

**FIRE
SERVICES
LEVY
MONITOR**

**Report to the
Minister for Consumer Affairs**

March Quarter 2014

CD/14/68183

Letter to Minister



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Ref: CD/14/155619

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

Dear Minister

I am pleased to present my report for the March quarter 2014 on the performance of the functions of the Monitor in accordance with section 110(1) of the *Fire Services Levy Monitor Act 2012* (the Act). As required by section 110(4) of the Act, this report relates to the quarter ending 31 March 2014.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Allan Fels'.

Professor Allan Fels AO
Fire Services Levy Monitor

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Overview

During the March quarter 2014, the focus of activities was to ensure continuing insurance industry compliance with the legislative framework for the protection of insurance consumers in the abolition of the insurance-based fire services levy (FSL).

A substantial investigation of the pricing practices of Insurance Manufacturers of Australia Pty Limited (IMA) around the abolition of the FSL was completed in the quarter. On 17 January 2014, the Monitor accepted an enforceable undertaking from IMA in relation to RACV Insurance branded residential building policies. These policies were subject to an increase in 'base premium' of 11 per cent in June 2013, which followed two significant increases earlier in 2013.

IMA, as the underwriter of RACV Insurance policies, has undertaken to refund in full the 11 per cent increase implemented in June 2013, as well as the additional GST and stamp duty attributable to the increase, to all policyholders who renewed a home buildings policy between 24 June and 31 December 2013. Approximately 206,000 policyholders will receive refund payments totalling \$11.3 million from IMA during the June quarter 2014. IMA also is providing additional information to its policyholders whose renewals fall in the first half of 2014, so they can better understand the difference in the cost of the base premium component of the price for their policy between this year and the previous year.

Investigations continue into two insurers and eight brokers in relation to allegations of charging FSL after the statutory abolition date of 1 July 2013. While the number of policies that are so far known to be affected is not significant in the context of the total number of property insurance policies in Victoria, the fact of any charging of FSL after 1 July 2013 warrants thorough investigation and appropriate enforcement action if contraventions of the law are found.

In January 2014, a process was begun to resolve the over-collection of FSL by insurers. Approximately \$12.7 million FSL in total, representing 2.3 per cent of the insurers' total contributions to fire services, was found to have been over-collected by 57 insurers and intermediaries for the financial year 2012–13. Over-collection of FSL occurred as insurers collected more from policyholders than they were ultimately required to contribute to the fire services. The exact amount to be contributed to the fire services was not known by insurers until October 2013. The estimation uncertainty involved could result in the FSL amount collected from policyholders either exceeding, or falling short of, the exact contribution required. The policy of 'tapering' FSL rates in 2012–13 adopted by most insurers could have contributed to the extent of over-collection.

The potential for over-collection was raised in the May 2013 guidelines to insurers on compliance with the *Fire Services Levy Act 2012* (the Act). The key principle in resolving over-collection of FSL is to refund the excess FSL paid by policyholders to those policyholders, where practicable. Guidelines were issued to insurers for the resolution of over-collected FSL and guidance notes on the required verification of resolution arrangements in March 2014. Insurers (or intermediaries as relevant) that over-collected are being dealt with on an individual basis within the common framework of the guidelines. There has been a cooperative response from the industry generally. Consequently, it is anticipated that the vast majority of the total FSL over-collection will be resolved by the end of the June quarter 2014.

Enquiries and complaints and website visits continued to decline substantially in the March quarter 2014 compared to previous quarters reflecting the finding in the December quarter 2013 report that on the whole premiums had fallen as expected on removal of the FSL. Enquiries and complaints in

the March quarter 2014 were down 46 per cent from the December quarter 2013 and 85 per cent from the peak of the September quarter 2013. Similarly, total visits to the FSLM website in the March quarter 2014 were down 44 per cent and 72 per cent respectively over the same quarters. Calls to the FSLM enquiries 1300 line in March 2014 were the fewest of any month since the commencement of the line on 30 January 2013.

Monitoring of insurers' prices in the March quarter 2014 continued to show only moderate movements in base premiums for residential property insurance, broadly in line with the experience of recent years and expectations taking into account the abolition of the FSL. Some variance appeared in the sampled prices in relation to two insurers who incorporated cover for flood damage for the first time, but further investigation in relation to these premium movements was not warranted at that stage.

As noted in the reports for the September and December quarters 2013, a study has been conducted of property-specific factors, particularly flood and bushfire perils, in the pricing of property insurance in Victoria over the fire services levy reform transition. This was initiated following complaints about large increases in base premiums for policies in the Country Fire Authority (CFA) region around the time of the abolition of the FSL. These increases appeared to be larger than observed increases in premiums at the same time for policies in the Metropolitan Fire and Emergency Services Board (MFB) region. Responses by insurers to initial enquiries suggested that differences were largely attributable to the effects of particular pricing factors, such as bushfire, flood and reinsurance costs, applied at the property-specific level.

The objective of the study was to better understand the factors that may influence the premium movements that were identified through monitoring and complaints. The detail of explanations of pricing for these factors from the major insurers surveyed was markedly variable. Indeed, variability in both approaches to pricing natural perils and willingness to provide explanations was the main feature of insurers' responses. On the whole, insurers' explanations in responses reflect the observed practice that many insurers tend to provide minimal explanations to their residential policyholders who seek information on why their premiums have increased.

The study did not raise concerns of compliance with the *Fire Services Levy Monitor Act 2012* in regard to insurers' pricing. However, it did highlight the lack of information residential policyholders receive about how their particular premiums are set and how their insurers' assessments of the natural perils may quite significantly affect their premiums.

While the observation in the December quarter 2013 report that 'insurers on the whole continue to pass on the benefit of the fire services levy reform to policyholders' remains appropriate for the March quarter 2014, the timely resolution of FSL over-collection consistent with the issued guidelines is a key challenge in the June quarter 2014. Close monitoring of property insurance premiums on the 'post-FSL' environment is a continuing task in the June quarter and until the end of 2014.

1. Introduction

This quarterly report to the Minister for Consumer Affairs under section 110 of the *Fire Services Levy Monitor Act 2012* (the Act) covers the period from 1 January 2014 to 31 March 2014.

The role of the Fire Services Levy Monitor (FSLM) is to ensure that household and business property insurance policyholders benefit from the abolition of the insurance-based fire services levy (FSL) from 1 July 2013 by ensuring removal of the levy from insurance premiums.

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

- provide information, advice and guidance to consumers and insurance companies in relation to the abolition of the FSL;
- monitor insurance premiums, including the FSL component of premiums;
- monitor compliance of the insurance industry with the legislative prohibitions on price exploitation and false representations or misleading or deceptive conduct; and
- investigate potential contraventions of the law and take appropriate action.

These functions have been distilled into three broad categories:

1. information, guidance & advice;
2. price monitoring; and
3. compliance and enforcement.

This report is structured as follows:

- Section 2 outlines the provision of information to consumers through media, advertising, website and enquiries handling activities;
- Section 3 reports on the monitoring of insurers' pricing and conduct;
- Section 4 reports on compliance and enforcement activities; and
- Section 5 provides analysis of developments in premiums during the March quarter 2014 and the year ending 31 March 2014.

2. Information provision

A key function under the Act is to inform and educate policyholders and insurance companies about their rights and obligations with regard to the abolition of the FSL. This is achieved by providing information directly to policyholders and insurance companies, and through the FSLM website, the media and a dedicated enquiries and complaints line (1300 300 635). There is ongoing contact and consultation with the insurance industry and queries from individual insurance companies are answered. This section provides details of media and advertising activity, website visits and enquiry calls.

2.1 Media and advertising

Media and public relations activities continued in the March quarter. Issues included publication in January of the details of an enforceable undertaking refunding more than \$11 million to policyholders of a major insurance company and the release of the December quarter 2013 report, which confirmed that on the whole, insurers were passing on the benefit of the fire services levy reform to policyholders.

2.1.1 Media activity

IMA undertaking

On 16 January 2014 the FSLM entered into an enforceable undertaking with Insurance Manufacturers of Australia Pty Ltd (IMA) to refund \$11.3 million to 206,000 RACV Insurance customers.

The undertaking followed monitoring and investigations into the pricing practices of IMA, which increased its base building premiums by 11 per cent in June 2013, following two significant increases earlier in 2013. A key finding of the investigation was that the impact of the base premium increases was to offset the effect of the removal of FSL so that total building premiums, on average, actually rose, contrary to the expected outcome from the abolition of the FSL.

A media statement was issued on 17 January 2014 that resulted in mainstream metropolitan media coverage.

December quarter report

The report for the December quarter 2013 detailed evidence that home insurance policy total premiums had fallen widely during the period covering the removal of the FSL. A media release was issued on 10 February upon publication of the December Quarterly report, detailing Consumer Price Index data obtained from the Australian Bureau of Statistics which indicated that Melbourne premiums fell by almost 11 per cent during January to September 2013, compared to an average rise of 4.5 per cent in the same period for all other Australian capital cities.

The data indicated that insurance companies generally had done the right thing by consumers following the removal of the FSL from premiums by statute on 1 July 2013. The report also highlighted that complaints and enquiries to the FSLM had declined from the previous quarter.

Over-collection of FSL

On 7 March 2014 guidelines for insurers to resolve over-collection of FSL were published. 'Over-collection' of the insurance-based FSL occurred where the amount of FSL an insurer obtained from property insurance policyholders in 2012–13 exceeded the amount the insurer was required by law to contribute to funding the fire services for 2012–13.

