

**FIRE  
SERVICES  
LEVY  
MONITOR**

**Report to the  
Minister for Consumer Affairs**

**March Quarter 2013**

## Letter to Minister

Hon Heidi Victoria  
Minister for Consumer Affairs  
Level 6, 2 Kavanagh Street  
SOUTHBANK VIC 3006

27 April 2013

Dear Minister

I am pleased to present the first quarterly report by the Fire Services Levy Monitor on the performance of the functions of the Monitor in accordance with section 110(1) of the *Fire Services Levy Act 2012* (the Act). The Act came into effect on 19 December 2012. As required by section 110(4) of the Act, this report relates to the period ending 30 March 2013.

I wish to particularly thank the Acting Director and staff of Consumer Affairs Victoria for their assistance in establishing the Office and providing contracted enquiries and complaints handling services to the Office.

Yours sincerely



**PROFESSOR ALLAN FELS AO**

Fire Services Levy Monitor

# Table of Contents

<b>1. BACKGROUND</b>	<b>4</b>
1.1 Introduction	4
1.2 Overview	4
1.3 Current Insurance-based fire services levy	4
1.4 Fire Services Property Levy	5
1.5 The Monitor	5
1.6 Prohibitions	6
<b>2. OPERATIONS OF THE MONITOR</b>	<b>7</b>
2.1 Information provision	8
2.1.1 Media	8
2.1.2 Meetings and visits	9
2.1.3 Website	9
2.1.4 Enquiries and complaints hotline	9
2.1.5 Forums	10
2.1.6 Whole of government	10
2.2 Price monitoring	11
2.2.1 Sources of data	11
2.2.2 Section 18 notices requiring information from insurers	12
2.2.3 Planned section 30 notice	13
2.3 Compliance and enforcement	13
2.3.1 Double charging	14
2.3.2 Unreasonable charging of FSL	14
2.3.3 Communication with policyholders	15
<b>3. TRENDS IN THE MARKETPLACE</b>	<b>15</b>
3.1 Tapering of FSL rates	15
3.2 How insurers are communicating with their customers	18

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## 1. BACKGROUND

### 1.1 Introduction

This is the Fire Services Levy Monitor's first quarterly report to the Minister under Section 110 of the *Fire Services Levy Monitor Act 2012* (the Act). Section 110 requires the Monitor to report to the Minister within 28 days after the end of each quarter on the operation of the Monitor under the Act.

The Act came into effect on 19 December 2012 and the Office of the Fire Services Levy Monitor (the Office) commenced its public-facing operations on 30 January 2013. This report covers the period from 19 December 2012 to 30 March 2013.

This report is in three sections: Background, Operations of the Monitor, and Trends in the Marketplace.

### 1.2 Overview

On 1 July 2013 the Victorian Government will introduce a property-based fire services levy to fund the Metropolitan Fire and Emergency Services Board (MFESB) and the Country Fire Authority (CFA). The new arrangements will replace the existing insurance-based funding model and is estimated to save Victorian households and businesses over \$100 million.<sup>1</sup> The new property-based levy is intended to remove the disincentive for Victorians to adequately insure their properties and ensure a fair contribution to fire services from all property owners.<sup>2</sup>

### 1.3 Current Insurance-based fire services levy

Currently Victoria's fire services are funded largely through contributions made by insurance companies. As provided in Section 37 of the *Metropolitan Fire Brigades Act 1958* and section 77A of the *Country Fire Authority Act 1958*, insurance companies are required to contribute 75 per cent and 77.5 per cent respectively of the statutory contributions to MFESB and CFA annual expenditure respectively.

MFESB and CFA provide the Victorian Government with a proposed estimate of expected expenditure for the coming financial year. The Minister for Police and Emergency Services determines the total statutory contributions and the proportion required from insurance companies is allocated among insurers based on their market share – determined by their annual gross premium income for each specified class of fire insurance for the financial year to which its budget relates.

Insurance companies have historically generally chosen to recoup their contribution costs through a fire services levy (FSL) charged to residential and commercial policyholders in their premiums for insuring property against fire. The FSL is an additional charge to the 'base premium' and is based on applying a percentage rate to the base premium.

Insurance companies have to estimate the FSL rates to be applied to each policy for each financial year well before their exact liability to each fire services authority is determined after the end of that financial year. The Insurance Council of Australia (ICA) provided insurance

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<sup>1</sup> Department of Treasury and Finance, *Fires Services Property Levy Fact Sheet*, sourced at <http://www.dtf.vic.gov.au/firelevy> 24 April 2013.

<sup>2</sup> Department of Treasury and Finance, *Fires Services Property Levy Fact Sheet*, sourced at <http://www.dtf.vic.gov.au/firelevy> 24 April 2013.

companies with 'advisory' FSL rates prior to 2012–13. These were commonly applied by insurance companies. For the 2012–13 financial year, most insurers obtained advice independently from a consulting firm, which had previously worked with the ICA, to determine FSL rates.

Section 2 of this report provides commentary on the rates set by the industry during 2012–13.

#### 1.4 Fire Services Property Levy

As of 1 July 2013 the fire services funding reform will see a new Fire Services Property Levy (FSPL) introduced that will apply to all property in Victoria which will include a fixed and variable component, with the variable component based on the capital improved value of the property. The levy will be collected via local council rates notices and will vary depending on property location and type (for example, residential, commercial, industrial or primary production). The State Revenue Office (SRO) will oversee the collection of the FSPL by local councils.<sup>3</sup>

The FSPL is expected to increase uptake of building and contents insurance, as occurred when Western Australia made a similar transition in 2003. The new funding model will also provide a more transparent source of revenue for the MFESB and CFA.

