Insurance Council of Australia

16 September 2021

Mr Jason Falinski MP
Chair of Standing Committee on Tax and Revenue
PO Box 6021
Canberra ACT 2600

By email: TaxRev.reps@aph.gov.au

Dear Mr Falinski

Submission to the Inquiry into and report on the contribution of tax and regulation on housing affordability and supply

The Insurance Council of Australia (ICA) welcomes this opportunity to make a submission to the Committee's inquiry into the contribution of tax and regulation on housing affordability and supply. Consistent with the terms of reference this submission seeks to address historical, current and emerging issues with respect to housing affordability through the prism of general insurance and financial services more broadly.

The family home is an Australian's greatest single economic asset. Insurance is a fundamental protection for that asset. Insurance prices the risk to any asset, and ensuring those risks are mitigated to the best of our ability is key for both protecting the home and effecting positive change in relation to housing affordability.

Multiple reviews have shown that enhanced building codes and robust planning controls can play a role in achieving housing affordability. Similarly, unintended consequences from supply side planning responses such as building homes on flood or fire prone areas should be key policy considerations which are expanded upon in this submission.

COVID-19 has created material issues across the construction supply chains. Insurers are facing a shortage of essential tradespeople to complete essential repairs due to the closure of borders and competing government building programs such as Home Builder. The ICA is calling on state and federal governments to develop a national framework to enable to movement of labour between jurisdictions in an efficient, COVID safe manner.

Tax reform is also central to the theme of housing affordability policy measures. Taxes on insurance impact housing affordability. In New South Wales alone, residents pay 40 per cent or more on taxes on top of their premiums to insure their home and greatest single economic asset. A removal of state and territory emergency services levies and duties on insurance premiums is needed to drive affordability and access to property insurance coverage.

Yours sincerely

[redacted]

Andrew Hall
Executive Director & CEO

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Summary Policy Recommendations

1.	Simpler and more cost-effective access to standards for builders and inspectors to support compliance.
2.	Land use planning reforms that better incorporate the experience and insights of the building and insurance industries in the aftermath of natural disasters.
3.	Increased government incentives to invest in resilience measures when building new homes to improve the durability of homes.
4.	Development of resilience information tools that can assist industry and consumers to build more resilient homes.
5.	Establishment of an information sharing hub between government and industry to share risk information, land planning data and building experience.
6.	Removal of state and territory emergency services levies and duties on insurance premiums to drive affordability and access to property insurance coverage.
7.	Incorporation of resilience into the National Construction Code from 2025 so future property construction responds to the risk of natural disasters, ensuring not only human safety but property durability.
8.	Increased focus and delivery of building reforms on a nationally consistent basis, of all 24 recommendations in the Building Confidence Report.
9.	Adoption of a National Industry Action Plan for the efficient movement of personnel between state and territory borders.

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The Insurance Council of Australia is the representative body for the general insurance industry of Australia. General insurance has a critical role in the economy, insulating individuals and businesses from the financial impact of loss or damage to their insured assets.

Our work with our members, consumer groups and all levels of government serves to support consumers and communities when they need it most. We believe an insurable Australia is a resilient Australia – and it's our purpose to be the voice for a resilient Australia.

Our members represent approximately 95 percent of total premium income written by private sector general insurers, spanning both insurers and reinsurers. Our members provide insurance products including those usually purchased by individuals, such as:

- home and contents insurance
- travel insurance
- motor vehicle insurance

Our members also provide insurance products including those usually purchased by small businesses and larger organisations, such as:

- product and public liability insurance
- professional indemnity insurance
- commercial property
- directors and officers insurance

The Australian Prudential Regulation Authority statistics[1] from June 2021 show that the general insurance industry generates gross written premium of $55.9 billion per year and has total assets of $149.7 billion.

The industry employs approximately 60,000 people and on average pays out $166.2 million in claims each working day ($41.5 billion per year).