Over-collection occurred because insurers had to estimate the amount of FSL they were required to collect from policyholders for the financial year 2012–13. The exact amount of FSL to be paid to the fire services was not known until October 2013. The uncertainty meant that the FSL amount collected from policyholders could either exceed, or fall short of, the exact contribution required. The potential for both over-collection and under-collection has always existed. The policy of 'tapering' FSL rates in 2012-13 adopted by most insurers could have contributed to the extent of over-collection. The application of the guidelines confirmed a net over-collection of FSL of about \$12.7 million by 57 insurers and intermediaries.

The guidelines set out a coherent and consistent approach to resolution of over-collection across the whole of the insurance industry. They were developed after consultation with all individual insurers and the industry association (the Insurance Council of Australia). Insurers generally – with one exception – are cooperating to resolve over-collections within the approach outlined in the guidelines.

A media release was issued on 7 March 2014 on the guidelines, and the issue received some attention in the press in the week commencing 24 March. Following media coverage of the issue, FAQs were published on over-collection on the FSLM website.

2.1.2 Website

The website <www.firelevymonitor.vic.gov.au> continues to provide information to policyholders and insurance companies about the abolition of the FSL, the role of the FSLM and updates about activities. It complements the Fire Services Property Levy (FSPL) website <www.firelevy.vic.gov.au>, the FSPL having replaced the insurance-based levy.

The FSLM website had 3,268 visitors during the March quarter 2014, with 2,544 of these being first time (unique) visitors. This reduced level of contacts continues the trend, evident in the December quarter 2013, away from the high point of the September quarter 2013, down to visitation levels approximating the March quarter 2013. This suggests that the community generally, and policyholders in particular, are becoming increasingly familiar with the intent of the fire services levy reform and have fewer concerns about its impact. Data on visits to the FSLM website are provided in Table 1 and Table 2.

Table 1 FSLM all website visits – March 2013 to March 2014

Measure	March quarter 2013	June quarter	September quarter	December quarter	March quarter 2014	Total
Total visits	3,158	8,079	11,482	5,813	3,268	31,800
Per cent of total	9.9	25.4	36.1	18.3	10.3	100

Source: Office of the Fire Services Levy Monitor and Google Analytics.

Table 2 FSLM unique website visits – March 2013 to March 2014

Measure	March quarter 2013	June quarter	September quarter	December quarter	March quarter 2014	Total
Unique visits	2,302	5,628	7,865	4,415	2,544	21,502*
Per cent of total**	10.7	26.2	36.6	20.5	11.8	100

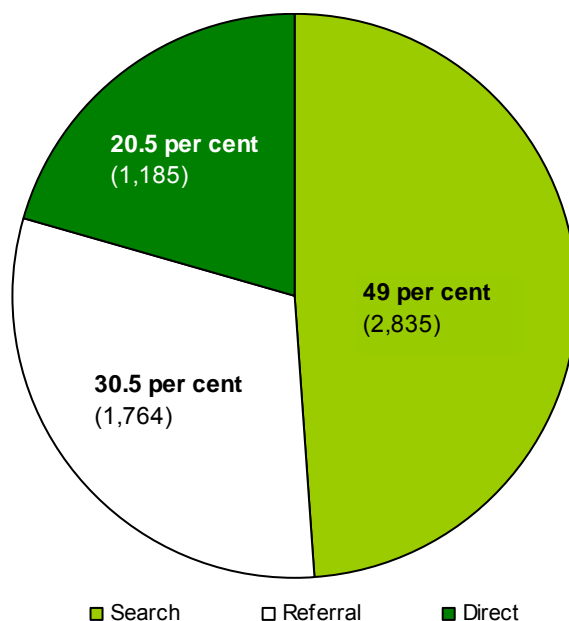
* 21,502 is the total number of unique visits to the website for the period of March 2013 to March 2014, not a cumulative total of the unique visits for the individual quarters.

** The individual quarter percentages have been calculated using the unique total visits of 21,502; however the percentages will not equal 100 due to the total being representative of the unique visits from March 2013 to March 2014 and not a cumulative total of the individual quarters.

Source: Office of the Fire Services Levy Monitor and Google Analytics.

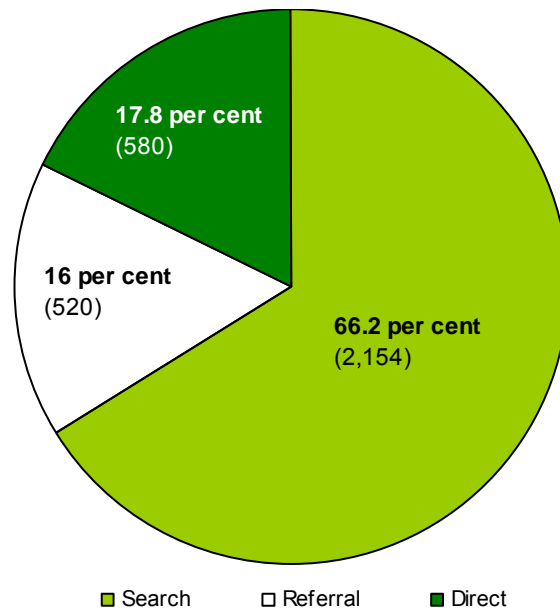
Other government agencies also host information about the FSLM, including Consumer Affairs Victoria, <www.consumer.vic.gov.au> and the Victorian Government's generic website, <www.vic.gov.au>. Links to the FSLM website from other sites provide additional opportunities for consumers and policyholders to acquire information about the fire services levy reform. These 'referral' visits represented 20.5 per cent of traffic to the FSLM website in the December quarter 2013, compared with 17.8 per cent in the March quarter 2014 as shown in Figure 1 and Figure 2. The majority of website visits originate through consumers and policyholders using a search engine: 66.2 per cent in the March quarter 2014 and 49 per cent in the December quarter 2013.

Figure 1 Website traffic sources overview – December quarter 2013



Source: Office of the Fire Services Levy Monitor and Google Analytics – sources comprising less than 1 per cent of visits not shown.

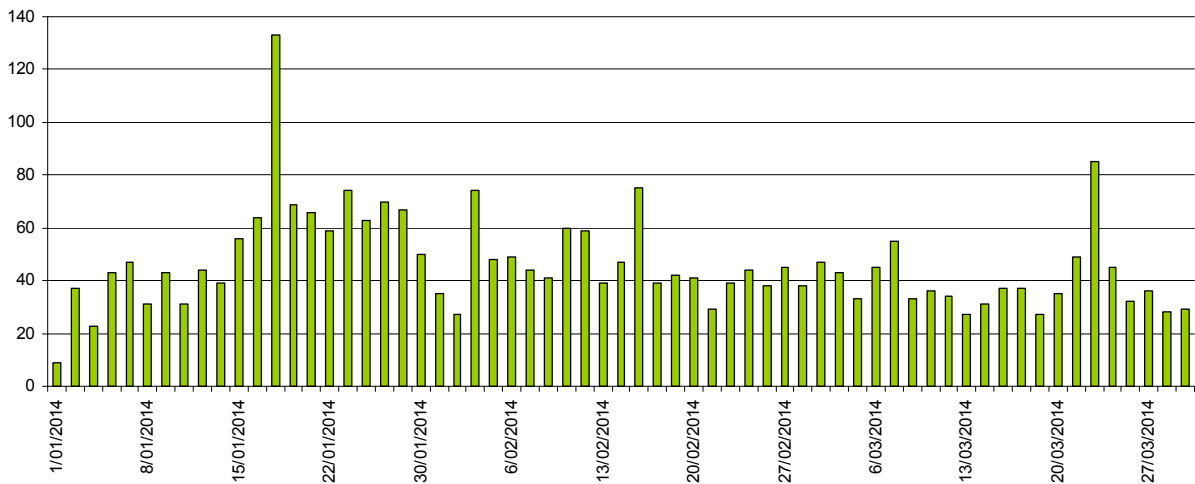
Figure 2 Website traffic sources overview – March quarter 2014



Source: Office of the Fire Services Levy Monitor and Google Analytics. Sources comprising less than 1 per cent of visits not shown.

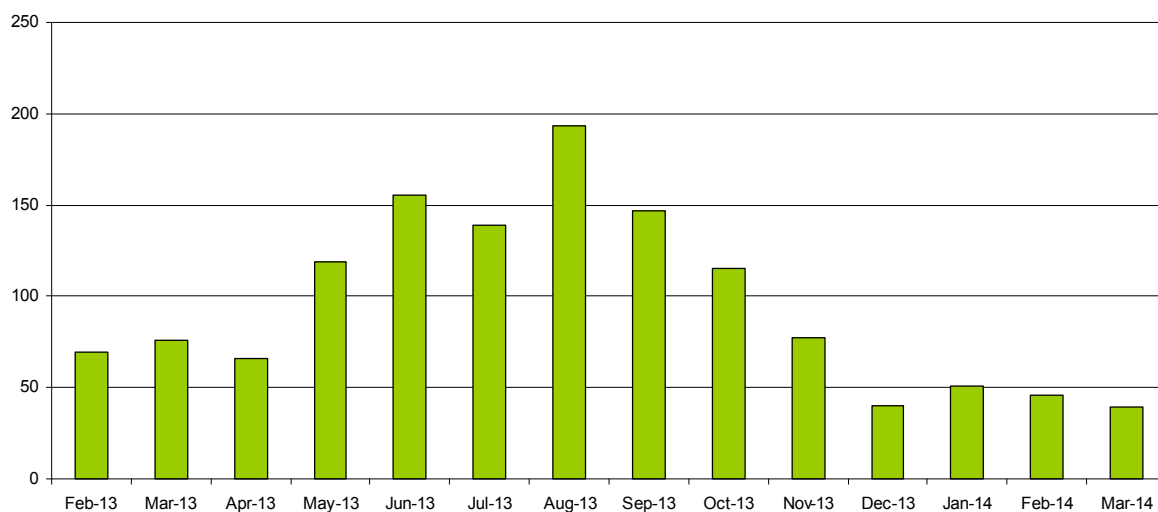
Figure 3 shows there was a peak in mid-January 2014 in website visits during the March quarter which is likely to be related to the significant media activity surrounding the announcement of the IMA \$11.3 million policyholder refund, as described in section 4.2.1. Figure 4 confirms that the September quarter 2013 was the busiest period experienced to date, with the March quarter 2014 stabilising at a little under 50 website visits per day.