On 28 August 2012, the Victorian Government introduced fire services levy reforms via the Fire Services Property Levy Bill 2012. It was also announced then that the Victorian Government would establish an independent Fire Services Levy Monitor to oversee the period of transition to new levy arrangements. On 16 October 2012 the *Fire Services Property Levy Act 2012* received assent, passing both houses with minor amendments.

#### 1.5 The Monitor

To support an efficient transition between funding schemes, the Victorian Government appointed a dedicated Fire Services Levy Monitor (the Monitor). The Treasurer stated that the Monitor would be an independent statutory body to directly enforce new consumer protection legislation and monitor prices set by the insurance industry during the transition period. The objective being to ensure insurance companies fully pass on to customers the removal of the statutory contribution and the FSL applied to recoup it.

On 13 November 2012 the Fire Services Levy Monitor Bill 2012 was introduced with the purpose of providing for the establishment, functions and powers of the Fire Services Levy Monitor. The Bill was passed and the *Fire Services Levy Monitor Act 2012* commenced on 19 December 2012.

The second reading speech stipulated that the Office of the Fire Services Levy Monitor will be headed by the Fire Services Levy Monitor and a Deputy Fire Services Levy Monitor. Professor Allan Fels AO was appointed Fire Services Levy Monitor and Dr David Cousins AM as Deputy Fire Services Levy Monitor on 19 December 2012.

The primary focus of the Monitor's role is the abolition of the insurance-based FSL. The Monitor's role is to provide information, advice and guidance to consumers and the insurance industry in relation to their rights and obligations under the Act. The Monitor is also responsible for monitoring insurance premiums and compliance with the Act during the transition from the existing insurance-based scheme to the new property-based scheme. The Monitor receives

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<sup>3</sup> State Revenue Office at <http://www.sro.vic.gov.au/SRO/sronav.nsf/> accessed 24 April 2013

and investigates complaints about the insurance-based scheme and investigates potential breaches of the law.

The Monitor has been appointed to operate during the transition to new levy arrangements until the Act is repealed on 31 December 2014 under its sunset provision.

## 1.6 Prohibitions

The *Fire Services Levy Monitor Act 2012* introduced two new prohibitions:

- a prohibition on insurance companies engaging in 'price exploitation'
- a prohibition on any person engaging in false representations or misleading or deceptive conduct in trade or commerce about the effects or likely effects of the abolition of the insurance-based levy.

### Price exploitation

The fundamental aims of the price exploitation provision of the Act are to prevent insurance companies:

- collecting more through a fire services levy on policyholders than is required to be contributed to the fire services; and
- not passing on to consumers the full reduction in insurance companies' costs from the abolition of the requirement to contribute to funding the fire services, thereby making windfall revenue gains.

### False representations and misleading or deceptive conduct

Section 31 of the Act provides a prohibition on conduct falsely representing, or being misleading or deceiving about, the effect or likely effect of the abolition of the insurance-based levy.

The Monitor interprets Section 31 to be primarily targeted at preventing an insurance company falsely representing, or being misleading about, the effect of abolishing the fire services levy on its fire insurance premiums. The principal effect of the abolition of the levy from 1 July 2013 will be to reduce the total premium payable on most policies of insurance against fire from what it would otherwise have been.<sup>4</sup>

### Penalties

Penalties for contravention of the price exploitation prohibition are consistent with the penalties introduced by the Commonwealth Government into the *Trade Practices Act 1974* in 1999-2000 in respect of a similar prohibition around the introduction of New Tax System changes, including the Goods and Services Tax (GST). Both are civil penalty provisions attracting a maximum penalty of \$10 million for a body corporate and \$500,000 for a natural person in respect of each contravention.

The Monitor can also seek compensation orders on behalf of consumers who have suffered loss or damage as a consequence of a contravention of the legislation. An individual consumer who has suffered loss or damage can also initiate proceedings for compensation in their own right.

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<sup>4</sup> Many insurers are removing the FSL from policies issued or renewed in the latter part of 2012–13

Under the Act, the Monitor has the power to issue guidelines to insurers on compliance with and enforcement of the Act. Guidelines will provide advice to the insurance industry on how to comply with the Act. The Monitor is currently preparing guidelines for the industry and these have been released in draft form in April 2013 for comment by the industry and other interested parties before finalisation and publication in mid-May 2013.

## 2. OPERATIONS OF THE MONITOR

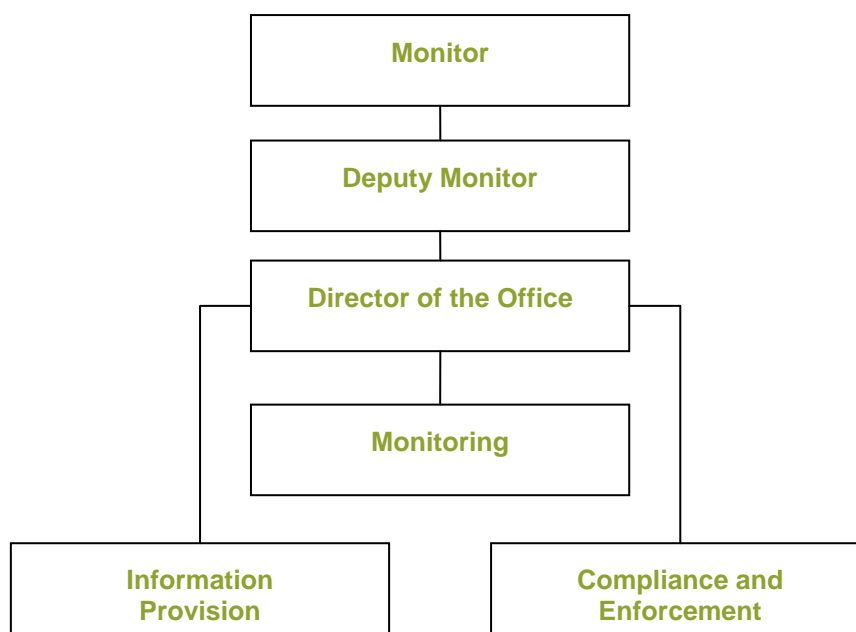
Under section 6 of the Act, the main functions of the Monitor are to:

