

## Impact of Fire Service Levies and other Statutory Charges

*The purpose of this bulletin is to draw your attention to the impact of statutory charges on insurance policies, in particular those policies covering the risks of Fire, ISR and Consequential Loss.*

The insurance industry contributes 77.5% of the annual cost of providing the public fire and emergency services in Victoria and these costs are ultimately levied on all policyholders.

For the 2002/03 year, the levies have been established as follows:

- 34% of basic insurance premium for those clients protected by the Metropolitan Fire & Emergency Services Board (formerly Metropolitan Fire Brigades Board) and
- 55% of basic premium for those clients protected by the Country Fire Authority.

The difference in the size of the levies results from a number of factors including:

- the annual and separate budgets for each service
- the higher value of risks and hence premiums in the MFESB area and
- the smaller concentration of risks in the CFA area.

A significant factor which keeps the CFA levy to its current level is the enormous contribution which CFA volunteers make to their communities at no cost.

In the current year, the levies have in fact reduced from 41% for the MFESB in 2001 and 58% for the CFA. This is not due to a reduction in the cost of maintaining the services but rather a reflection of the anticipated premium increases (and hence levies) over the next twelve months.

To some extent, the insurance industry has been held responsible for the size of these levies and this is unfair criticism. The funding of emergency services is controlled by statute and the Insurance Council of Australia (ICA) recommends the percentage of the levy which insurers need to charge to fulfil their statutory obligation.

In 2001, the ICA commenced a concerted campaign against the charging of these fees however their efforts were hindered by other matters which took priority, such as the HIH Royal Commission, the new APRA regulations, and more recently issues surrounding public liability insurance.

Of particular concern to the insurance industry is the compound effect of taxes on taxes, so to speak. For example, in Victoria, a typical premium calculation on a fire policy with a base (or risk) premium of \$1,000 is:

Base premium (i.e. to cover the risk of fire)	\$1,000
+ Fire Service Levy @ 34%	\$340
+ GST (if applicable) @ 10% x (premium + FSL)	\$134
+ Stamp Duty @ 10% x (premium + FSL + GST)	\$147
<b>TOTAL</b>	<b>\$1,621</b>

If the same insured property were located within country Victoria, the total premium would increase to \$1,875 – a total indirect taxation of 87.5% of premium.

Unfortunately, at this stage, the ICA has been unsuccessful in its attempts to enlist political support to alter the current system. This may be because no political party sees votes being won in this particular debate. At no stage has the ICA suggested that the State's emergency services should not receive full public funding nor that they should be financially curtailed in their activities. Quite the contrary, in fact. The ICA and its members are merely looking for a better distribution of the cost of providing these services.

Catholic Church Insurances has supported the ICA in this program, the main thrust of which has been to seek change to the system of covering this levy. We have been particularly concerned for our Church clients who, for very sound reasons, have always recognised the need to be fully insured, both in respect of all properties being covered and (generally) for their full value.

Catholic Church Insurances has always advocated full insurance. It not only provides maximum protection but in the event of a large claim, the Church has all of the options of how to replace the property open to it. However, this places a significant financial burden on the Church, especially considering the broad geographical spread in both MFESB and CFA zones. This contribution by Church entities could then be compared to those companies and individuals who deliberately under-insure or in fact do not buy insurance at all.

In the event of fire or other emergency, there is a mechanism within the relevant legislation covering these services for a significant charge to be made on

under- or uninsured property owners. However, my experience with the CFA suggests that this does not occur so that service is then provided free of charge or, more correctly, is paid for by those property owners who contribute through their insurance premiums.

The ICA and Catholic Church Insurances have taken this matter up with politicians of both 'persuasions' (as well as independent members) when each of the major political parties was/is in government and in opposition. As stated earlier, while we have had an attentive hearing, no action has ensued – nor is any anticipated before the end of this year.

The insuring community needs to lend its support to our voices by discussing this matter with local ministers and representatives of the political parties and by seeking their acceptance that the current system is inequitable and penalises those who are prudent in their financial affairs. Other funding arrangements are available and are being installed in other States.

If you would like any further information on this matter, please do not hesitate to contact me on (03) 9934 3001.

Yours sincerely,

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