Figure 3 Daily website visits – March quarter 2014



Source: Office of the Fire Services Levy Monitor and Google Analytics.

Figure 4 Average number of daily website visits by month



Source: Office of the Fire Services Levy Monitor and Google Analytics.

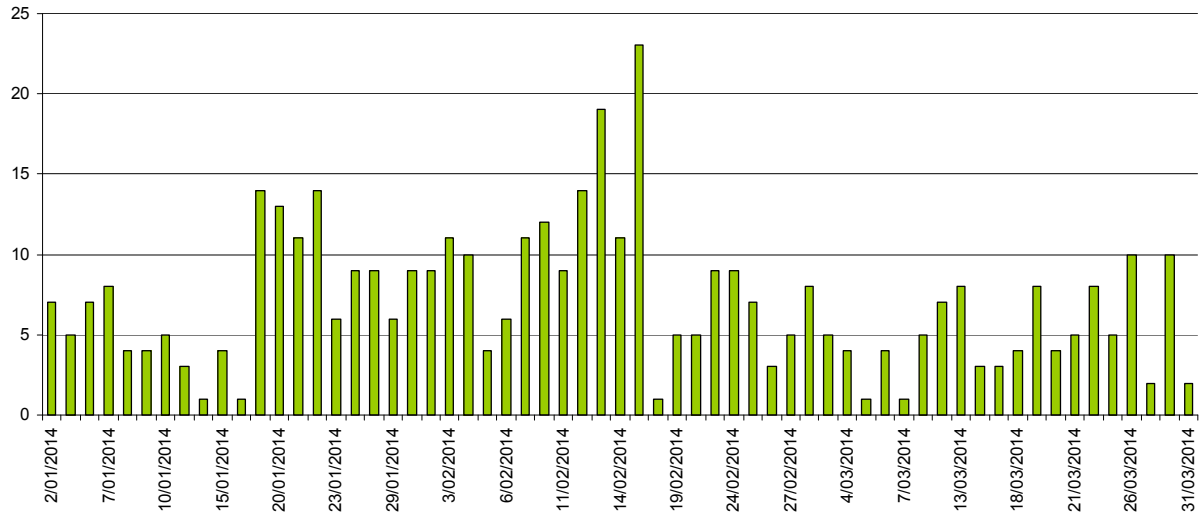
2.2 Complaints and enquiries line – 1300 300 635

A dedicated enquiries line assists policyholders with queries and complaints regarding the fire services levy reform. This has received a total of 5,540 calls between its launch on 30 January 2013 and 31 March 2014, with 430 in the March quarter 2014. Figure 5 displays the number of daily calls received in the March quarter 2014. Apart from a relative surge of call traffic following the media interest in the IMA enforceable undertaking, the call rates remain modest.

Figure 6 shows the average number of daily calls per month since February 2013. It depicts a steady increase across the June and September quarters of 2013, reflecting the time when Victorians were most concerned about issues relating to the implementation and impact of the fire services levy reform.

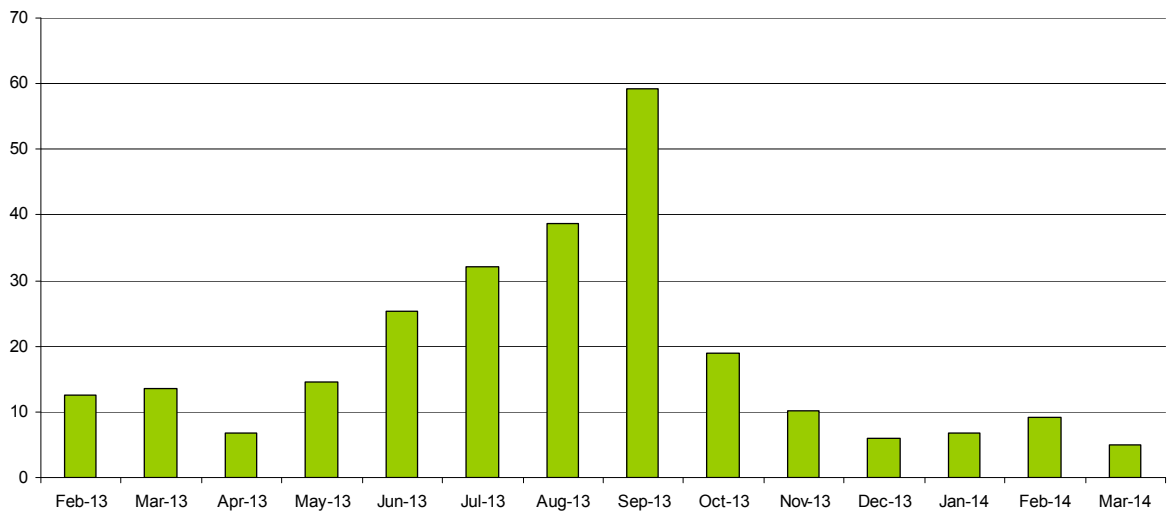
Key messages have gained traction, which is another reason that fewer callers have found it necessary to contact the enquiries line in the December 2013 and March 2014 quarters. It would appear that consumers and policyholders are making proportionally more use of website resources than the opportunity to talk to an enquiries line operator. Nevertheless, there are still policyholders receiving their first 'post-abolition' property insurance policy renewals. It is important to continue to provide a call centre facility to assist these policyholders in particular.

Figure 5 Number of calls to the FSLM – March quarter 2014



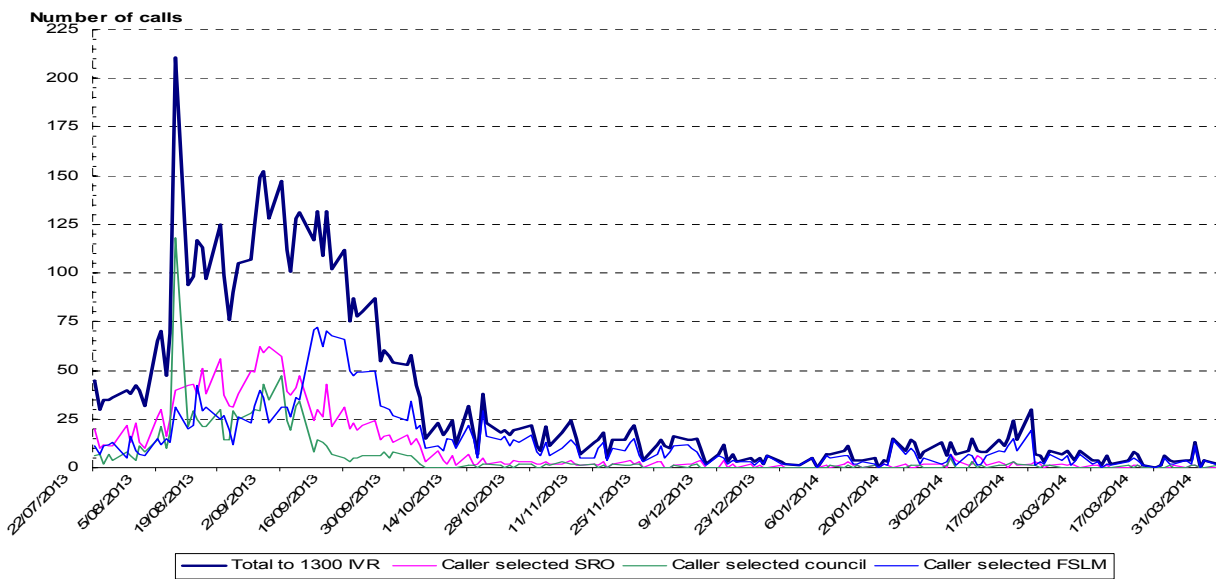
Source: Office of the Fire Services Levy Monitor

Figure 6 Average number of daily calls by month



Source: Office of the Fire Services Levy Monitor

Figure 7 Calls to 1300 300 365 enquiries line – July 2013 to March 2014



Source: Office of the Fire Services Levy Monitor.

Figure 7 shows the break-down of calls to the enquiries line incorporating this quarter. Initial options for callers to select are the FSLM, their local council or the State Revenue Office (SRO). If the selection is their council or the SRO, it suggests that the caller believes their issue is with the FSPL. If the selection is the FSLM option, this suggests that the caller believes their issue is with the insurance-based FSL or their insurance premium. Having the FSLM placed first means that some calls are directed to the FSLM when the actual issue is the FSPL. Such calls are redirected by enquires staff to the SRO or local councils as appropriate. By the end of March 2014 a negligible level of callers were selecting the SRO or councils option.

3. Price and conduct monitoring

Under section 6 of the Act, premiums are monitored to assess industry compliance with the prohibition on price exploitation and the prohibition on conduct which falsely represents or misleads or deceives, regarding the effect of the abolition of the FSL.

Sections 18 and 19 of the Act provide power to require the provision of information that may assist in monitoring compliance with the Act. Section 30 specifically allows the monitoring of prices to assess the general effect of the abolition of the FSL 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.

