

Wednesday July 1, 2016

The Emergency Services Levy transition – key facts

What is the Emergency Services Levy (ESL)?

The ESL is a levy that the NSW Government charges insurance companies each year to help fund the metropolitan and rural fire brigades, and the State Emergency Service.

The ESL adds about 21 per cent to household insurance premiums. Some insurers also collect a portion of ESL from motor insurance premiums and some commercial insurance products.

The ESL will be removed from July 1, 2017 and will be replaced with the Emergency Services Property Levy (ESPL), which will be paid alongside local council rates. Once the ESL is removed, insurance companies will no longer pass the cost on to their customers, resulting in savings on their insurance premiums.

Even though households will pay more on their council rates due to the imposition of a new property-based charge to fund the emergency services, the NSW Government estimates that most households will be an average of \$40 better a year off overall.

Why is the ESL being abolished?

Levies and taxes on insurance are inefficient, inequitable and unfair. The ESL is only paid by households and businesses with insurance, even though the entire community benefits from the emergency services. By significantly raising the cost of premiums, the ESL contributes to the incidence of non-insurance and underinsurance in NSW.

Replacing emergency services levies on insurance with fairer property-based charges have been key recommendations from many inquiries, including the Bushfires Royal Commission, the Henry Tax Review and several Productivity Commission reports.

The ICA expects the NSW Government will announce final details of its new property-based charge in coming months.

How is ESL calculated?

ESL calculations and collections are complex. Each financial year the NSW Government notifies insurers of their statutory ESL contribution for that year. The amount each insurer must contribute is based on their market share in that year, but the final market share is only confirmed several months after the financial year ends. Therefore insurers estimate the amount they must collect from policyholders to cover their contribution based on previous years' market share data. In 2015-16 insurers contributed a total of \$769 million.

The ESL is added to insurance premiums, along with GST (10 per cent) and state stamp duties (9 per cent in NSW). The combination of the three taxes raises base household insurance premiums in NSW by almost 45 per cent, and commercial premiums by up to 60 per cent.

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How will the ESL transition be managed?

Over the transition year, insurers will adjust the amount of ESL they add to policies so the tax is completely removed by the July 1, 2017, deadline.

How can consumers be certain that insurance companies will pass on all the savings once the ESL is removed?

Removing the ESL on insurance products will benefit NSW. It is an unfair burden on households and businesses that purchase insurance. Though the emergency services assist all members of the community, they are being funded only by those people who buy insurance. The additional cost affects the affordability of insurance and contributes to high levels of underinsurance and non-insurance in the community. Insurers are committed to passing on all savings that flow from the removal of this tax, as they did in Victoria.

Further, the NSW Government has engaged Professor Allan Fels as Emergency Services Levy Insurance Monitor. His role is to confirm that insurance companies pass on all savings from the removal of the ESL to their policyholders. Prof. Fels served a similar role in Victoria during that state's abolition of its Fire Services Levy (FSL). In his final report he concluded he was confident "that savings attributable to elimination of FSL have been passed onto consumers".

Might some policyholders be double-charged – once under the ESL system and once under the property-based system?

No, policyholders will not be taxed twice. Policyholders pay ESL for the financial year in which they buy or renew their policy, no matter what the policy start date is. Some policyholders may pay ESL and the new property-based charge close together, depending on the renewal date for their insurance policy. But the final ESL charge will be for financial year 2016-17, and the first property-based charge will be for financial year 2017-18.

Victoria made this switch several years ago. What happened there?

Victoria switched from a system of funding its fire services through a levy on insurance to a property-based tax from July 1, 2013. The replacement of the FSL was a key recommendation from the 2009 Victorian Bushfires Royal Commission to reduce levels of non-insurance and underinsurance. The transition to the fairer system of a property-based tax to fund the emergency services had bipartisan state political support.

The Victorian Government appointed Prof. Fels as its Fire Services Levy Monitor. In his final quarterly report, the Monitor concluded he was confident "that savings attributable to elimination of FSL have been passed onto consumers".

Average residential total premiums in Melbourne fell 8.1 per cent in 2013-14 compared with 2012-13. Base premiums (premiums before tax is applied) rose over that period, in part due to extensive insurance losses from several natural disasters in Victoria. In the other seven capital cities, average total premiums rise 4 per cent over the same period.

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