- provide information, advice and guidance in relation to the abolition of the FSL
- monitor insurance premiums including the insurance-based fire services levy
- monitor the compliance of the insurance industry with the prohibition on price exploitation, false representations or misleading or deceptive conduct
- investigate potential breaches of the law and take enforcement action
- promote effective dispute resolution mechanisms in relation to disputes arising from the abolition of the FSL.

Central to these functions is obtaining information about insurance prices and pricing decisions and providing information to policyholders.

The Office of the Fire Services Levy Monitor (the Office) has been structured to reflect the three key functions of information provision, price monitoring and compliance and enforcement as illustrated in Figure 1.

**Figure 1 – Structure of the Office of the Monitor**



At the end of the March quarter 2013 the full-time resources of the Office comprised a Director, three price monitoring staff, a communications adviser, a compliance and enforcement adviser and an administrative officer. The Monitor's significant enquiries and complaints handling function is performed by staff of Consumer Affairs Victoria under the

oversight of the Monitor. A service level agreement between the two organisations has been developed to facilitate this arrangement.

The focus of the Monitor in the first quarter since the commencement of the Act necessarily has been on establishing the Office, recruiting staff and commencing operations of the main functions. In particular the public-facing functions of information provision and enquiries and complaints handling and the industry-facing function of price monitoring have been priorities of the Office. The Monitor will develop appropriate performance indicators around these functions.

## **2.1 Information provision**

The Monitor's strategy is to ensure policyholders are aware that there are protections in place during the transition to the new property levy system and to encourage policyholders to bring any concerns they may have about fire insurance pricing, including the FSL, to the Monitor through enquiries or complaints. This involves publicising the role of the Monitor and providing public information through a range of sources.

The Office has implemented a comprehensive communication strategy to engage with insurance policyholders and insurers to ensure vital information about the abolition of the levy is available to all Victorians.

A key aspect of this strategy has been informing and educating both policyholders and insurance companies about their rights and obligations in the lead up to implementation of the new levy. This has been achieved through providing information via the media, establishment of a website as a source of information and advice, a dedicated Fire Services Levy Monitor enquiries and complaints 'hotline', as well as engaging directly with insurance companies and insurance industry representatives.

### **2.1.1 Media**

The Office has pursued an active media strategy commencing with the public launch of operations on 30 January 2013. The Monitor held a media conference and issued a media release to officially launch the dedicated hotline and website as well as announce he would be writing to insurers to obtain information about their pricing practices and plans for the removal of the FSL from their prices.

The key message of the launch was that the Monitor is putting insurers on notice that they will be closely scrutinised in relation to their conduct and any action that appears to be a potential breach of the Act will be investigated. The launch was also used as an opportunity to establish the Office in the public domain as a source of information about the abolition of the insurance-based levy.

To ensure the messages of the launch reached the insurance industry, the Monitor also undertook interviews with industry specific publications. The launch was covered widely in metropolitan and regional media in print, radio and television as well as in industry specific mediums.

The Monitor's media activities have proven a key tool for communicating with insurance policyholders. To clarify issues as they arose, the Office responded quickly when matters concerning the levy gained media coverage or were reported inaccurately. For example, the Monitor undertook interviews with radio outlets in response to common misconceptions about



'double charging' of the insurance and property levies in the same year. In addition, relevant online material was published as emerging issues were identified.

### **2.1.2 Meetings and visits**

The Office has met with individual insurers, the Insurance Council of Australia, the fire services and government agencies. These meetings have been an opportunity to gain insight into how the insurance industry is addressing the removal of the levy and for the Monitor to assess the best approach in implementing a formal monitoring process.

The Office has also met with insurance industry advisers and consultants. Each of these meetings has provided an opportunity to gain insights into the views of these stakeholders and inform them of the Monitor's expectations and requirements.

In addition, during their meetings with industry participants, the Monitor and Deputy Monitor have set out their expectation that insurers would be proactive in explaining the reasons for FSL increases in 2012–13 and premium movements in 2013–14, and that insurers should be in a position to manage complaints from their customers effectively and efficiently.

### **2.1.3 Website**

The Monitor established a website, <[www.firelevymonitor.vic.gov.au](http://www.firelevymonitor.vic.gov.au)>, to provide updates about the Monitor's activities, information about the current and new levy schemes, as well as providing a facility for both members of the public and insurers to contact the Office directly.

All information about the Monitor and the transitional levy arrangements is available electronically on the website. As new issues emerge, for example if there is a significant increase in enquiries on a specific topic, new explanatory material is quickly developed and published on the website. The Fire Services Levy Monitor website has received 1,591 visits to date since its launch on 30 January this year.

The FSLM website compliments other government sites containing information about the fire services levy reform, such as those of the Department of Treasury and Finance and the State Revenue Office. To ensure maximum coverage of the site, news articles about the Monitor were published on the Victorian Government and the Department of Justice websites. The Monitor has also used the communication channels of other agencies, such as the Municipal Association of Victoria, to ensure relevant information is distributed to local councils.