An extensive price monitoring program continues to be conducted by drawing on a range of sources, including information obtained under sections 18 and 30 of the Act, supplemented by information obtained under section 19 where there are specific concerns about compliance with the Act.

Table 3 Statutory notices issued under monitoring and investigation power – March quarter 2014

Statutory notices	Number
Section 18	0
Section 19	8
Section 30	11
Section 57*	1

* Section 57 provides for an FSLM inspector to obtain a search warrant on application to a magistrate.
Source: Office of the Fire Services Levy Monitor

3.1 Ongoing premium quotes

Analysis continues of monthly data representing 11 insurance brands, supplied under section 30 of the Act. The methodology of this monitoring was explained in the June quarter 2013 report. This data is being used to:

- cross-reference movements in insurance premiums against information provided by insurers in 2013; and
- cross-reference movements in insurance premiums against quotes obtained from insurers' internet-based quotation facilities.

Up-to-date analysis of this data is provided in Section 5 of this report.

3.2 Property specific pricing factors: flood and bushfire perils

Property insurance is a 'bundled' product – insurance against fire is bundled with insurance against a range of other perils including, for example, flood, theft and malicious damage. It is not possible to understand the price of supplying insurance against fire, without also seeking to understand the costs involved in providing insurance against other perils. To put it another way, insurers'

allocations of costs with respect to bushfire risk, flood risk, and reinsurance will necessarily affect the price of insurance against fire.

A key source of information has been complaints made by residential property insurance policyholders regarding changes in base premium on policy renewals and insurers' responses to those complaints. In the first half of 2013, policyholders' complaints received showed a trend of larger increases for policies in the Country Fire Authority (CFA) region, compared to those in the Metropolitan Fire and Emergency Services Board (MFB) region. Explanations provided by insurers when enquiries were made, generally attributed the premium rises to:

- the effects of repricing the risks of bushfire and flood perils to reflect more accurate information obtained; and
- increases in reinsurance costs due to recent catastrophes.

These themes were also echoed by major insurer attendees at a public hearing in June 2013.

In order to obtain further information on those aspects of pricing, a notice was issued under section 30(2) of the Act in September 2013 to a sample of insurers seeking relevant information ('bushfire, flood and reinsurance information request').¹ The information sought focused specifically on how factors relating to bushfire and flood risk, as well as reinsurance costs, translated to the setting of base premiums for home insurance. The notice was issued to nine insurers that, combined, accounted for 70 per cent of the home insurance market share in Victoria with broad coverage of policyholders in both the CFA and MFB regions.

The objective of the request for information was to understand:

- whether bushfire and flood risk were separately assessed and priced;
- the extent to which bushfire risk and flood risk were assessed on a property-by-property basis;
- the nature of the source information and modelling used by insurers to assess bushfire and flood risk and how informational gaps were covered;
- the timing of any key changes leading up to and beyond the abolition of the FSL in relevant source information and bushfire and flood risk assessment methodologies; and
- the extent of reinsurance costs allocated to home insurance policies and how reinsurance coverage and costs changed in the period leading up to the abolition of the FSL.

This understanding would assist the assessments of complaints and monitoring data relating to premium movements during 2012–13 and 2013–14.

3.2.1 Insurer responses to the Monitor's request for information

While the cooperation of insurers in responding to the bushfire, flood and reinsurance information request is appreciated, the detail and comprehensiveness of the responses was varied.

¹ A copy of the notice can be found at: <<http://www.firelevymonitor.vic.gov.au/home/insurers/section+30+notice+schedule>>

A small number of insurers provided very helpful responses to the bushfire, flood and reinsurance information request that included:

- useful summaries of contemporary source information with respect to risk assessment and internal modelling of risk;
- descriptions of modelling algorithms that provided a good indication of how relevant risk factors interact;
- detail of regional variation on flood risk and the proportion of properties and premiums affected by the introduction of more reliable and effective flood cover;
- indications as to how flood risk translates to flood premium;
- explanation of the rationale for using suburb/postcode average risk assessments rather than specific address risk assessment;
- indications of how bushfire and flood risk are combined to produce specific premium loadings;
- indications of how policyholders would be informed of changes to policy coverage;
- differences in treatment between new business and renewing business;
- indications of how policyholder feedback on changes to premiums would be used and incorporated within future pricing and customer advice strategies; and
- sufficient detail with respect to reinsurance arrangements (both coverage and cost) to understand how changes in reinsurance cost impacts home insurance premiums.

By contrast, a few insurers provided relatively cursory responses to the bushfire, flood and reinsurance information request that merely consisted of:

- confirmation that bushfire and flood risk are treated separately, but no indication as to how;
- general descriptions of key external databases;
- acknowledgement that modelling algorithms existed and the names of some relevant factors applied within the algorithm, but little indication as to how relevant factors interact;
- names, but nothing else, of some source material; and
- summaries of reinsurance costs, but no indications of changes in reinsurance coverage.

3.2.2 Conclusions

Notwithstanding the variation in responses, the assessment of insurers' responses to the bushfire, flood and reinsurance information request allows several conclusions to be drawn. Bushfire risk and flood risk are separately assessed by most insurers for the purposes of producing distinct elements in the technical price of a policy that is subsequently translated to a commercial premium. A distinction can be made between:

- the *technical* price for a policy, which is determined via statistical analysis of the expected loss experience, combined with expense assumptions and profit targets, to provide the price that is expected to deliver on-target profit outcomes for an insurer; and

- the *commercial* premium for a policy, which is the amount actually charged for a contract of insurance and reflects judgement made by an insurer to depart from the technical price taking into account:
 - competitors' current pricing for similar policies;
 - expected response of competitors to a premium change (up or down);
 - the need to attract new business by discounting;
 - the desire to retain existing business by applying a 'cap' which limits the increase that would otherwise occur from applying the technical price; and
 - the desire to maximise revenue by applying a 'collar' which limits passing on lower premiums that would otherwise occur from applying the technical price.

'Best practice' flood risk assessment incorporates technical pricing at the address-level that takes into account:

- probability of water depth above floorboards of 0, 1 and 2 metres for average flood return intervals of: 20 years; 50 years; 100 years; and extreme events; and
- modelling relating to the percentage of 'sum insured' damage that would be caused by floods of a given height above floorboard level.

The information on which the address-level risk assessment is made is a combination of the National Flood Information Database (NFID),² Flood Exclusions Zones (FEZ)³ report and insurers' individually commissioned studies of risk. The NFID and FEZ are available for use by insurers only under licence.

'Best practice' bushfire risk assessment incorporates technical pricing at the property address level that takes into account:

- distance of the insured building from bushland;
- direction to bushland recognising that likely prevailing wind on high fire danger days will impact the probability of ember attack;
- topographical position, such as whether surrounding land is flat and the slope of the land on which is the building located;
- type and density of surrounding vegetation;
- house construction; and
- independently 'rated bushfire attack level (BAL)'.⁴

² The NFID was developed by the Insurance Council of Australia (ICA) with the assistance of state and territory governments using available flood studies and terrain data. Not every flood-prone area in Australia is covered by the NFID, as some local governments and floodplain management authorities responsible for this information have yet to release adequate digital flood mapping.

³ Flood exclusion zones (FEZ), as the name suggests, indicates areas where flood is not likely to occur. The FEZ database was developed by Risk Frontiers, an independent risk research centre specialising in the study of natural hazards with the sponsorship of the ICA. The database can be used in geographical areas where local government flood mapping is not available and where insurers have few other options to assess the level of flood risk.

⁴ Bushfire attack level is a formally recognised measure of fire risk, used in building regulations and by local government authorities in planning approval processes that takes into consideration a number of factors including the Fire Danger Index, the slope of land, types of surrounding vegetation and its proximity to any building.

Where best practice bushfire/flood risk assessments are used, there is often still a gap between the technical price and the commercial premium offered to existing policyholders.⁵ The transition towards eliminating the gap, by *increasing* the commercial price, may take a few years. However, new business is more likely to involve a commercial premium that is (at least) close to the technical price. Where available information does not allow best practice bushfire and flood risk assessment at a property level, suburb or postcode 'average risks' are used, supplemented by insurers' individually commissioned studies of risk.

Methodologies are rapidly evolving that allow insurers to transition from suburb or postcode average risk assessments to address level risk assessment. Insurers tend to be less advanced with their use of best practice *bushfire* risk assessment, as compared with best practice *flood* risk assessment. Suburb or postcode average bushfire risk assessments and property level flood risk assessment appear to be the most common current practices, respectively.

In addition, the bushfire, flood and reinsurance information request revealed a wide range of experience between insurers in terms of the reported changes in reinsurance costs in the two year period leading up to the fire services levy reform on 1 July 2013. A common outcome reported was an increase in reinsurance costs in the region of 30 to 35 per cent over the relevant period. Reinsurance cost increases have been driven by a combination of changes in per unit cost increases, breadth of coverage, depth of coverage, and a tightening of Australian Prudential Regulation Authority's prudential requirements for insurers.

3.2.3 Issues for further consideration

Experience in performing functions under the Act suggests that there is room for improvement in the transparency of premiums charged for an insurance contract. More direct communications from insurers to policyholders about the FSL component of total prices would have dampened consumer perceptions of 'double charging' in the transition from the insurance-based levy to the property based levy. More importantly, insurers should have directly provided information in policy renewal statements issued in 2013–14 comparing the amounts of the components of premium with the amounts charged in statements issued during 2012–13. This would have enabled consumers to more readily assess whether the benefits of the fire services levy reform had been passed on. This measure was set out in the May 2013 *Guidelines on false representation or misleading or deceptive conduct*, but generally has not been taken up by insurers.

