insurance.

Transitioning away from an insurance-based levy

The ICA and its members have previously assisted other States transition from an insurance-based levy to a property-based levy and, as an industry, we are ready and able to assist Government implement. With this experience, we have gained insight on how to ensure the transition operates as effectively and harmoniously as possible. The ICA is also available at any time to engage in preliminary discussions with Government in respect to this.

If you would like to discuss this submission in further detail, please contact Karl Sullivan, the ICA's General Manager Policy, Risk & Disaster Planning Directorate, on (02) 9253 5121 or via email at ksullivan@insurancecouncil.com.au.

Yours sincerely



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