To supplement the information on the website, social media has also been used to inform stakeholders and direct traffic back to the website. Given the short lifespan of the Office, the ongoing resources required for maintenance and the fact that related agencies already maintain their own social media presence the Monitor has not yet established a dedicated social media network but rather has used the networks of other relevant agencies. To this end, the Monitor has been tweeted by the Victorian Government, Consumer Affairs Victoria and the Department of Justice.

### **2.1.4 Enquiries and complaints hotline**

To further assist insurance policyholders, a dedicated Fire Services Levy Monitor hotline on 1300 300 635, available from 9am to 5pm Monday to Friday, was established. The hotline is an easily accessible way for people to contact the Office. The Office also has used the information provided via the hotline to inform its monitoring, compliance and enforcement activities.

Staff on the hotline answer enquiries about the levy and insurance premiums, accept complaints about insurers and also refer callers to other relevant agencies that can assist with queries about the new property-based levy, such as local councils and the Department of Treasury and Finance.

The hotline received 578 calls between its launch on 30 January and 30 March 2013. Prior to the launch of the FSLM, calls between September 2012 and 30 January 2013 about the levy were directed to Consumer Affairs Victoria. The total number of calls to the Monitor and Consumer Affairs Victoria regarding the levy since September 2012 is 717.

The dedicated email enquiries inbox, <enquiries@firelevymonitor.vic.gov>, has received 83 emails.

**Table 1 – Mode of contact to Fire Services Levy Monitor**

<b>Mode of contact</b>	<b>Number</b>	<b>Per cent of total</b>
Visits to the website	1,591	70.6
Enquiries via the hotline	578	25.7
Enquiries via email	83	3.7
<b>Total</b>	<b>2,252</b>	<b>100</b>

The two issues that generated the largest number of enquiries to the hotline since 30 January 2013 were policyholders' perceptions that they would be charged a levy twice in the 2013 calendar year (279 enquiries, 48.3 per cent) and increases in FSL rates charged by insurers in 2012–13 compared to 2011–12 (31 enquiries, 5.4 per cent). However, in the period before 30 January 2013, when Consumer Affairs Victoria was taking enquiries and complaints prior to the Office commencing, 108 enquiries (44.1 per cent of the total) were about increases in FSL rates. The fall in complaints since January 2013 about increased FSL rates directly corresponds to the decreasing FSL rates applied by insurance companies in the marketplace.

The issue of perceived double charging is discussed in further detail in Section 2.3 Compliance, and the issue of increases in FSL rates in 2012–13 is discussed further in Section 3.1.

### **2.1.5 Forums**

Representatives from the Fire Services Levy Monitor attended a briefing of regional media representatives in Geelong on Wednesday 13 March 2013. Dr David Cousins, Deputy Monitor, represented the Office at the Forum. This provided a valuable opportunity to explain the Monitor's role and the Office's functions to media outlets from across Victoria.

### **2.1.6 Whole of government**

The Office is a member of a communications group, chaired by the Department of Premier and Cabinet. This group is coordinating state-wide communications around the new fire services levy reforms.

The Office also participates in the Fire Services Property Levy Implementation Group chaired by the Department of Treasury and Finance. This committee is responsible for overseeing arrangements for the implementation of the new levy.

## **2.2 Price monitoring**

Under section 6 of the Act, the functions of the Monitor include monitoring prices of insurance premiums and the industry's compliance with the prohibitions on price exploitation and false representation or misleading or deceptive conduct regarding the abolition of the FSL.

Section 30 of the Act allows the Monitor to monitor prices to assess the general effect of the fire services levy reform on prices charged by insurance companies for regulated contracts of insurance – and/or to assist in consideration of whether false representation or misleading or deceptive conduct has occurred.

The Office is establishing an extensive price monitoring program, drawing on a range of sources of information about price changes and price behaviour to gain a comprehensive understanding of insurance pricing and levy arrangements.

The data obtained via monitoring will enable the Office to assess price changes and determine whether further investigation of particular pricing conduct by insurers is required. The Monitor intends to stop offending behaviour if it occurs and will instigate court action or take other enforcement action as appropriate.

### **2.2.1 Sources of data**

The Office has a variety of sources and methods for gathering pricing information used in monitoring. These include:

- using the powers under the Act to request specific data from insurers
- meetings with insurance companies
- data from the fire services regarding the statutory contributions by insurers
- obtaining quotes from insurers' internet websites
- insurance industry consultants
- environmental scanning.

In addition, the Office is liaising with the Australian Prudential Regulation Authority (APRA) to access insurance company information lodged with the Authority.

The information gathered from this diverse range of sources will provide a baseline for the Office to evaluate price movements and possible breaches of the Act during 2013 and 2014.

In addition, complaints from policyholders through the Monitor's hotline and website are a highly valuable source of monitoring data and contribute to the information gathered on insurance pricing and communications.

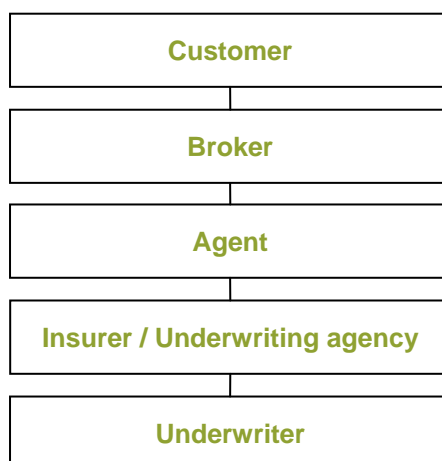
The Office also has examined company ownership to assist monitoring. Companies owned by the same 'parent' company are likely to take similar strategies in dealing with the abolition of the FSL transition on 1 July 2013.