Over the 12 months to the end of June 2021 the industry's net profit after tax (NPAT) was $1.0 billion - a 5.4%% increase from the prior year's NPAT of $0.9 billion.

Opportunities for housing affordability

Resilience and mitigation

The last three years have driven home just how devastating natural disasters can be, particularly to homeowners. In total, insurers have paid out more than $8.9 billion in natural disaster claims over that period, approximately 73 per cent is personal.

Resilience measures may indeed increase the build/renovations of a house in the short-medium term, and indeed the greater the resilience the land price will be higher – flood prone properties are cheaper because of the risk. But over the longer term land planning reforms/ construction code reforms benefit as houses won't need to be rebuilt or substantially repaired after every natural disaster event.

[1] Australian Prudential Regulation Authority (APRA) Quarterly General Insurance Performance Statistics (QGIPS) .

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In any review of housing affordability, it is important that measures which improve the resilience of property to extreme weather are not jettisoned in the search for lower upfront costs. This is particularly important as we face extreme weather events of greater intensity and / or frequency as a result of climate change. In fact, numerous studies[2] have shown that measures that better protect houses from events such as cyclones reduce the lifetime cost of the property, improve its value when resold, and lower insurance and other operating costs.

The ICA's position has long been that the only means to effect lasting improvements to natural hazard exposure in Australia is by adopting a systematic approach to disaster risk reduction consisting of the following:

- increased public and private mitigation
- improved building quality and standards
- improved land use planning

The ICA has long called for increased investment in mitigation and resilience efforts by all levels of government. In the recent Federal Budget, the Government provided an allocation of $1.2 billion over five years to improve Australia's capability to prepare for, respond to, and recover from natural disasters, which the Insurance Council welcomed. This funding included $600 million for new disaster preparation and mitigation programs as part of the establishment of the new National Recovery and Resilience Agency (NRRA) and $40 million to make strata buildings in northern Australia more resilient to extreme weather events.

The Productivity Commission's estimate that 97 per cent of all disaster funding in Australia is spent after an event, with just three per cent spent on mitigation measures ahead of a disaster, shows the need for this level of investment to continue. To get maximum return from this investment the ICA has called on state and territory governments to match the Federal Government's funding in their own jurisdictions.

To make effective and lasting improvements to Australia's disaster resilience, the level of Federal and State Government funding should be significantly increased to a level equal to or greater than that recommended in the Productivity Commission Natural Disaster Funding Arrangements Inquiry in 2014.

In many instances the only effective means at reducing a community's risk is by mitigating the natural hazard through infrastructure, such as a dam, levee or sea wall. However, despite having the ability to make broad-scale improvements to resilience, investment in large mitigation projects is infrequent in Australia due to the lack of funding, cost of the proposed mitigation, or difficulty in valuing the proposal.

Building codes and standards

Sub-par building codes and standards can have a devastating impact on housing affordability. A 2019 report by Equity Economics estimated a cost of $6.2[3] billion would be required to address safety and building defects in Australia. Most of these costs result from entry level apartment dwellings in New South Wales, Victoria and Queensland.

The Insurance Council and its members are leading a program to improve the resilience of Australian buildings. Insurance plays a key role in the design, construction and maintenance of the built

[2] Building community cyclone resilience: Through academic and insurance industry partnership (2016)
[3] The Cost of Apartment Building Defects, Equity Economics (2019)

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environment. From the family home to apartment buildings, from commercial and industrial developments through to civil infrastructure, the insurance industry provides insurance products that protect the assets of Australians across the entire economy and community.

At current, building in Australia occurs to a minimum standard mandated by the National Construction Code administered by the Australian Building Codes Board (ABCB) and to Australian Standards. While setting the minimum benchmarks for building, they are constructed to ensure life preservation in the event of a natural disaster or similar catastrophic event. They are not constructed with property preservation as a core consideration.