From the analysis of insurers' responses to the bushfire, flood and reinsurance information request and as a result of other monitoring, complaints handling and investigation activities undertaken, it has become apparent that:

- the information used by insurers to assess key risks in residential property policies is not usually accessible to the general public and policyholders and, where it is provided, it is not easily understood;
- insurers do not always provide adequate explanation of changes to key aspects of insurance policies and seldom provide detailed explanations for increases in premiums – a matter that was, insofar as it concerned pricing and the abolition of

⁵ Where overall profit targets are being delivered and a gap exists between technical price and commercial premium, this suggests that policyholders whose premium is less than technical price are being subsidised by policyholders whose premium is greater than the technical price.

FSL, addressed for one insurer through an enforceable undertaking under the Act,⁶ and

- insurers are generally unwilling to share with policyholders meaningful information about risk assessment outcomes and implications for the premiums charged for individual properties.

Given the lack of transparency by insurers and the limited consumer comprehension that prevails around home insurance premiums, it is considered that measures could be undertaken to redress current levels of information asymmetry that potentially disadvantage consumers of home insurance. It is considered that there is merit in examining ways in which independent advice and assistance could improve consumer outcomes, such as enhancing consumers' ability to make informed decisions about switching products and providers. Previous quarterly reports have referred to the lack of any market-based online insurance quotation tool to obtain simultaneous multiple comparison quotes in relation to Victorian property. How such a tool could be developed continues to be explored.

3.3 Guidelines on misleading conduct

Guidelines on misleading conduct were issued in May 2013 pursuant to section 6(1)(a) and section 6(2)(d) of the Act. As detailed in the September quarter 2013 report, almost 90 insurance companies and brokers were formally requested to provide details of communications with their residential building/contents policyholders. The communications material sought included 'frequently asked questions', policy renewal statements, and procedures for providing policy-specific information to policyholders. Details were also sought in connection with fire and industrial special risks policies offered by insurers to commercial policyholders. Analysis of the responses provided by insurers continued during the quarter.

3.4 Guidelines on over-collection

Section 27 of the Act enables guidelines to be issued about when prices for regulated contracts of insurance may be regarded as contravening section 26. Section 6(2)(d) of the Act contains a more general power to prepare and publish guidelines in relation to the operation and enforcement of the Act. Over-collection of FSL by insurers in 2012–13 was referred to in the May 2013 *Guidelines on price exploitation in relation to the fire services levy reform*.

On 7 March 2014 a further set of guidelines was issued to provide more detailed guidance to industry on the Monitor's approach to the resolution of the over-collection of FSL by a large number of insurers. These guidelines were published subsequently in the Victorian Government Gazette, as required by the Act. The guidelines have been provided to all insurers and brokers who recorded an over-collection in relation to one or both fire services in 2012–13. The guidelines are available on the FSLM website.⁷

An update on progress towards resolution of over-collection of FSL is provided in section 4.3 of this report.

⁶ See section 4.2.1 below

⁷ <http://www.firelevymonitor.vic.gov.au/home/news+and+information/publications/>

4. Compliance and enforcement

The predominant compliance and enforcement focus during the March quarter 2014 was on the conduct of a small number of major insurance companies and insurance brokers.

4.1 Enquiries and complaints

Complaint handling is an integral part of statutory functions. However, the mere fact that complaints have been received about an insurer or broker and are being investigated is not objective evidence that there has been a breach of the Act or that a determination has been made to that effect.

The level of enquiries and complaints fell away sharply in the December quarter 2013. The overall downwards trend continued in the March quarter 2014, exacerbated by the extended holiday period falling within this quarter and notwithstanding considerable publicity over the IMA refund undertaking.

4.1.1 Total enquiries and complaints

The total number of enquiries and complaints received to the end of the March quarter 2014 was 6,441, as shown in Table 4. Enquiries and complaints were received about key aspects of the FSL, with insurers' charges regarding the amount of FSL or premium concurrent with the abolition of the FSL, and perceptions of paying twice ('double charging') predominating. Eighty-six per cent of enquiries and complaints were made by telephone, with about 10 per cent by email and the remainder by letter.

4.1.2 Perceptions of paying twice

The March quarter 2014 reflects an increased understanding by policyholders of the transition from FSL to the property-based levy, in particular, that it was structured to prevent any double charging between the 2012–13 and 2013–14 financial years. The proportion of calls and emails in the March quarter 2014 involving the perception that a policyholder was paying twice to fund the fire services declined again. In the September quarter 2013, 56.5 per cent of enquiries/complaints were in this category; in the December quarter 2013 it was 43.7 per cent and in the March quarter 2014, it was 27 per cent.

4.1.3 Misleading or deceptive conduct

Table 5 shows a small fall in the proportion of enquiries/complaints in the March quarter 2014 about possible misleading or deceptive conduct or false representations in relation to the effect of the abolition of the FSL. In the March quarter 2014, 2.6 per cent of the enquires/complaints were in this category, whereas the December quarter 2013 registered 5.3 per cent.

Despite this, a concern has been held about insurance companies not providing policyholders with clear information that enables a comparison (with the previous year) of the base premium component of the total premium, given that the base premium is the key pricing component of a policy. Guideline 4 of the *Guidelines on false representation or misleading or deceptive conduct* clearly states the preferred manner of presenting a policy renewal in 2013–14. The undertaking entered into in January 2014 with IMA also reflects this concern. There is an express obligation on IMA, regarding policies renewed in the first half of calendar 2014, to specify the exact amount of

base premium incorporated in the renewal premium and to specify the exact amount of the base premium charged in the preceding year.

4.1.4 Large increases in premiums after the abolition of FSL

The number of enquiries and complaints about large premium increases fell from 162 in the December quarter 2013 to 88 in the March quarter 2014. However, these complaints rose in their prominence as a proportion of enquiries and complaints. The most common complaint in the March quarter 2014 was about the amount of premium charged to the complainant.

As Table 5 shows, 71 per cent of the enquiries/complaints in the March quarter involved the amount of the premium, compared with 27 per cent for perceptions of double charging. Table 5 also indicates that the proportion of enquires and complaints relating to the 'amount of FSL or premium charged' accounted for a much higher proportion in the March quarter than over the total period to 31 March 2014. In the March quarter 2014, consistent with the December quarter 2013, most of this category involved enquiries/complaints concerning large increases in base premiums following the removal of the FSL.

Table 4 Enquiries/complaints to the Fire Services Levy Monitor – March 2013 to March 2014

Mode of contact	Mar 2013 quarter	June quarter	Sept quarter	Dec quarter	Mar 2014 quarter	Total	Per cent of total
Telephone	544	953	2,832	781	430	5,540	86
Emails	90	45	344	108	55	642	10
Letters	0	64	110	58	27	259	4
Total	634	1,062	3,286	947	512	6,441	100

Source: Office of the Fire Services Levy Monitor

Table 5 Enquiries/complaints by category

Issue	March quarter 2014 number	March quarter 2014 per cent	Cumulative to 31 March 2014 number	Cumulative to 31 March 2014 per cent
Paying twice/double charging'	33	27	1,499	58
Amount of FSL or premium charged	88	71	970	37
Misleading/false representation	3	2	120	5
Total	124	100	2,589	100

Note: This table is limited to enquiries/complaints where the nature of contact is more than a general enquiry and the subject matter was able to be categorised.

Source: Office of the Fire Services Levy Monitor.

Table 6 Number of complaints by insurance brand

Insurer	March quarter 2014		Total to 31 March 2014 [†]		Market share of Insurer [#]
	number	per cent	number	per cent	per cent
Allianz Australia Insurance Limited	0	0.0	22	4.63	8.9
Aon Risk Services Australia Limited	0	0.0	1	0.21	0.2
Australian Alliance Insurance Company Limited (APIA)	4	17.4	45	9.47	2.8
Australian Associated Motor Insurers Limited	3	13.0	44	9.26	7.1
Auto & General Insurance Company Limited	1	4.3	4	0.84	0.6
Calliden Insurance Company	0	0.0	4	0.84	0.8
CGU Insurance Limited	0	0.0	14	2.95	9.3
Chartis Australia Insurance Limited	0	0.0	2	0.42	* 0.0
Commonwealth Insurance Limited	1	4.3	11	2.32	3.4
Defence Service Homes Insurance	0	0.0	3	0.63	0.2
Elders Insurance Limited	1	4.3	3	0.63	0.4
GIO General Limited	2	8.7	51	10.74	5.4
Great Lakes Reinsurance (UK) PLC	0	0.0	1	0.21	1.2
Insurance Manufacturers of Australia Pty Ltd (RACV)	10	43.5	183	38.53	8.5
OAMPS Insurance Brokers Limited	0	0.0	2	0.42	* 0.0
QBE Insurance (Australia) Limited	1	4.3	19	4.00	14.2
Suncorp Metway Insurance Limited	0	0.0	1	0.21	0.2
The Hollard Insurance Company Pty Ltd	0	0.0	4	0.84	0.5
Vero Insurance Limited	0	0.0	10	2.11	7.2
Wesfarmers General Insurance Limited	0	0.0	9	1.89	5.9
Westpac General Insurance Limited	0	0.0	19	4.00	2.3
Youi Pty Ltd	0	0.0	21	4.42	0.6
Zurich Australian Insurance Limited	0	0.0	2	0.42	3.5
Total	23	100.0**	475	100.0	

Share of combined residential and commercial property insurance premiums subject to contributions to the fire services. Share of number of policies is not estimated due to unavailability of disaggregated data on the number of policies

* Share of less than 0.1

** The sum of the components may not equal 100.0 due to rounding

† Some totals for individual companies incorporate additional complaints that were not included in the December quarter 2013 report.

