

17 March 2008

Committee Secretary
Senate Select Committee on State Government Financial Management
Department of the Senate
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Introduction

Insurance Australia Group (IAG) welcomes the opportunity to provide comment in relation to the Inquiry into Commonwealth and State and Territory fiscal relations and State and Territory Government Financial Management.

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 16,000 people of which around 11,000 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:

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

When the Federal Government announced that it would fundamentally reform the Australian taxation system by introducing a Goods and Services Tax (GST) it also announced that the revenue would go to the States and Territories. The stated intention was that the GST, as a growth tax, would build revenue for State Governments and as a result an opportunity should be created to reduce certain State Government taxes.

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Under the *Intergovernmental Agreement*, all GST revenue collected by the Australian Taxation Office is provided to the States.

IAG acknowledges that each State Government will make the decisions it believes are in the best interests of the community and that are based on sound financial management principles. However, there is clear capability for the State Governments to reduce the burden of taxation on insurance.

The Federal Government's *Mid Year Economic and Financial Outlook 2007-08* (October 2007) notes:

"For 2007-08, it is estimated that all States will receive more GST revenue than their guaranteed minimum amount and consequently no State will require budget balancing assistance. Indeed, the States will receive a total revenue gain from the Australian Government's reforms of around \$3.4 Billion more than their guaranteed minimum amount". (p.55-56)

This suggests there is scope for further reductions in State taxation beyond those currently agreed. IAG also believes it is appropriate for the Federal and State Governments to examine a new set of undertakings beyond the current *Intergovernmental Agreement* to assist further reform of State taxation. A strong case can be made that reform of insurance taxes should have a high priority in both scenarios.

IAG argues that there is a clear social and economic case for eliminating or at least reducing State insurance taxes and charges as a priority for any reform agenda.

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.

This submission supplements the submission from the Insurance Council of Australia. IAG endorses the Insurance Council of Australia'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 Wellfare, Senior Adviser, Economics and Policy on (02) 9292 8593 or me on 9292 9744.

Yours sincerely

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