The Office has undertaken mapping of insurance companies that are issuing fire insurance related policies in the 2012–13 financial year. Mapping the entities involved in any one

insurance policy also assists in informing who is ultimately responsible for setting the FSL rate and premiums on that policy and who should be contacted when complaints are made.

Figure 2 depicts the different entities that may be involved in the supply of fire insurance and influence an insurance policy.

**Figure 2 – Insurance supply chain**



### **2.2.2 Section 18 notices requiring information from insurers**

In early March 2013, the Monitor sent a notice under section 18 of the Act to every insurance company and broker that provided a levy return to the MFESB and/or CFA in 2011–12 and 2012–13. The notices were sent out in three tranches over a two-week period, as indicated in Table 2.

The aim of the notice was to obtain information about how insurers were intending to remove the fire services levy from premiums after 30 June 2013. The notice required the production of various documents relating to the FSL and the levy amounts paid to the insurance companies and the agents of Lloyd’s underwriters.

**Table 2 – Section 18 notices to insurance companies**

<b>Tranche</b>	<b>Date sent</b>	<b>Date due</b>
1	4 March 2013	27 March 2013
2	6 March 2013	2 April 2013
3	13 March 2013	5 April 2013

Among the topic areas covered by the Notice were:

- the amount of base premium received for insurance against fire
- detailed analysis of the contributions paid to the fire services
- the manner in which the fire services levy was recovered
- how the amount of fire services levy was determined
- how the fire services levy reform was communicated to customers
- whether any external advice was received to assist in determining the amount of fire services levy charged
- the rates of fire services levy applied to policies
- whether the insurer had mechanisms to ensure the fire services levy was removed from premiums from 1 July 2013
- recent changes in the number of policies issued policy.

Responses to the notice from the first tranche, consisting of eleven major insurance companies, were received on 27 March. Some preliminary analysis of the information is reflected in this report. The balance of responses were due in early April, and the Monitor's report for the June quarter 2013 will contain a full analysis of the information provided.

### **2.2.3 Planned section 30 notice**

In addition to the section 18 notice sent to all insurers, the Monitor intends in the coming quarter to use the power under section 30 of the Act to request specific pricing information from the insurance companies. Section 30 provides for the Monitor to require the provision of information relating to prices or the setting of prices that the Monitor considers will or may be useful in monitoring prices.

Insurers will be required to provide data to the Monitor on a monthly basis to allow for the tracking of changes in the fire services levy and premiums.

The Monitor expects to see the fire services levy component of all insurance premiums decline to nil from 1 July 2013. From data already obtained, it appears a number of insurers have already adapted their levy arrangements in the lead up to the transition, and some have removed the levy entirely from premiums. This is discussed in more detail in Section 3.1.

## **2.3 Compliance and enforcement**

The Monitor has contracted Consumer Affairs Victoria to provide services in relation to complaint and enquiry handling with policyholders. Telephone and email enquiries are handled by a team of specialist trained enquiries staff, assessed and forwarded either to a conciliator or to the Office for further investigation. Investigations are undertaken by dedicated Monitor office staff.

In the March quarter, 565 cases from enquiries and complaints were lodged with the Monitor. Complaints were received on several topics pertaining to the insurance-based levy. The most common were:

- alleged 'double charging' of a levy (58.1 per cent of the total)
- large increases in FSL rates in early 2012–13 (9.2 per cent of the total).

An additional 30 per cent of cases involved a more general enquiry or expression of dissatisfaction with an insurer and were resolved in the course of the initial call.

### **2.3.1 Double charging**

During the quarter the Monitor received calls from insurance policyholders concerned that they would be charged twice for the levy or 'double charged'. Policyholders were concerned that they were being charged an insurance levy early in 2013, and would also be required to pay the new property levy through council rates later in 2013. There was a misconception that doing so would mean policyholders would be paying the levy twice for the same period.

These enquiries/complaints were dealt with by explaining to policyholders that the period the FSL is paid for and the period of insurance cover were different periods, even if both components were paid at the same time. The levy relates to the financial year it is paid in. In the case of a policy renewal premium paid in January 2013, the FSL amount goes to meeting the insurer's contribution to the fire services for 2012–13 financial year, but the insurance period is January 2013 to January 2014.

The new property levy (FSPL) will become payable from September 2013 (if a property owner is paying in instalments) and all FSPL payments made from local council rates notices issued in August 2013 will go to funding the fire services in the 2013–14 financial year.

While there will be instances where people pay both the FSL and the FSPL within the 2013 calendar year, these payments will relate to different financial years. No person should pay a levy contributing to the fire services twice for the same financial year. Policyholders will pay the insurance-based levy once for 2012–13 and will then pay the new property-based levy for the 2013–14 financial year. Double charging by an insurance company would occur if an insurance company failed to remove the levy from fire insurance premiums from 1 July 2013 (and this would constitute price exploitation in the terms of the Act).

In order to clarify public perceptions about the double charging issue the Monitor undertook a number of media interviews in February 2013. Additional content was published on the Monitor's website, including an explanatory diagram of the charging of the FSL and FSPL, and further resources were provided for enquiries staff to use to explain the way the levy is charged.

