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Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
Department of the Senate
Parliament House
CANBERRA ACT 2600

*BY EMAIL ONLY: corporations.joint@aph.gov.au*

**SUPPLEMENTARY SUBMISSION – PARLIAMENTARY JOINT COMMITTEE ON CORPORATIONS AND FINANCIAL SERVICES INQUIRY INTO CORPORATE RESPONSIBILITY**

On 9 March 2006, Insurance Australia Group (IAG) represented by Ms Sam Mostyn, Group Executive – Culture and Reputation and Ms Pauline Gregg, Senior Manager – Corporate Social Responsibility appeared before the Committee.

Please find attached our supplementary submission relating to our appearance before the Committee.

Should you require further information on any of the issues raised in this submission please do not hesitate to contact Pauline Gregg (Senior Manager - Corporate Social Responsibility, Corporate Responsibility Team) on (02) 9292 9413 or Justin Ward (Senior Adviser, Government Relations and Policy) on (02) 9292 8253.

Yours sincerely

**Dr Barbara Carney**
**Group Head – Government Relations and Regulatory Affairs**

**Superannuation Arrangements**

*"…Incentives to work, save or retire are affected by various factors, including rules concerning when people can access their superannuation and the impact of savings on their age pension entitlement. It is important that the retirement income system does not encourage people to leave the workforce early…"*

*The Hon. Peter Costello*
*"Continuing Tax Reform", 9 May 2006*

The ever-changing composition of the Australian population tends to be characterised as ageing. A component of IAG's talent and human resource strategy is to have a workforce that appropriate represents the characteristics of our customers. To support this aim, IAG is investigating methods to attract older workers and to encourage employees approaching retirement age to remain with the organisation, if they wish to continue working. IAG would therefore encourage and support changes to Government policy relating to superannuation that results in employees having greater choice about the timing of their retirement and transition out of paid employment.

IAG believes that the following superannuation initiatives are, or will be successful in providing greater choice and flexibility for employees, and to some extent result in an increased number of older Australian's being employees of the organisation:

- **Transition to Retirement Arrangements**

Allowing employees who have reached their preservation age to access some of their accumulated superannuation without having to fully retire is a worthwhile policy initiative. These arrangements have successfully allowed individuals to reduce working hours, whilst drawing down on their superannuation via a non-commutable allocated pension.

- **Deductible Superannuation Contributions**

The Federal Government Budget, handed down on 9 May 2006, increased the maximum age for making deductible superannuation contributions from 70 years to 75 years. Again, this gives both employers and employees alike increased flexibility with employment options for employees reaching retirement age. This will encourage some older employees to continue in the workforce.

- **Superannuation Benefits Tax**

IAG notes that the Treasury believes that the removal of Superannuation Benefits Tax, along with several other items, not necessarily particular to IAG's circumstances, will remove disincentives for older Australians to remain in the workforce, if they wish to do so. The removal of this particular tax, coupled with the "Transition to Retirement" arrangements may result in an individual's assessable income for taxation purposes falling – providing extra incentive to work.

IAG will continue to monitor the impact of recent changes in superannuation policy, particularly in relation to their impact on enabling older Australians to remain in the workforce longer, and adopt transition to retirement arrangements.

**Taxation Arrangements and Long Term Investments – Capital Gains Tax (CGT)**

IAG understands that the then Federal Government introduced a system for taxing capital gains in September 1985, to reduce the incidence of speculative investment. At the time of introduction, the Treasury estimated that CGT would raise $5 million in its first full year of operation.

However, collection peaked in 1999-2000 at $5.3 billion. Significant reform to the CGT regime in Australia occurred in 1999, following *The Review of Business Taxation* conducted by John Ralph. One component of these reforms and potentially of interest in the CSR debate was reducing CGT on assets that have been held for over one year by 50%.

At a simplistic level, advocates of this proposal suggest that changes to CGT arrangements and in particular the schedule of rates may assist in overcoming perceptions of "short-termism" in investment markets for personal investors. This is predicated on the belief that the CGT tax schedule could be changed to reflect a fall in the proportion of gains subject to tax for assets held over a longer period. Personal investors may then be encouraged to hold investments, including equity investments that have a longer time horizon. As a result, officers of the corporation will focus on this longer horizon and therefore longer term returns. However, this premise relies on certain behaviours by both personal investors and officers of the corporation.

We note that the Australian Chamber of Commerce and Industry ("ACCI") has already advocated a possible CGT schedule, with the proportion of gains subject to tax falling from 100% when assets are held for less than one year, to 0% for assets held for more than 10 years. ACCI's position, published in October 2005 may not have necessarily taken into account the CSR debate.

IAG would like to see more debate, investigation and economic modeling about the CGT regime in Australia, so that some of these hypotheses could be tested. IAG would be an active participant in such a debate.

**Taxation Arrangements – Fringe Benefits Tax (FBT)**

FBT was introduced into the Australian tax system in 1986, with the aim of capturing the leakage of income tax, resulting from employees utilising non-salary benefits provided by employers. These arrangements, amongst other items, encompass the provision of fully maintained motor vehicles by employers to employees.

IAG understands that the FBT rate decreases as the number of private kilometres traveled by the employee increases. As a result, employees who utilise this arrangement to access a motor vehicle for private purpose, may engage in perverse behaviour, to reduce tax liabilities (ie drive unnecessarily). As a result, infrastructure utilisation increases, and of particular interest to IAG, carbon dioxide released into the atmosphere increases.

IAG has long been concerned about the effects of climate change, the potential links with severe climatic events (ie cyclones) and therefore the ability of insurers to appropriately price property insurance in high risk areas (ie Northern Australia). At this stage, available evidence suggests that the increased concentration of carbon dioxide in the atmosphere contributes to climate change. IAG therefore actively attempts to reduce its carbon footprint.

IAG believes that it holds a derivative responsibility in relation to carbon emissions – a responsibility due to its ability to facilitate salary sacrifice arrangements associated with motor vehicles. Again, IAG would advocate a position, where enhanced debate, investigation and economic modeling could take place in relation to the FBT regime in Australia, and in particular the debate associated with the salary sacrifice of motor vehicles.

**IAG Sustainability Report**

Please find attached a copy of our 2005-2006 Sustainability Report entitled *"It's just Good Business"* (Appendix A).

**IAG Stakeholder Survey Report**

Please find attached a copy of our 2005-2006 Stakeholder Survey Report entitled *"We're Listening"* (Appendix B).

**Government and Corporate Social Responsibility**

IAG restates the belief that there is significant potential for governments to play a strong role in encouraging corporate responsibility by companies.

The role of government in demonstrating leadership in its own activity was discussed during by IAG during our evidence to the Inquiry. IAG looks forward to seeing co-ordinated procurement and other activity within government which demonstrates a commitment to considering social and environmental aspects in all government business.

In a more proactive sense, there are strong opportunities for governments to encourage corporate responsibility. These include:

- Educating companies and the public about corporate responsibility issues – there are several projects and programs across government directed towards various aspects of corporate responsibility – including diversity, environmental initiatives and research, community involvement and partnerships, equality of opportunity, health and safety initiatives in various industry sectors; just to name a few.

  IAG suggests that a thorough inventory be taken of the range of initiatives across government agencies to ascertain their relevance to corporate sustainability and a mechanism be established to better leverage these programs to identify their relationship to corporate responsibility

There remains significant potential for government departments to work with companies to innovate collaboratively and create tools to assist companies to embrace corporate responsibility initiatives. IAG suggests that tools could be developed to assist with performance measurement systems, environmental and social KPIs; and to better leverage government expertise in specialist areas – for example sustainability research.