

28 August 2008

Review of the Revenue Framework for Local Government  
Independent Pricing and Regulatory Tribunal  
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## Introduction

Insurance Australia Group (IAG) is pleased to comment on the Review of the Revenue Framework for Local Government by the Independent Pricing and Regulatory Tribunal (IPART).

## Who is Insurance Australia Group?

IAG is an international general insurance group, with operations in Australia, New Zealand, the United Kingdom and Asia. Its current businesses underwrite more than \$7.5 billion of premium per annum. It employs more than 15,000 people of which around 10,500 are in Australia. It sells insurance under many leading brands including NRMA Insurance, CGU, SGIO and SGIC (Australia); NZI and State (NZ); Equity Red Star and Hastings Direct (UK); and NZI and Safety (Thailand).

IAG's core lines of business include:

- Home insurance
- Motor vehicle insurance
- Business insurance
- Consumer credit insurance
- Product liability insurance
- Compulsory third party (CTP) insurance
- Workers' compensation insurance
- Professional risk insurance

IAG has a crucial interest in the long-term viability of insurance as a product valued by the Australian community.

## What is IAG's Interest in the Review?

IAG's interest in the current Review relates to the statement by the NSW Treasurer that the Government agreed in principle with a number of the recommendations of the IPART Draft Report – *Review of State Taxation*. In particular, the response that the Government would "consider subject to the recommendations of the Review of the Framework for Local Government" the recommendation relating to fire services funding:

*"In the short term, the statutory contributions by insurance companies to fund fire services should be replaced by a corresponding increase in the contributions by local councils, with a phased implementation and accommodating increases in the municipal rate cap." (p.104)*

IAG contends that New South Wales is well placed to build on the experience of other States in relation to insurance taxation reform. In particular, IAG believes a fire services funding

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system, which encourages full value insurance, would result in economic and community benefits, especially as regards under-insurance. A system that is fair, consistent and more understandable to taxpayers and the community at large is needed. IAG believes that the most effective way of achieving this end, is to implement a system that sees all property owners sharing the responsibility for funding fire services.

IAG notes the Local Government and Shires Association of NSW submission to the IPART Tax Review:

*"The Associations have long advocated a change to the current fire services funding model. We maintain that the current system is lacking in transparency, accountability and equity."...."The Associations are advocating a property valuation based levy model to replace the existing fire services levies on local government and the fire services levy on insurance policy holders." (Local Government and Shires Associations of NSW submission to IPART Review of State Taxation, November 2007).*

Similarly, IAG notes the views of the Australian Consumers' Association that the fire services levy is "an illogical rule that deters consumers from taking out home building insurance (due to higher price)" and this "should be replaced with a levy by all building owners rather than only those who prudently insure" (p.21, ACA submission to Taskforce on Reducing the Regulatory Burden on Business, December 2005).

IAG sees the Review of the Framework for Local Government as an opportunity to support insurance tax reform. Indeed, as IPART stated in the Draft Report – *Review of State Taxation* a fire services funding model that sees an increase in the contribution from all property owners via local government rates is not only administratively simple but also enhances "both economic efficiency (by greater use of the comparatively efficient municipal tax base) and equity (by reducing the free-rider feature of the current predominantly insurance-based system)". (page 104)

Governments should recognise the essential benefits of insurance to the economy and community generally and implement a taxation system which does not penalise insurance relative to other more discretionary purchases.

The above comments supplement the submission from the Insurance Council of Australia. IAG endorses the Insurance Council's submission.

IAG would be happy to discuss this submission and to assist in any way we can. If you wish to discuss this matter or make further inquiries please contact David Welfare, Senior Adviser, Economics & Policy on (02) 9292 8593 or me on 9292 9744.

Yours sincerely

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