The Office is currently examining the charging of the levy by insurers during 2012–13. The Monitor notes that an insurer is liable to the Government for the full 12 months of contribution from a fire insurance premium, regardless of how late in the financial year the premium is paid – for example, even for a premium paid in June 2013. Insurers should not, however, recover in total more than the amount required to meet their obligations.

### **2.3.2 Unreasonable charging of FSL**

An unreasonable charge of the FSL component of the price for fire insurance could constitute price exploitation, which is prohibited under Section 26 of the Act. The then Minister for

Consumer Affairs stated in his *Second Reading Speech* on the Fire Services Levy Monitor Bill on 14 November 2012:

*The prohibition on price exploitation ensures that insurance companies do not charge an unreasonably high price for insurance having particular regard to the fire services levy reforms. Price exploitation may occur where an insurance company does not pass on to consumers the full reduction in cost from the abolition of the insurance based levy or seeks to recover more in fire services levy from policy-holders than the insurance company is required to remit to the government.* [The Hon Michael O'Brien, 14 November 2012]

For this reason, the Monitor is closely monitoring base premiums and FSL rates and thoroughly investigates significant price increases. The Monitor has received a number of complaints from policyholders who renewed policies during the first half of 2012–13 and incurred significant increases in their FSL compared to their previous year's insurance policy. To date, the Monitor has written to eight insurance companies requesting explanation for large increases in FSL rates based on a sample of these complaints. Investigations into the charging of high FSL rates in 2012–13 were not completed at the end of the March quarter.

### **2.3.3 Communication with policyholders**

Ensuring that insurers communicate accurately and clearly with policyholders is a priority for the Monitor. The Act prohibits conduct by any person in trade or commerce which:

- falsely represents (whether expressly or implied) the effect, or likely effect, of the fire services levy reform; or
- misleads or deceives, or is likely to mislead or deceive, any person about the effect or likely effect, of the fire services levy reform.

The Monitor has received a handful of complaints concerning cases of potentially misleading statements, apparently made by insurers or their representatives, which are currently being investigated.

Another aspect of the Monitor's enforcement strategy is to publicise the outcomes of actions it takes. The risk of adverse publicity should be a major deterrent for any insurer to engage in unlawful conduct. Along with other enforcement mechanisms available under the Act, the Monitor may issue public warning statements if satisfied that it is in the public interest to do so (Section 106). These statements may identify persons who engage in price exploitation and prohibited conduct.

Further discussion of communication with policyholders can be found in Section 3.2.

## **3. TRENDS IN THE MARKETPLACE**

There are 83 insurance companies and brokers currently contributing to the funding of Victoria's fire services. The insurers have generally adopted similar practices in recouping their required contribution from policyholders via a fire services levy, although the percentage rates of fire services levy applied to base premiums differ among companies at any given time.

### **3.1 Tapering of FSL rates**

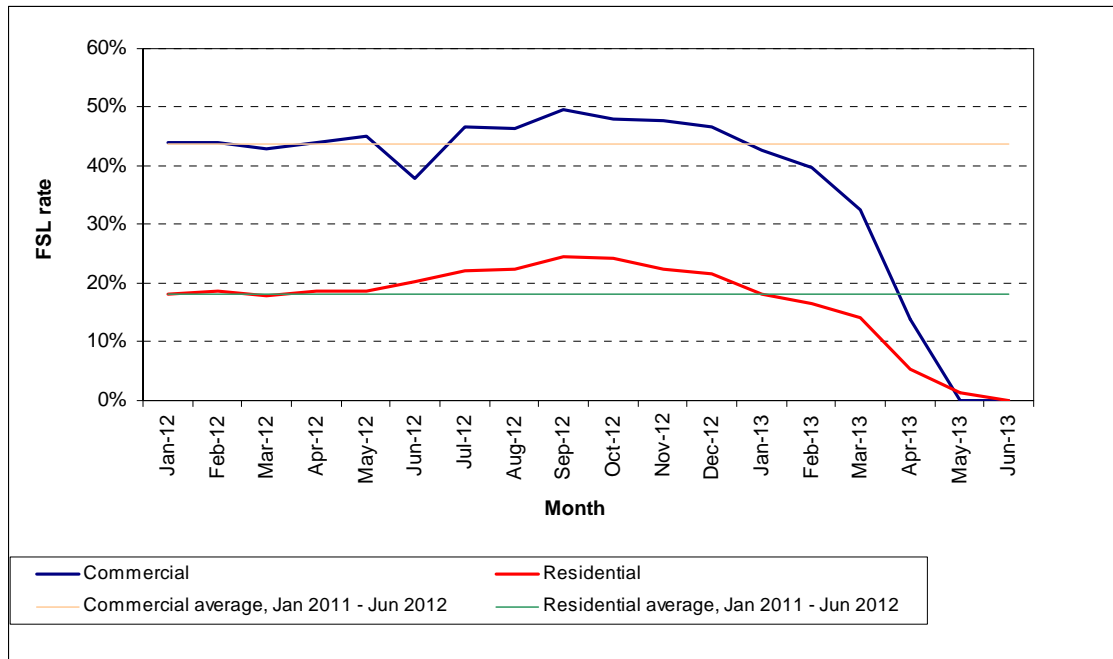
Tapering of FSL rates (sometimes referred to as 'front-loading' FSL collection) is a pricing strategy being used by most insurance companies to ensure that their total premium (including

FSL) amounts in the period immediately leading up to 30 June 2013 are comparable to the FSL-free premiums for policies that will be issued from 1 July 2013.

In order to offer these lower prices in the latter months of the 2012–13 financial year, and still charge levy policyholders for the full amount to meet their liability to the fire services, insurance companies raised their FSL rates in the early months of the 2012–13 financial year.

