

July 1, 2013

End of Victoria's Fire Services Levy heralds start of a fairer system

Today's removal of the Fire Services Levy (FSL) from Victorian insurance premiums has been welcomed by the Insurance Council of Australia (ICA) as the biggest tax reform since the introduction of the GST.

ICA CEO Rob Whelan said that as of midnight, no property insurance premiums in Victoria should include an FSL component. Instead, all Victorian property owners would now fund the fire services through a levy applied to council rates according to a government formula.

Mr Whelan said the removal of the FSL from premiums provided a fairer system by ensuring all Victorians who benefitted from the fire services contributed to funding them. He said this should be welcomed by the 1.2 million households and businesses with property policies.

"We congratulate the Victorian Government for having the vision and determination to consign the inequitable Fire Services Levy to the history books, and the Opposition for its bipartisan support," he said.

"After more than four decades this regressive tax has been removed, as recommended by numerous inquiries, especially the 2009 Bushfire Royal Commission and the Henry Tax Review. The FSL was a disincentive to purchasing insurance or to properly insure properties and their contents, and the ICA has campaigned for FSL reform for many years.

"This is good news for all policyholders and updates the Victorian tax regime to a 21st century system."

Prior to July 1, fire services across Victoria were funded by a levy on insurers, which meant only those Victorian property owners who took out insurance paid for them – despite everyone in the state benefitting from the services provided by the Country Fire Authority and Metropolitan Fire Brigade.

New South Wales is now the only remaining mainland state to fund its fire services through insurance premiums, and the ICA encourages the NSW Government to renew its commitment to reforming its emergency services levy.

Mr Whelan said tax reform remained high on the ICA's agenda, and insurers would continue to campaign against state stamp duties on insurance products. He said stamp duties were another unfair tax that affected the affordability of insurance.

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Only the ACT Government has committed to phase out its stamp duty over five years, with two states – Tasmania and Queensland – having increased stamp duties recently, to the detriment of property and vehicle owners.

Mr Whelan said the insurance industry believed the removal of the FSL would help lower the rate of non-insurance and underinsurance in Victoria. He said an independent study commissioned by the ICA in 2007 found the removal of the FSL in Western Australia in 2003 resulted in lower rates of non-insurance in the state.

“History shows reducing the taxes and levies on insurance can help reduce the level of underinsurance and non-insurance. More insured properties means fewer demands on government and community organisations following future natural disasters,” he said.

Mr Whelan said the industry continued to support FSL Monitor Professor Allan Fels and his deputy, Dr David Cousins, in their roles overseeing FSL reform.

“As part of the monitoring process, industry representatives voluntarily attended a public hearing in Melbourne on June 18 to explain how insurers had responded to the imminent removal of the FSL, and provided evidence that insurers set their premiums separately to the FSL,” he said.

“These insurers reassured the public they were not using the abolition of the FSL to unfairly increase premiums, and detailed factors that affect premiums in Victoria, including the impact of claims costs caused by recent catastrophes, including more than \$3.5 billion in Victorian claims since 2009; the reassessment of risk in Australia by global reinsurers; and the low investment return environment.”

Fast facts:

- In the past five years, insurance customers in Victoria have contributed \$2.65 billion to fund the fire services
- The FSL was not a rate set by any organisation. Insurers paid the levy according to their market share
- The FSL collected in the 2012-2013 fiscal year funded the fire services for that year alone, and not for the 2013-14 fiscal year.