

June 18, 2013

Insurers explain Fire Services Levy transition

Insurance industry representatives today voluntarily provided evidence at a public hearing in Melbourne to explain how companies were responding to the imminent removal of the Fire Services Levy from Victorian insurance premiums.

As the five largest insurers in Victoria, Suncorp, QBE, Allianz, CGU and Insurance Manufacturers Australia were invited to the hearing by the Fire Services Levy Monitor, Professor Allan Fels, and provided detailed evidence about how each was handling the FSL abolition.

From July 1, 2013, firefighting activities in Victoria will no longer be funded by a levy on insurance premiums. In many cases, insurers have already removed the FSL from premiums, and no policies will have an FSL component on or after July 1.

The insurance industry believes the removal of the FSL from premiums will help improve the affordability of insurance. The industry welcomes this change, which was a key recommendation of the 2009 Bushfires Royal Commission and other inquiries.

The companies described how the changes were being explained to their customers. They also detailed factors that may affect base premiums in Victoria for many consumers, such as:

- The impact of soaring claims costs caused by recent catastrophes, including more than \$3.5 billion in Victorian catastrophe claims since 2009
- The upward reassessment of risk in Australia by global reinsurers
- The current low investment return environment
- Improvements in the assessment of risk at an individual property level
- Increases in the costs associated with settling claims, such as the cost of materials and labour following extreme weather events
- Changes to policies, such as the introduction of flood cover by some insurers and increases to sums insured to help prevent underinsurance.

The FSL reforms mean insured property owners will no longer carry the cost of providing fire services to those who have chosen not to purchase insurance. Instead, this cost will be spread more fairly and transparently across the community via a council rate funding model in accordance with government-set criteria.

The changes should also reduce the level of underinsurance and non-insurance in the community, which will mean fewer demands on government and community organisations following extreme events such as floods and bushfires.

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The industry supports the important role the Fire Services Levy Monitor plays in providing confidence to Victorians about the FSL transition. It notes many of the complaints received by the Monitor relate to confusion about the method of FSL collection and the timing of the incoming rates collection methodology, and not the price of insurance premiums.