Source: Office of the Fire Services Levy Monitor

Table 6 summarises the data on enquiries/complaints disaggregated by insurer brand. As was the case for the September and December 2013 quarters, the insurer that was the subject of the most complaints was IMA although the total number of complaints for the March quarter 2014 is small. In this quarter, the majority of complaints were again about IMA, at 43.5 per cent of the total reflecting the issue which is the subject of the enforceable undertaking of 16 January 2014.

In the cumulative data ('Total to 31 March 2014'), IMA accounts for 38.5 per cent of complaints, with the next most represented being GIO General Limited, APIA and AAMI (representing 10.7, 9.5

and 9.3 per cent of total complaints, respectively). IMA's tally of complaints is heavily disproportionate to its market share of 8.5 per cent of the combined residential and commercial property insurance markets.

4.2 Investigations

Detailed compliance monitoring, analysis and investigation activity continued during the March quarter, especially as regards brokers. The processes of section 19 of the Act regarding the provision of documents and/or examinations of insurance company personnel were utilised on several occasions regarding pricing of property insurance premiums.

4.2.1 Enforceable undertaking – Insurance Manufacturers of Australia (IMA)

During the September and December 2013 quarters, IMA, the underwriter for residential property insurance policies distributed by RACV Insurance, was subject to investigation in relation to its premium movements in 2012–13 in the period leading up to, and around, the abolition of the FSL. This reflected concern that IMA's premiums for home building insurance were 'unreasonably high' in the context of the abolition of the FSL.

On 16 January 2014, IMA entered into an enforceable undertaking that will refund \$11.3 million to 206,000 policyholders affected by a price rise implemented less than a week before the statutory abolition of the FSL. This was considered to be a breach of section 26 of the Act ('price exploitation in relation to the fire services levy reform'), although the undertaking records that IMA did not accept this conclusion.

As the undertaking details, IMA is a joint venture between The Royal Automobile Club of Victoria and Insurance Australia Group. RACV Insurance Services Pty Ltd is the retailer/distributor for the home building policies underwritten by IMA in relation to Victorian property, which attracted a fire services levy until 30 June 2013. There were three price increases in the base premium of RACV home building insurance during the first six months of calendar 2013, with an average total increase of 35.5 per cent. The undertaking relates only to the last of these which was an 11 per cent base premium price increase applied across-the-board to building insurance policies from 24 June 2013. The undertaking effectively reverses this increase (together with applicable GST and stamp duty) for RACV policyholders who renewed between 24 June and 31 December 2013 inclusive.

The Monitor's media release issued in conjunction with the undertaking included the following statement:

IMA increased its base building premiums by 11 per cent in June 2013, following two significant increases earlier in 2013. IMA's FSL rates were as high as 26 per cent in the metropolitan area and 36 per cent in country areas in 2012–13. They were removed entirely by IMA in May 2013 and formally abolished by legislation from 1 July 2013. The impact of the base premium increases was to offset the impact of the removal of FSL so that total building premiums, on average, actually rose.

IMA stood out as the only major insurer to increase total building premiums over the last half of 2012–13. Parliament passed very strict laws to prevent insurers from taking advantage of this situation. My Office has rigorously enforced these laws on behalf of consumers.

....

The refunds return to policyholders an 11 per cent premium increase on the building component, which applied from 24 June 2013. The Fire Services Levy Monitor considered that the benefits of the reform of the funding of Victoria's fire services were not passed on by IMA to this group of policyholders and, in the Monitor's view, did not conform to the requirements of the legislation protecting policyholders.

Aside from the section 26 price exploitation aspect, the undertaking records that the Monitor formed the view that 'IMA had not, in its policy documentation, adequately explained to its policyholders renewing the building component of their insurance contracts ... the effect these base premium price increases had on total premiums, such that they may have been misled or deceived as to the effect or likely effect of the fire services levy reform' [paragraph 5.5].

The obligations on IMA in the undertaking reflect the Monitor's concerns about both price exploitation (that is, the price for the supply of insurance was 'unreasonably high') and lack of pricing transparency in policy renewal documentation. The latter concern was summarised in the media release:

The Fire Services Levy Monitor was disappointed at the level of transparency offered in RACV Insurance renewal certificates, provided by IMA, that do not indicate the comparative base premium amount for the previous year as an item separate from the total premium. "RACV Insurance policyholders could not easily discern increases in base premiums as fire services levies were removed", said Professor Fels.

Details of the obligations on IMA as a result of the undertaking are set out in the box below:

Extract from undertaking given by IMA

- 7.1 IMA undertakes to the Monitor that:
- 7.1.1 It will, within 120 days of the commencement date, send a refund cheque to each person who renewed an insurance contract with a building component that fell due at any time during the period 24 June 2013 to 31 December 2013, inclusive ("the period"). The cheque will be for an amount equivalent to the 11 per cent increase in base premiums payable under such insurance contract implemented by IMA on 24 June 2013 plus statutory charges relating to that increase;
 - 7.1.2 It will inform each person to whom or which a refund is paid under the arrangements in paragraph 7.1.1 above of the reasons for such refund, by notice sent to them with the refund at their usual contact address, in a form agreed with the Monitor;
 - 7.1.3 It will engage, at its expense, an independent auditor to undertake an audit and prepare a written report ("audit report") of the refund arrangements identified in paragraphs 7.1.1. and 7.1.2 above to confirm that each person renewing an insurance contract with a building component issued by IMA during the period was sent within the time provided for in paragraph 7.1.1 above:
 - 7.1.3.1 a cheque for the amount equivalent to the 11 per cent increase in base premiums payable plus statutory charges relating to that increase under such insurance contract implemented by IMA on 24 June 2013;
 - 7.1.3.2 a notice setting out the reasons for such refund, sent to them at their usual contact address, in the form agreed with the Monitor; and
 - 7.1.4 it will, within 150 days of the commencement date and at its expense, deliver to the

Monitor or his nominee, a copy of the audit report.

- 7.2 Further, IMA undertakes to the Monitor that it will include documentation, in a form agreed with the Monitor, with the renewal notice for an insurance contract with a building component issued during the period 15 March 2014 to 23 June 2014, inclusive that discloses:
- 7.2.1 the amount of the base premium component payable under such contracts, in addition to all government and other charges;
 - 7.2.2 the amount of base premium charged in the renewal notices in the preceding year; and
 - 7.2.3 the change in the amounts identified under the operation of paragraphs 7.2.1 and 7.2.2.
- 7.3 IMA also undertakes to the Monitor that it will send to policyholders who renewed insurance contracts with a building component during the period 1 January 2014 to 14 March 2014 inclusive correspondence, in a form agreed with the Monitor, which discloses:
- 7.3.1 the amount of the base premium component paid under such contracts, in addition to all government and other charges;
 - 7.3.2 the amount of base premium charged in the renewal notices in the preceding year; and the change in the amounts identified under the operation of paragraphs 7.3.1 and 7.3.2.

Since IMA entered into the undertaking, there has been close liaison with IMA to ensure that the specific obligations on IMA are properly complied with and in a timely manner. Paragraph 7.2 and 7.3 of the undertaking contain obligations to provide policyholders whose renewals occurred (or will occur, as the case may be) between 1 January 2014 and 23 June 2014 with details of the amount of base premium included in the renewal of the policy and, to enable comparison, the amount of base premium charged in the preceding year. This is to make it easier for policyholders to see the effect of the removal of any FSL on the total premium charged. The base premium is the critical element of the total cost of the premium. It is what an insurer charges purely for the insurance cover, exclusive of other charges such as GST and stamp duty or broker fees.

IMA has commenced sending letters to home building policyholders whose renewal fell outside the period of eligibility of refund. Refund payments will be made by cheques issued by IMA. A letter from IMA explaining the reason for the refund must accompany each refund cheque.

Compliance with the extensive obligations agreed by IMA in the undertaking will be verified. This is set out in the undertaking at paragraph 7.1.3, which confirms that IMA will provide, at its own expense, a written report from an independent auditor or similar person verifying the implementation of IMA's commitments in the undertaking.

4.2.2 Brokers

As has been observed in earlier quarterly reports, it is important that those who purchase insurance through a broker share equally in the benefits from the abolition of the FSL obtained by policyholders who purchase their insurance direct. In the December quarter 2013 report, it was noted that:

The conduct of a limited number of brokers was a feature of the compliance monitoring and investigation activity during this quarter. FSL charged by an interstate-based broker in connection with insurance renewed after 1 July 2013 triggered a chain of investigation to determine which entity actually issued the insurance, which entity underwrote the insurance, and the extent to which other brokers in Victoria may also have sold similarly affected policies. The FSLM investigation required the issuance of a series of statutory notices under section 19 of the Act, extensive company searches, policyholder interviews and obtaining

formal statements. On the information available to date, it does not appear that a significant number of policyholders have been adversely affected. This investigation is continuing.

Further action was taken in the March quarter 2014 to obtain a more complete picture. At least eight brokers, agents or authorised representatives have been identified as charging FSL on policies or renewals effective after 1 July 2013, potentially in breach of the Act. The policies issued by the brokers under investigation were ultimately underwritten – often on a shared basis – by two insurance companies.

Statutory notices issued to these brokers, agents and insurers have not always been answered completely, resulting in two on-site visits during February 2014 to obtain further relevant documentation. There is evidence of FSL being invoiced as late as 21 February 2014, nearly eight months after the abolition of the FSL.

Concern was expressed in a previous quarterly report that a small number of brokers may have increased their commission or fee (or received such an increase) concurrent with the abolition of the FSL. The investigation of this issue has not revealed sufficient evidence to warrant further action.

