FIRE SERVICES LEVY MONITOR

Report to the

Minister for Consumer Affairs

September Quarter 2013

State Government Victoria

Letter to Minister

FIRE SERVICES LEVY MONITOR

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

Dear Minister

I am pleased to present the third 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 Monitor 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 September 2013.

Yours sincerely

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Fire Services Levy Monitor

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State Government Victoria

Table of Contents

List of Tables

List of Figures

Overview of abolition of the fire services levy to the September quarter 2013

One full quarter has passed since the formal abolition of the fire services levy (FSL) charged by insurance companies. This report provides a preliminary assessment of the transition out of the insurance-based funding of Victoria's fire services.

The lead-up to the abolition of the fire services levy

The emphasis in the activities of the Fire Services Levy Monitor (FSLM) in the lead-up to the FSL abolition date was on information provision and stakeholder engagement to create awareness of obligations under the *Fire Services Levy Monitor Act 2012* (the Act), the implications of the abolition for policyholders' premiums and the role of the Monitor in the fire services levy transition.

Meetings were held with individual insurance companies and representatives of the Insurance Council of Australia at an early stage to indicate the Monitor's expectations regarding the removal of the FSL from premiums. Draft guidelines on price exploitation and false representation were released for industry consultation in mid-April 2013 and the final guidelines issued at the end of May.

The engagement with insurance companies over this period was important. While it appeared that insurers were slow at the outset to appreciate the full significance of the FSLM's role, and the importance placed on it by Parliament and the Government, this understanding was soon realised. A clear indication of this was given by some insurers indicating that their pricing would be moderated in the context of the removal of the FSL and the FSLM's operations.

The FSLM website and enquiries 'hotline' commenced at the end of January 2013. A public notice alerting policyholders to the issues in the abolition of the FSL was published in May. An extensive press advertising campaign was undertaken in June and the public hearing also held in June gained further media coverage. The Monitor was interviewed on radio a number of times between the end of January and June.

These activities increased public awareness of the FSLM and the issues involved in the fire services levy reform, as evidenced by steadily rising website visits and enquiry calls. Complaint volumes also rose steadily.

Removal of the FSL from premiums

The almost universal practice by insurance companies of 'tapering' FSL rates from high levels early in 2012–13 down to zero during the March or June quarters of 2013 meant that the insurance industry effectively brought forward the abolition of the FSL from its statutory date of 1 July 2013.

There appears to have been general compliance by insurance companies on removing the FSL from total premiums from 1 July 2013. A small number of instances of charging FSL post-1 July have been detected. These involve two insurance companies and a small number of brokers. However, based on investigations to date the number of policies affected is not significant. These instances appear to involve administrative errors where there may not have been sufficient attention to the abolition of the FSL when issuing invoices. No concern is held at this stage that there is any systematic or deliberate charging of FSL after 1 July 2013. Appropriate action is being taken to ensure refunds are made and the cause of the errors remedied in all instances.

Expected changes in premiums on removal of the FSL

The distinction between base and total premiums is important in monitoring pricing outcomes. The total premium is made up of the base premium and any taxes (the Goods and Services Tax), government charges (stamp duty), fees (such as broker fees) and FSL when charged by insurers prior to 1 July 2013. The total premium is the actual cost incurred by the consumer.

As the overall average FSL rate in the September quarter 2012 was 33 per cent of the base premium, removing the FSL would be expected to reduce total premiums by 24.8 per cent, if there is no change in base premiums up to the September quarter 2013. The reason for the smaller percentage reduction in total premium is that the total premium with GST and stamp duty is a larger amount.

To the extent there are any concurrent increases in base premiums, the magnitude of the reduction in total premiums on removal of the FSL would be smaller. For example, a 10 per cent increase in base premium with 33 per cent FSL removed would lead to the total premium reducing by 17 per cent.

Most major insurers' submissions in the public hearing held by the Monitor on 18 June 2013 indicated their base premiums increases for residential property insurance in 2013 would be of the order of 8–10 per cent on average, due primarily, it was claimed, to inflation in the general costs of supplying insurance.

Assuming general base premium increases in this range, the following broad outcomes on average would be expected for total premiums on residential property renewals in the September quarter 2013:

- MFB-region renewals – average FSL rate of 23.4 per cent in the September quarter 2012 would indicate reductions in the order of 11 to 13 per cent in the September quarter 2013; and
- CFA-region – average FSL rate of 37.1 per cent in the September quarter 2012 would indicate reductions in the order of 19 to 21 per cent on average in the September quarter 2013.

Observed changes in premiums on removal of the FSL

A very active approach to price monitoring has been taken. Several sources of data have been utilised, including statutory powers, to obtain data directly from insurers and complainants.

Monitoring indicates that during the year leading up to 1 July 2013 insurers generally increased base premiums by 8 to 10 per cent, as indicated at the public hearing. This magnitude of base premium increases should still result in *total* premium reductions when policies were renewed after removal of the FSL.

The monitoring conducted during the September quarter indicates that total premiums have generally decreased, as expected.