This is apparent from Figures 3 and 4 which show FSL rates for commercial and residential fire insurance for the MFESB and the CFA regions respectively.

**Figure 3 – FSL commercial and residential rates, MFESB region January 2012–July 2013**



**Figure 4 – FSL commercial and residential rates, CFA region January 2012–July 2013**

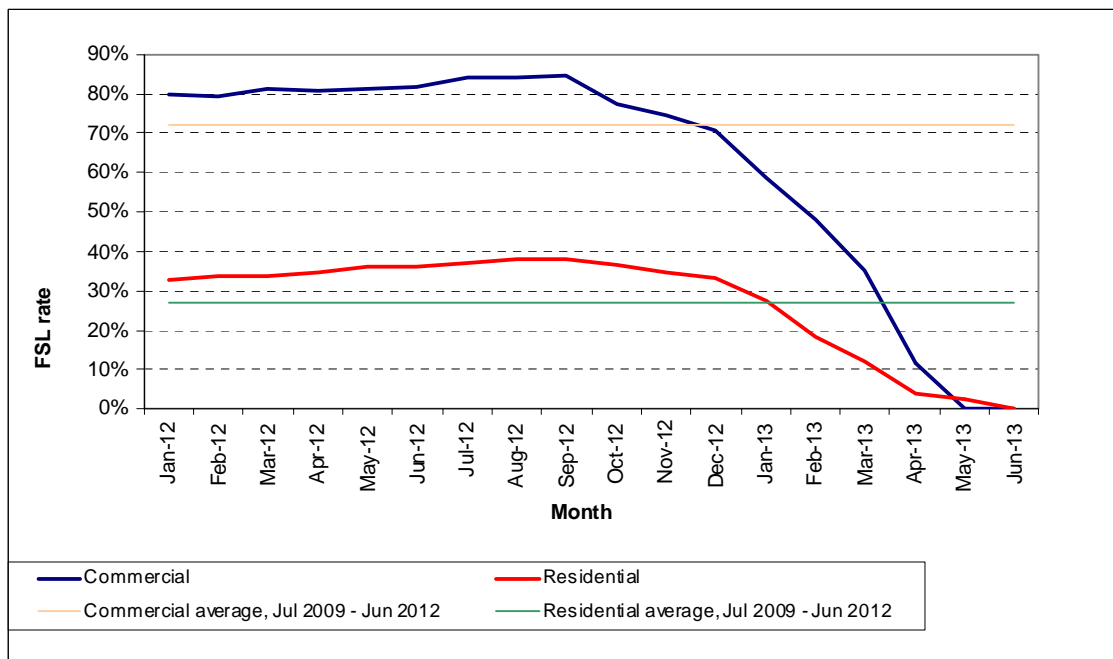
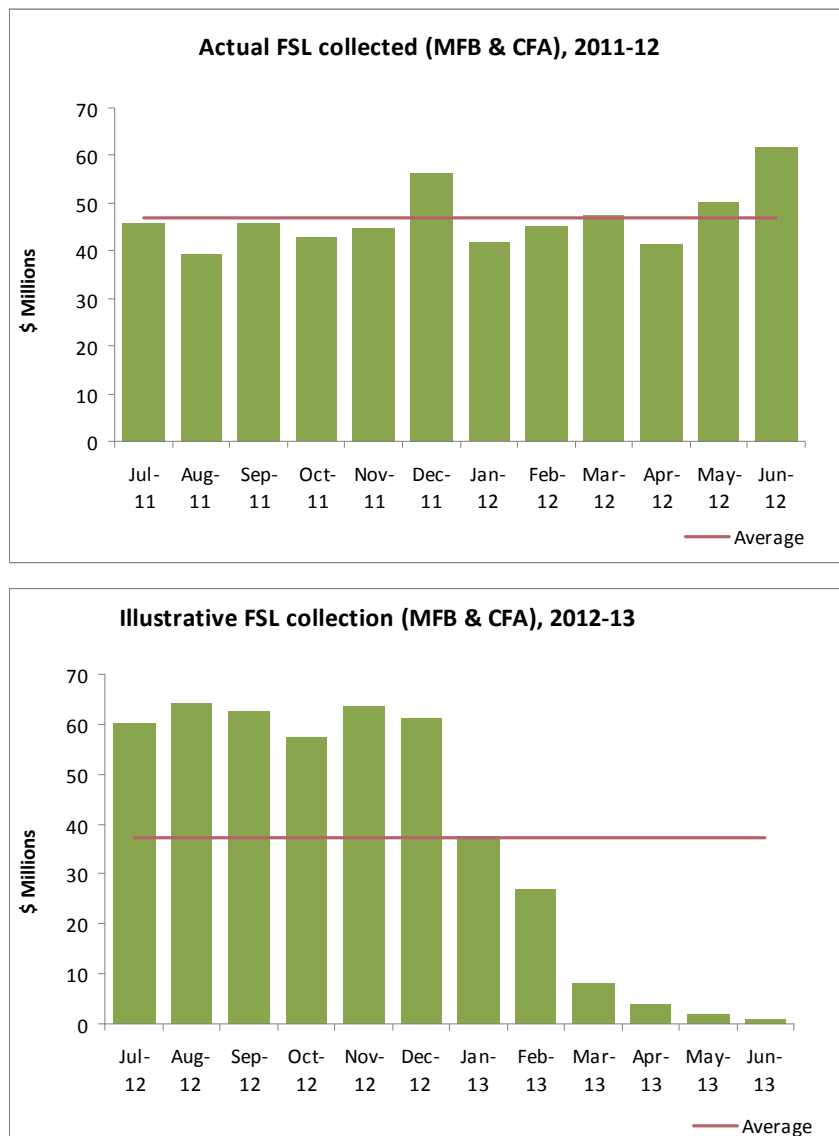




Figure 5 compares the tapering strategy in 2012–13 to the more even approach to collection observed in the previous financial year. The front loading of the collection of FSL is clearly apparent from the second of the two graphs in Figure 5.