4.3 Over-collection of FSL by insurers in 2012–13

It was anticipated well in advance that there was a real prospect that some insurers would collect more FSL than was ultimately required to meet their statutory contribution in 2012–13. It was recognised that this outcome would be likely given that the final determination of the amount of statutory contribution for 2012–13 would not be made until October 2013.

With this in mind, Guideline 5 of the Guidelines on price exploitation in relation to the fire services levy reform (*Guidelines on price exploitation*), issued at the beginning of May 2013, provided that where an insurance company over-collected FSL for the 2012–13 year, it should directly refund the excess to affected policyholders. However, Guideline 5 recognised that there may be circumstances in which direct refunds to policyholders may be difficult to implement in practice. In such cases, insurers should resolve the over collection by some other method of disbursement agreed in advance with the Monitor.

As noted in the December quarter 2013 report, the 2012–13 financial year final reconciliation differed from previous years. By early January 2014, the fire services authorities had completed their reconciliation process – that is, annual returns from insurers, adjustments to finalise their contribution amounts, invoices to those required to top up their contribution and refunds to those who exceeded their required contribution.

In January 2014, comparisons were made for each insurer between the amount of statutory contribution required by each fire service for 2012–13, and the amount of FSL declared as collected to the FSLM, for each fire service. The FSL declarations by insurers had already been received by November 2013. These declarations were also subject to independent verification of the amounts collected from policyholders through an 'assurance opinion'.

On 17 January 2014 the FSLM wrote to all insurers recorded as having over-collected FSL. Attention was drawn to the *Guidelines on price exploitation* requiring any over-collection of FSL in 2012–13 to be disbursed rather than retained by the insurer. The priority in this regard was for policyholders who had paid FSL to receive proportionate refunds. On 7 March 2014, *Resolution of*

insurers' over-collection of fire services levy in 2012–13 (Over-collection guidelines) were published. These indicated the policy adopted in response to a range of issues raised by insurers about the resolution of over-collection.

The Over-collection guidelines provided that insurers who had over-collected for one fire service, but under-collected in relation to the other, would be able to offset the 'under' against the 'over'. This had the effect of reducing the total amount of over-collection of FSL across all applicable insurers, to \$12.7 million.

The guidelines provide that cancellation-related FSL refunds made by insurers before 1 March 2014 (in connection with 2012–13 inception policies) would also be accepted (if capable of verification) as an offset against the amount of over-collection. In circumstances where refunds to policyholders would be impractical, due to small amounts per policy or the complexities of intermediated arrangements with policyholders, the guidelines provide that aggregation of over-collected FSL is acceptable. Such aggregated amounts are to be disbursed to organisations representing the interests of Victorian consumers of insurance. After an appropriate due diligence process, the organisations determined to receive aggregated amounts of over-collected FSL are:

- Consumer Action Law Centre;
- Good Shepherd Microfinance;
- Footscray Community Legal Centre Inc.;
- Brotherhood of St Laurence; and
- Uniting Church in Australia Property Trust (Victoria) (trading as 'Kildonan Uniting Care').

Subsequently, a further consumer organisation, the Insurance Law Service (ILS), was added to the list after an appropriate due diligence assessment. ILS, a project of the Consumer Credit Legal Centre NSW Inc., is the only national, free and independent insurance advice service for consumers in Australia. While not based in Victoria, ILS provides services to Victorian insurance consumers.

Importantly, the Over-collection guidelines prescribe the formula to be applied by insurers to calculate the amount of refund to be paid to policyholders who had been charged FSL. Insurers were informed that such refunds to individual consumers would need to be augmented by the amount of GST and stamp duty attributable to the amount of the refund of FSL.

Lastly, these guidelines set out expectations as to how the disbursement of over-collection monies is to be verified and assured. The prima facie requirement is that the arrangements for resolving over-collection should be agreed and set out in an undertaking, though there may be circumstances (such as where disbursement is by aggregation only and can be readily and quickly verified) where a more informal administrative resolution would be acceptable.

A 'model' undertaking was developed during March 2014 and provided to insurers who were advanced in the resolution of their over-collection. The model undertaking makes reference to the need for verification of several aspects of a possible resolution. For this reason, additional guidance notes, *Over-collection resolution: verification and assurance*, were provided to insurers to clarify what was expected of them. Following the issuance of the Over-collection guidelines, and further discussions with individual insurers and intermediaries, arrangements with a number of insurers to resolve their over-collection were finalised by the end of the quarter.

5. Removal of FSL and developments in premiums

The December quarter 2013 report stated that 'The ongoing price monitoring undertaken by the FSLM provides significant evidence that policyholders have thus far benefited from the abolition of the FSL.' This section draws on subsequent data to assess the ongoing impact of the fire services levy reform on policyholders. It confirms that the trend of total premium reductions continues to be as expected.

5.1 Movements in total premiums in December quarter 2013 and March quarter 2014 on abolition of the FSL

The December quarter 2013 report endeavoured to estimate the extent to which policyholders would make savings when renewing their premiums in the initial year after the abolition of the FSL. The report noted that on average, policyholders renewing in 2013–14 could expect reductions in the cost of their premiums, though the scale of the reduction would diminish by the June quarter 2014. This is due to the effect from insurers using a tapering strategy in 2012–13, such that the rates of FSL applied dropped away quite sharply from about March 2013.

When a reasonable allowance is made for inflation and other cost pressures, the December quarter 2013 report suggested that policyholders renewing between October and December 2013 would be entitled to expect reductions in total premiums of around 11 per cent and 19 per cent, in the MFB and CFA regions respectively, based on average FSL rates charged by the market during the December quarter 2012.

When the same allowances are applied to the March quarter 2014, it is expected that policyholders renewing between January and March 2014 would be entitled to expected reductions in total premiums of around five per cent, in both fire service regions, based on average FSL rates charged by the market during the March quarter 2013. This reduction is notably smaller than that estimated for previous quarters, as by this stage in 2013, the market had reduced FSL rates significantly.

The monitoring undertaken does not cover all policies renewed or taken out, as this is not practicable and would be burdensome on insurers. As previous quarter reports have stated, the sample size for the section 30 data and the online quotes is small, and is therefore indicative of actual movements in the market rather than being comprehensive of all existing policies.

However, it is necessary to remain vigilant, as there will be policyholders receiving their first post-FSL renewal up until June 2014. Their interests in the reform of fire services funding must continue to be protected. Accordingly, during 2014 the approach to monitoring as described in previous reports will continue.

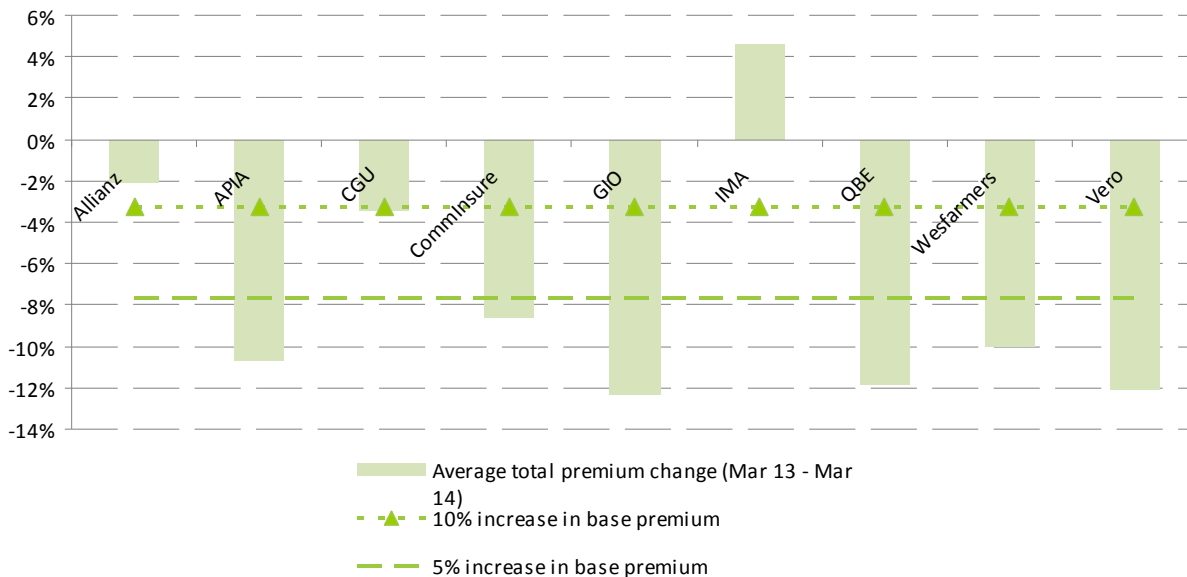
5.2 Premium data supplied by insurers – 12 months ending March 2014

5.2.1 MFB region

Average total premium data was calculated using quotes provided by the major insurers for the sample in the ongoing section 30 monitoring. Changes over the 12 months from March 2013 to March 2014 were averaged across properties in the MFB region. Total premium values include the effects of any base premium increases as well as the effect of the abolition of the FSL. As all

insurers were charging a similar FSL rate in the MFB region for the March 2013 quarter, this form of analysis still provides a useful comparison.

Figure 8 Insurers' quotes, average change in residential building insurance total premiums 12 months – March 2013 to March 2014 (MFB region)



Source: Office of the Fire Services Levy Monitor

Most brands have averaged a total premium reduction of between 3 and 12 per cent in the MFB region, largely due to the FSL coming out of the total premium. However IMA has averaged an increase in total premium of 4.6 per cent in the MFB due to large base premium increases contemporaneous with charging a zero per cent FSL rate prior to 1 July 2013.