In the last year, the *Royal Commission into Natural Disaster Arrangements* was the latest forum to look at how to improve resilience, calling for reforms to the National Construction Code, changes to land-use planning decision making, more insurer guidance around retrofitting and better communication of natural hazard risk information to individuals. The Federal Government supported all of these recommendations.

Although the National Construction Code has seen significant advancement in the durability of what we build, the Insurance Council is working closely with both the ABCB and with Standards Australia to develop stronger construction methods to better protect life and asset when a devastating event occurs.

The National Construction Code should be reviewed and amended to ensure greater resilience to extreme weather is incorporated into building design and construction, including increasing risk posed by climate change.

This should be complemented by improved inspection and compliance enforcement to ensure buildings are constructed to at least code and periodic independent inspections of existing buildings in high risk areas to ensure they are maintained post completion.

The Building Confidence Report (BRC) is a key review of building quality and performance of output of product from the construction industry. The Federal Government should increase focus on achievement of reforms under all 24 recommendations in the BCR on a nationally consistent basis among the states and territories.

Human capital: qualified tradespeople

The input of labour into the housing market has a direct impact on the price of construction and therefore to the consumer. The availability, quality and risk carried of skilled labour has a direct correlation to how labour is priced in construction.

Over the years there has been an overall lack of investment in vocational training to meet the growing demand. In 2018 less than half of all vacancies surveyed were filled. Large infrastructure and commercial projects are drawing up the available skilled labour leading to a lack of supply in residential construction which has seen the availability and affordability of skilled labour increase.

According to TAFE, the greatest skill shortages are in bricklaying, stonemasonry carpentry and joinery, painting, glazing, fibrous plastering, roof tiling, wall and floor tiling, plumbing and cabinet making – all essential trades for the housing industry.

While enrolments are increasing, they are not keeping up with the increased demand and Governments must invest more in TAFE and vocational studies to make it more affordable and attractive for new enrolments and retention. There is a clear need for Governments to do more to provide opportunities for apprenticeships to help reduce the skills shortage.

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The Insurance Council welcomes the work done by the Federal Government to establish a national Automatic Mutual Recognition (AMR) scheme. While the insurance Council recognised the difficulties in harmonising some trades due the varying standards across jurisdictions, it supports the need ensure the safety and standards are kept to a higher standard to ensure quality of trades.

The AMR should help alleviate cost pressures on trades by increasing labour mobility and reducing unnecessary regulation.

Following recent examples of severe construction defects, such as the Opal and Mascot Towers in New South Wales, we have seen changes in regulations to ensure higher standards of building practices to protect consumer confidence.

As Governments attempt to enforce compliance and accountability down the construction food chain, it potentially forces builders, designers, engineers, and other professions in the residential sector to be held to a much higher standard equivalent to the commercial sector.

While Government regulation is vital to ensure confidence in the market and construction sector, it must be measured to achieve the right balance.

Human capital: future catastrophe repairs

Insurers rely on the free movement of skilled construction and restoration workers – both nationally and internationally – to rebuild communities following natural disasters. As a result, national and state covid restrictions have significantly limited the pool of skilled workers available to conduct this critical rebuilding and repair work. Since October 2020, industry has received 134,000 claims from declared catastrophe events alone, which 71,500 relate to damaged or destroyed homes.

This is in addition to the thousands of claims caused each day through unforeseen incidents causing damage to property. Unfortunately, the limitations on the free movement of skilled workers between states – as well as the inability to bring in skilled workers from overseas – has caused material delays to industry's ability to repair or rebuild property. This is detrimental to the tens of thousands of Australians whose homes have been damaged or destroyed, and are desperate to have their homes restored.

The National Home Builder Program has further exacerbated the limited availability of skilled workers available for rebuilding communities following natural disasters. This has meant there are fewer builders and trades that are available to rebuild communities like Kalbarri following Tropical Cyclone Seroja in April, and the Yarra Ranges following extreme weather in June.