A preliminary observation is that, in light of the lesser total funding requirements for the MFB and CFA in 2012–13 compared to 2011–12, it is unlikely that any individual insurer would have been required to collect significantly more FSL in 2012–13 than in the year before. Consequently, taking into account the regular annual growth in premium base, even holding their FSL rates consistent with the previous financial year would have resulted in the total collection exceeding the liability to pay the fire services. The rationale for the companies adopting the tapering strategy largely seems to have been based on a concern, if FSL rates were consistent across the year, that those renewing policies later in 2012–13 would choose to go uninsured for the remaining period until 1 July 2013 to avoid paying the FSL.

**Figure 5 – Illustration of front loading FSL collection**



Note: These graphs present the results of the preliminary analysis of data obtained from the s.18 notices. They do not reflect the total market given that not all responses had been obtained by 30 March and some responses were unable to provide monthly data. Data for April, May and June 2013 were estimated based on the announced future FSL rates.

In addition to this, a number of insurers removed FSL completely on policies from as early as February 2013, indicating that they had already collected what they estimated to be their full years' contribution requirement. This suggests that their early FSL rate increases could have been smaller while still allowing a tapering of their FSL rates to zero per cent by the end of the financial year. Tables 3 and 4 show that these early drops in FSL rates are occurring across the market, with many insurance companies announcing their future rate drops to the end of the 2012–13 financial year. The firms used to calculate these figures represent approximately 65 per cent of the market.

**Table 3– Approximate average market FSL rate for residential insurance policies (weighted by market share)**

<b>2013 Residential</b>	<b>MFB</b>	<b>CFA</b>
January	17.98%	23.8%
February	17.95%	11.25%
March	14.25%	10.30%
April	5.24%	4.13%
May	2.37%	2.23%
June	0.00%	0.00%

**Table 4– Approximate average market FSL rate for commercial insurance policies (weighted by market share)**

<b>2013 Commercial</b>	<b>MFB</b>	<b>CFA</b>
January	39.39%	46.20%
February	35.06%	32.83%
March	25.37%	26.97%
April	13.93%	11.65%
May	0.00%	0.00%
June	0.00%	0.00%

## **3.2 How insurers are communicating with their customers**

### **Communicating changes to the levy arrangements**

The Monitor considers that insurers' communications with policyholders so far in 2012–13 about the changes to the fire services levy generally have been limited and inadequate. This conclusion is based on extensive review of companies' websites, Product Disclosure Statements (PDSs) and Supplementary Product Disclosure Statements (SPDSs) and information provided by complainants. A significant proportion of policyholders, particularly in the CFA region, were charged increased FSL rates on their policy renewals in 2012–13 without explanation.

For the first half of the 2012–13 financial year, communication from insurance companies to policyholders (or potential new policyholders) in relation to the upcoming FSL changes was minimal. Many companies explained what the FSL is in a document equivalent to a Financial Services Guide. However, only 12 insurance companies or brokers required to provide funding contributions to the MFB and/or CFA for the current financial year were identified to have communicated the forthcoming levy arrangement changes, and/or their response to the changes, on their website.

Where information about the change in levy arrangements was available, it was often placed in lengthy PDS's and was therefore not readily observable.

Some companies stated that they would not refund any FSL portion of a premium paid by the policyholder in the event that they cancelled their policy, for a policy issued on or after 1 August 2012. Wording to this effect was found on many of the websites of the larger companies. The Monitor has concerns about this practice and will address the issue of refunds on cancelled policies in the forthcoming guidelines on false representations or misleading or deceptive conduct.

The Monitor has, however, observed a few instances where an insurer overturned a 'no refund' decision after a policyholder complained about the company's position. There have been other instances where policyholders have, on advice from the Monitor, contacted their insurer and successfully resolved their issues with the levy.

#### **Complaint case**

In March, a policyholder in the CFA region contacted the Monitor's enquiries and complaints hotline after receiving an insurance bill with a levy amount calculated as 44.29 per cent of the base premium. In the same policy for the previous year, the levy amount was 30.67 per cent.

The Monitor's staff advised the policyholder that the contributions required by insurers to fund the CFA had actually decreased by 22.5 per cent from 2011–12 to 2012–13 and, accordingly, the FSL rate prima facie should go down, not up.

On advice from the Monitor, the policyholder contacted the insurer to complain about the increase at which point the insurer provided the policyholder with a credit equal to the FSL amount for their 2012–13 policy.

These instances suggest a pattern that when a policyholder persists in querying an increase in the levy amount, some insurers responded with some flexibility by reducing or waiving the levy amount.

#### **Communicating FSL rate changes**

A survey of publicly available material including annual reports and product disclosure statements found that prior to December 2012, only a very limited number of insurance companies had announced quantitative figures for their FSL pricing strategy for the 2012–13 financial year. This is likely explained by the fact that many insurers were either increasing or holding rates at an above average level in this period under the tapering strategy, as previously described.

Rate changes that have been communicated to policyholders and the public are largely decreases. With rates beginning to fall more frequently during calendar 2013 (as many as three rate cuts in two months), the public communication by insurers has increased.