

Inquiry into regulatory impediments in the financial services sector

Victorian Competition & Efficiency Commission

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Attention: Mr Mel Mangolini

23 April 2010

Dear Mr Mangolini

**INQUIRY INTO REGULATORY IMPEDIMENTS IN THE FINANCIAL SERVICES
SECTOR**

The Insurance Council of Australia Limited (Insurance Council)¹ welcomes the opportunity to provide comment on the draft report of the inquiry by the Victorian Competition & Efficiency Commission (VCEC) into the regulatory impediments in the financial services sector in Victoria (the Draft Report). This submission is focused on the issues that are relevant to its members as general insurers.

The Insurance Council appreciates the attention that the Commission has given the issues raised in the Insurance Council submission of 12 December 2009. Consistent with the arguments made in that submission, the Insurance Council strongly endorses the recommendation in the Draft Report concerning the regulation of insurance:

- 4.2 That when future COAG priorities are being identified, the Victorian Government should encourage the inclusion of harmonisation of regulation covering mandatory insurance requirements on the national COAG agenda.

The Draft Report also made two recommendations concerning harmonisation of stamp duty:

- 4.3 That, in light of the findings of the Henry Review, the Victorian Government should take a lead in negotiating national harmonisation of stamp duty on insurance and reducing the reliance on such taxes.

- 4.5 That, in the absence of the conditions necessary for achieving national harmonisation of stamp duty on insurance, the Victorian Government consider reducing the distorting impact of the state tax on insurance by reducing stamp duty to the lowest rate among state jurisdictions as circumstances permit.

¹ The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Our members represent more than 90 percent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system. September 2009 Australian Prudential Regulation Authority statistics show that the private sector insurance industry generates gross premium revenue of \$32.2 billion per annum and has total assets of \$94.7 billion. The industry employs approx 60,000 people and on average pays out about \$96.4 million in claims each working day.

Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

The Insurance Council considers that the VCEC recommendations reflect in part the considerable differences in existing general insurance stamp duty exemptions across the States. Consequently, some benefit would be gained from harmonising interstate stamp duty arrangements. However, the Insurance Council submits that, fundamentally, efforts to harmonise State stamp arrangements would represent “second best” policy and in that regard, more robust policy efforts should be made to abolish (as opposed to reduce reliance upon) State stamp duties. As the Insurance Council submission to the Review of Australia’s Future Tax System argues:

*“The 2000 Intergovernmental Agreement (IGA) between the Commonwealth and the States resulted in substantial reform of hitherto inefficient State taxes. The Insurance Council contends that the absence of insurance tax reform in this original agreement was most regrettable and a significant policy oversight.”*²

In this regard, (and as highlighted in the Insurance Council submission to the State Parliamentary Inquiry into Taxation and Debt a copy of which has been provided to the VCEC) the Insurance Council submits that the VCEC has regrettably missed an opportunity to make a stronger contribution to the economic reform debate in Australia by not extending its recommendations to address the gains to economic welfare from the removal of inefficient State stamp duties and their replacement with more robust and efficient State taxes such as payroll and land.

Lastly, the Insurance Council agrees with the sentiments expressed in the Draft Report on the relationship between insurance taxation and the prudent take up of insurance. The Insurance Council also concurs with the representation in the Draft Report on the interstate comparisons of the impact of taxes on Victorian policy holders.

It is therefore unfortunate that the VCEC has considered itself unable to offer a view in the Draft Report on the efficiency of Victoria’s fire services insurance contributions system, despite it having an impact on economic efficiency similar to that caused by other State insurance taxes, such as stamp duties.

Although acknowledging the work of both the Royal Commission into the Victorian Bushfires and the Victorian Government’s Green Paper on Fire Services Funding, the Insurance Council submits that policy making with respect to insurance taxation would be enhanced if the VCEC were to engage more directly on the matter of fire service levies in this review.

If you require any further information, please contact the Insurance Council’s General Manager Policy – Regulation, Mr John Anning, on (02) 9253 5121 or janning@insurancecouncil.com.au.

Yours sincerely



Robert Whelan
Executive Director & CEO

² See Insurance Council of Australia (October 2008) “Submission to the Review of Australia’s Future Tax System” available at www.insurancecouncil.com.au