Figure 8 also includes a 'bandwidth' showing the average expected change in total premium, assuming either a 5 or 10 per cent increase in base premium for inflation and general cost increases. A market weighted average FSL rate was applied to determine these expected total premium changes.

5.2.2 CFA region

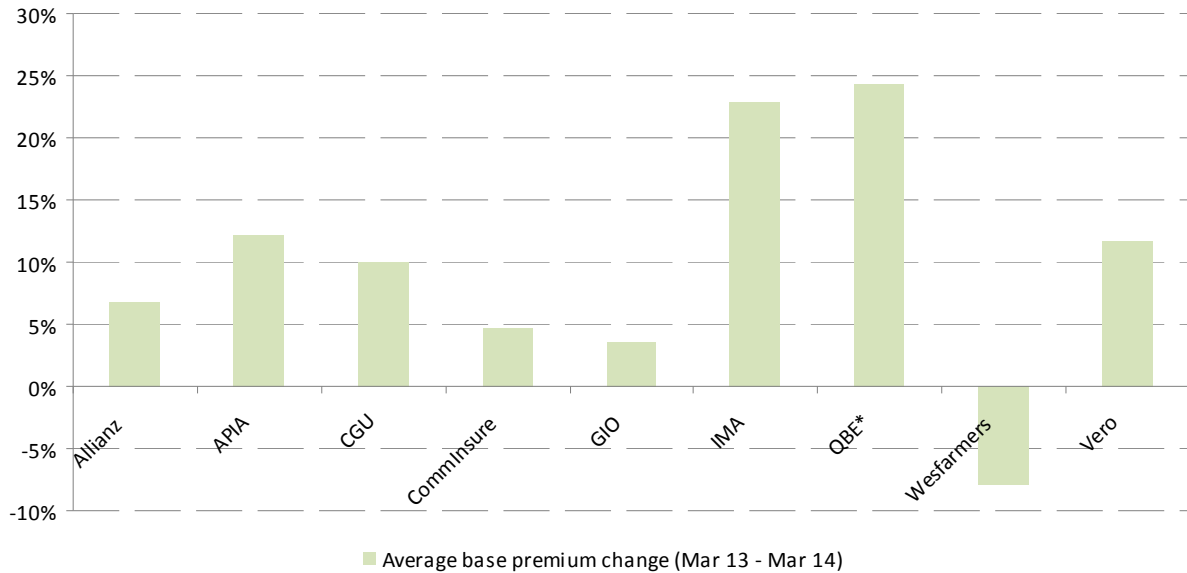
During the March quarter 2013, some insurers ceased to charge FSL on their CFA residential policies, whereas others continued to charge rates as high as 20 per cent. Due to this variance, the analysis of *total* premiums performed above for the MFB (section 5.2.1), and in previous quarterly reports for both fire service regions, is not now an appropriate form of comparison for the CFA region.

Total premium reflects both changes in FSL amounts and changes in base premium, and because some insurers had more FSL to remove between March 2013 and March 2014 than others, their total premium had greater scope to fall over this period. In light of this, movements in premium for the CFA region for the year ending March 2014 will be looked at in the context of *base* premium only.

The September 2013 quarter report noted that historically, base premiums rose by around 7 to 10 per cent across a year. This was also indicated by insurers in the June 2013 public hearing

when many stated that base premiums were expected to rise by between 8 and 10 per cent for the 2013 financial year.

Figure 9 Insurers' quotes, average change in residential building insurance base premiums 12 months – March 2013 to March 2014 (CFA region)



* QBE introduced flood cover into their intermediary line of business in December 2013. One of the sample properties was heavily impacted by this.
Source: Office of the Fire Services Levy Monitor

Most insurers' base premiums movements for the year ending March 2014 were around, or below, the nominal base premium increase of 10 per cent. The two exceptions were IMA (23 per cent) and QBE (24 per cent). IMA's base premium increases have been discussed in previous quarterly reports, and in detail elsewhere in this report. QBE's base premium increases for the sample properties are largely due to increases observed in December 2013. These were related to the introduction of flood cover for their intermediary line of business which affected the particular properties in the sample.

5.3 Premium data supplied by insurers – March quarter 2014

From the beginning of the fire services levy reform transition year (July 2012) to the end of March 2014, major insurance companies representing approximately 85 per cent of residential property policies have averaged a total premium reduction of 9.6 per cent in the MFB region and 9.7 per cent in the CFA region. Based on the data provided by insurers as part of the ongoing monitoring under section 30, movements in premiums observed in the March quarter 2014 have, on the whole, been negligible. This was the case also in the December quarter 2013. Table 7 lists the average total premium change across the sample of scenarios/suburbs monitored, for the four quarters from March 2013 to March 2014, inclusive.

Table 7 Average total premium change (per cent) for residential insurance, by quarter – March 2013 to March 2014

Insurer	March 2013	June 2013	Sept 2013	Dec 2013	March 2014
AAMI*		-4.1	3.1	0.8	-8.7
APIA	-18.2	-3.9	0.8	0.8	2.9
Vero	-37.6	-4.9	0.5	0.6	3.4
IMA	4.6	2.8	0.0	1.7	-0.9
QBE	-5.9	-14.9	0.0	12.8	0.0
CommInsure	-11.6	-9.9	0.0	0.0	3.5
Allianz**	-19.2	-2.5	0.0	5.0	0.0
CGU	-10.0	-2.8	0.0	0.0	1.1
GIO	-18.9	-4.3	0.2	0.7	-1.0
Wesfarmers	-0.7	-8.5	-2.2	-3.2	0.0

* AAMI systems did not allow retrospective quoting for periods earlier than February 2013.

** Allianz figures vary from previous quarterly reports as an error was identified in the information previously provided to the Monitor.

Source: Office of the Fire Services Levy Monitor

In the March quarter 2014, four of the residential property insurance brands implemented premium changes of less than 1.1 per cent, with some having no change at all or reductions in total premium. The three brands that had total premium increases greater than 1.1 per cent were CommInsure (3.5 per cent), Vero (3.4 per cent) and APIA (2.9 per cent). The average premium increase across the nine insurers was 0.0 per cent for the March quarter 2014.

Aside from AAMI, IMA and GIO, all insurers had increases for the quarter despite the initially expected reduction for consumers of 5 per cent, on average. This is because the initial estimation was based on an average market FSL rate that was higher than the average of the ten insurers in the monitored sample that tapered their FSL rates earlier in 2012–13. Monitoring of premiums will continue during 2014.

5.4 Premium quotes obtained from insurers' websites

Capturing online quotations from major insurers' websites since March 2013 has further assisted in understanding general base premium increases. The monitoring encompasses the period in which most insurers ceased to charge FSL on their policies, with only a minority of insurers charging FSL after March 2013.

The percentage change in base premium between March 2013 and March 2014, for each of the sample properties, was calculated for the eight insurance brands monitored. By averaging the base premium change across the sample properties, a single average percentage increase for this period was obtained. These figures are provided in below.

Table 8 Quotes from insurers' websites – average base premium percentage change, March 2013 to March 2014

Insurer	Average base premium (\$) in March 2013	Average base premium (\$) in March 2014	Average base premium increase percentage***
AAMI	301	317	5.5
Allianz	356	361	1.6
APIA	359	380	6.0
CommInsure*	306	361	18.0
IMA (RACV)	521	619	18.9
QBE**	522	600	14.8
Vero (Bankwest)	476	519	9.0
Wesfarmers (Coles)	562	608	8.1

* CommInsure introduced flood cover to their home insurance policies between March 2013 and March 2014. The increase observed in the FSLM sample fully or partially reflects that change.

** QBE appears to have introduced flood cover to their 'direct' line of home insurance business in February 2014.

*** Average premiums in the first two columns are rounded. Percentage changes were calculated using the exact amounts.

Source: Office of the Fire Services Levy Monitor

Five insurers registered increases below 10 per cent for the 12 month period, while QBE, CommInsure and IMA, in ascending order, registered larger increases. As discussed previously, CommInsure added flood cover to its policy coverage during this period, which probably explains much of this increase. Also discussed previously are IMA's base premium increases, the last of which is the subject of an undertaking and subsequent refunds by IMA. QBE appears to have introduced flood cover to their direct business line in February 2014. All properties in the QBE website monitoring sample may have been impacted by this change. Clarification of the impacts of the introduction of flood cover was being sought from QBE as the quarter ended.

5.5 Price variations across the major insurers

Ongoing monitoring of residential insurance premiums has continued to highlight the price differences between insurance brands. Total premium values were obtained from online quotes gathered in early March 2014 for a sample of properties using standardised policy specifications. The difference between the highest and lowest quoted premiums for the same property was \$579, ranging between \$272 and \$851. Across the sample the lowest premium was no more than 60 per cent of the highest premium.

The message for consumers is clear. It pays to shop around by comparing the price of different insurers before purchasing or renewing policies.

Table 9 Quotes from insurers' websites – total premiums (March 2014)

Property location (\$300k insured)	AAMI	Allianz	APIA	Comminsure	QBE	RACV	Bankwest	Coles	Range	Low as percentage of high
Bendigo	\$307	\$415	\$423	\$453	\$788	\$466	\$593	\$490	\$481	39
Glen Iris	\$409	\$449	\$481	\$443	\$590	\$681	\$655	\$581	\$272	60
Echuca	\$331	\$408	\$418	\$422	\$761	N/A	\$580	\$1,182	\$851	28
Surrey Hills	\$382	\$437	\$519	\$453	\$590	\$510	\$695	\$547	\$314	55

* Flood cover is included in these quotes, with the exception of Allianz, which has the option of selecting flood cover.
 Source: Office of the Fire Services Levy Monitor