Consequently, the recovery for affected residents is likely to be prolonged. Additionally, the lack of supply of skilled workers created by the Home Builder Program has caused an increase in rates which inflates the cost of disaster recovery. Ultimately, this cost is likely to be borne by residents through increased insurance premiums.

Tax reform

Tax reform is also central to the theme of housing affordability. Taxes on insurance impact housing affordability. In New South Wales alone, residents pay 40 per cent or more on taxes on top of their premiums to insure their home and greatest single economic asset.

All States and Territories (except the ACT) impose extra taxes on insurance. The main insurance tax is the stamp duty on general insurance premiums which all States (except the ACT) impose at various

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rates and with some exemptions. In addition, in NSW and Tasmania, a levy is imposed on certain classes of insurances on the stated basis of helping to fund to emergency services, although the Tasmanian Government recently announced a review of its fire services levy, which is welcome.

The NSW Government's 2020 Review of Federal Financial Relations chaired by former Telstra CEO David Thodey found:

"Insurance taxes are inefficient: they drive up premiums and discourage consumers from adequately insuring. There can be serious human and social consequences from what has been dubbed 'a national crisis of under-insurance', especially for a country that relies heavily on insurance markets for recovery from disasters."

The ABS data shows an uptick in rates of insurance in Victoria between 2009 and 2015, an interval encompassing the 2013 abolition of that State's insurance-based fire service levy. Insurance take up rates fell in most other states during this time, suggesting this increase was related to the reform. A similar trend was noted by the Henry Review following Western Australia's reform in 2003.

It is estimated that abolition of both ESL and insurance duty in New South Wales alone could see as many as one-third of currently uninsured households, or 70,000 households, take up home insurance.

ABS Household Expenditure Survey 2015-16 showed that the Victorian rate of household non-insurance is 7 per cent compared to 13 per cent of households non-insured in NSW. Taxes contribute to higher insurance premiums. The table below outlines the impact taxes currently have on the price of average premiums across Australia:

Impact of insurance taxes, duties and levies on premiums by jurisdiction[4]

Jurisdiction	Home	Business
Queensland	19.9%	19.9%
New South Wales	42.08%	64.46%
South Australia	21.1%	21.1%
Tasmania	21%	54.8%
Western Australia	21%	21%
Northern Territory	21%	21%
Australian Capital Territory	10%	10%
National Average	22.3%	30.32%

At a State level, to improve the affordability of insurance products, New South Wales and Tasmania should abolish their fire or emergency services levies and all Australian States and the Northern Territory abolish stamp duties on insurance premiums.

[4] All jurisdictions include 10% for GST, the additional percentages are based on stamp duty, NSW Emergency Services Levy (ESL) and for Tasmania a Fire Services Levy (FSL). Number for NSW includes a percentage for ESL based on maximum aggregated amount of tax charged on home and business policies in the past twelve months. Number included for Tasmanian Business Policy includes a portion collected for the FSL based on maximum possible aggregated amount of tax currently charged.

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In New South Wales all taxes add a combined 40 percent to the cost of a household premium, and in Victoria and Queensland, for example, they add around 20 present to the cost of a household premium. These taxes have a direct link to underinsurance and insurance affordability.

Unintended consequences of supply side policies

Land release: Unintended consequences

The Royal Commission into Natural Disaster Arrangements identified that land-use planning needed to be a consideration when identifying risk to life and communities but unfortunately there has been little action on this to date. As recently as 7 September 2021, the NSW Auditor General highlighted that that State had not achieved many of the required amendments and enhancements to planning arrangements to which it had previously committed.

This is only one example of the poor progress of the review or land-use planning arrangements and decisions as they related to natural disasters. The evidence of the impacts of poor planning decisions have been seen in the Black Saturday and Black Summer Bushfire Disasters, and the flooding impacts from the Lockyer Valley and the Hawkesbury region only this year.

The pressures on release of land to enable ongoing development too often supersedes adequate and necessary review and control of what is released and where. The demand requirements have evidently taken precedence over planning arrangements that establish minimum life and property safety considerations.

We note that the Department of Agriculture, Water and Environment is commencing work on a climate adaptation framework for government, the National Climate Resilience Adaptation Strategy (NCRAS), and that this will incorporate consideration of land-use planning in the framework. The current arrangements however place the majority of the responsibility and assessment on Local Government Authorities that more often than not are underfunded, under-resourced and lacking the relevant skillset to determine complex planning arrangements.

The mix of responsibility between the three levels of government do not provide for adequate support across the regulatory framework to enable adequate land release review and determination, resulting in land that is unsuitable for development being released, putting home owners and building occupants at unnecessary increased risk.

Building Liabilities

Building confidence is a significant concern as reported in the Building Confidence Report and this is most notably seen in the NCC defined Class 2 segment of the market. Examples of the impacts of poor construction practice is most notably referenced by the Opal Towers and Mascot Towers failures, however these are not isolated situations. Reviews conducted show the prevalence of serious structural defects in building are commonplace.

A joint review by the Strata Community Association and the NSW Office of Building Commissioner identified that 36 percent of Class 2 buildings less than six years old had serious structural defects and that more than half of those buildings have been unable to have those issues rectified. There are a number of other studies in this area, including the joint 2018 Deakin and Griffith University report, alarmingly showing 84 percent of buildings have defects reported at completion of construction.

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The combustible cladding situation in Australia is a disaster in waiting. We have seen the catastrophes at Grenfell and in Milan attributed to combustible cladding and Australia is not immune, with combustible cladding fires among buildings here also. The scope of the problem is yet to be fully appreciated however we know that in Victoria and New South Wales alone that the cost of remediation of combustible cladding has already been assessed, only for very high risk buildings at more than $2 billion.

The action to address this is slow and there is not a great deal of meaningful direction to the community on acceptable solutions that will protect life and property. What is worse, consumers living in these buildings are left largely to meet the cost of this remediation, often amounting to millions of dollars of liability above their property investment commitments. With uncertainty of product and system design, the insurance industry is unable to provide cover for façade systems that represent evident and proven life-threatening environments to occupants of buildings. We have however taken a lead position in development of suitable outcomes for the community to address this situation.

The core issue affecting property owners in this area is the lack of meaningful regulation on a national position of effective consumer protection. With Australians moving more and more into medium and high density living, the lower quality of building design and construction coupled with diminishing consumer confidence in building output means consumers are left with the financial burden arising from these issues.

With slow progress and action on the Building Confidence Report reforms, without effective action, on a nationally consistent basis, aligned with a nationally applicable consumer protection model, homeowners are going to be further and devastatingly impacted by the financial impacts of an underperforming building and construction sector.

Lenders Mortgage Insurance

Lenders Mortgage Insurance (LMI) enables more Australians to achieve the dream of home ownership, or achieve this goal earlier, by reducing the credit risk of lenders providing home loans. It provides creditworthy borrowers without a substantial deposit with timely and cost-effective means to access home loans.

Since the post-war period LMI has played a crucial role in supporting prudent high loan to value lending in Australia, as recognised in both the Productivity Commission Report into Competition in Financial Services (2018) and the Financial Services Inquiry (2014).

With the benefit of LMI protecting the lender, borrowers, and particularly first home buyers, have the opportunity to buy, move into and accumulate equity in their home much earlier than if they had to save for a full 20 per cent deposit.

The ICA welcomes government initiatives designed to improve access to home ownership in Australia, such as the First Home Loan Deposit Scheme. However, we are concerned about the continual expansion of the Scheme on the ongoing viability of LMI as a product. Other regulatory settings can also operate to impact on the continued viability and sustainability of the LMI industry in Australia. This in turn may place at risk both the accessibility of home ownership and affordability of homes within the Australian housing market.