However, there is one exception among the major insurers to this general observation. Total premiums of Insurance Manufacturers of Australia Pty Limited (IMA) sold under the 'RACV Insurance' brand have risen, on average. This company also is over-represented, compared to its market share, in complaints received about increases in premiums.

The active monitoring program has detected—and in some cases prompted companies to advise the Monitor of—some limited instances of pricing errors. As with the limited instances of charging FSL after 1 July 2013, the number of policies affected is not significant. However, appropriate action is being taken to ensure refunds are made and the cause of the errors, such as software programming, remedied in all instances.

Property-specific changes in premiums concurrent with removal of FSL

In addition to the cost inflation based price increases insurers apply across their portfolios, insurers periodically review the pricing of individual properties taking into account the particular characteristics of properties (and policyholders) and their assessments of the risks to individual properties associated with natural perils such as bushfire, floods, storms and earthquakes. It is clear from a number of complaints that have been investigated in the September quarter that these property-specific factors have resulted in increases in total premiums, despite no FSL being charged in the renewal premiums.

Explanations were received from various insurers in response to FSLM enquiries that the large increases in base premiums in many of these cases were substantially due to re-assessment of the risks for particular properties of floods or bushfires. It was claimed that previous premiums under-priced the risk of these natural perils compared to the correct 'technical' price.

This pattern is of sufficient concern that the powers under section 30 of the Act have been exercised to obtain information from major insurers relating to the assessment of bushfire and flood risks and reinsurance costs in the setting of base premiums. The outcomes of the analysis of this information will be reported in a subsequent quarterly report. The concern here is to ensure that re-pricing relating to risk assessments is not being undertaken simply because of an opportunity available to insurers through the removal of the FSL.

Enquiries and complaints received

While a total of approximately 5,000 enquiries and complaints have been received to the end of the September quarter, daily enquiries and complaints data suggest that the peak level occurred by mid-September 2013. The level of enquiries and complaints, as expected, has been low relative to the total number of property insurance policies in Victoria: in the order of 0.1 per cent of the total number of relevant residential and commercial property insurance policies of approximately 4 million.

The most common complaint has been the perception that property insurance policyholders are 'paying twice' for funding the fire services solely through paying the FSL and then the Fire Services Property Levy (FSPL). Considerable effort has gone into explaining how the insurance-based FSL and the FSPL are fixed to funding the fire services for consecutive financial years, 2012–13 and 2013–14 respectively.

The next most common complaint concerns policyholders experiencing large base premium increases concurrent with insurers charging zero per cent FSL (prior to1 July 2013) or removing FSL (from 1 July 2013). The issue of large base premium increases concurrent with the removal of FSL has been the focus of operations since the beginning of June 2013.

The challenge ahead

Under the FSL 'tapering' arrangements applied by the insurers leading to the removal of the FSL, the rates of FSL continued to be relatively high into the December quarter 2012. It is anticipated, therefore, that the December quarter 2013 will continue to see significant reductions on total premiums, on average, for policies being renewed. Active monitoring and prompt enforcement action by the Monitor will be taken to ensure this outcome occurs.

1. Introduction

This is the third quarterly report to the Minister for Consumer Affairs under section 110 of the *Fire Services Levy Monitor Act 2012* (the Act). The report covers the period from 1 July 2013 to 30 September 2013. Significantly, it covers the first three months following the abolition of the insurance-based fire services levy (FSL). Policyholders in this period were entitled to renew their property insurance without incurring any FSL because insurance companies no longer have any involvement in the funding of Victoria's fire services.

The role of the Fire Services Levy Monitor (FSLM) is to ensure that consumers and business policyholders are not exploited as a result of the abolition of the FSL from 1 July 2013. Under section 6 of the Act, the main statutory functions of the Monitor 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
- investigate potential contraventions of the law and take appropriate action

These functions are distilled into three broad categories of operations by the FSLM:

(1) Information, guidance & advice

(2) Price monitoring

(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-related activities
- Section 5 provides analysis of the FSL and developments in premiums.

During the September quarter, there has been a significant focus on detailed compliance monitoring, analysis and investigation. This represents an expected shift in the focus of activities from the emphasis on information provision that characterised activities in the March and June quarters in the lead-up to the abolition of the FSL.

The September quarter presents the first opportunity for the FSLM to report in detail on insurance company premium changes. Insurance companies have been on notice since early in calendar 2013 that pricing trends would be monitored and that complaints from policyholders would be investigated. These were the main tasks undertaken in the September quarter.

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 direct to policyholders and insurance companies, and through the FSLM website, the media and a dedicated enquiries and complaints 'hotline' (1300 300 635). Consultation with the insurance industry is undertaken and queries from individual insurance companies are answered. This section of the Report provides details of media and advertising activity, website visits and enquiry and complaint numbers.

2.1 Media and advertising

Media and advertising activity was a priority among FSLM activities leading up to 1 July. It was aimed at raising the community's awareness that the FSL was being removed from insurance premiums, that the FSLM had been appointed to protect consumers, and to alert them to the need to closely review their premium changes.

Media activity

On 14 August 2013 a media release was issued highlighting salient aspects of the *June quarter 2013 report*, including evidence of large differences in residential property insurance premiums. The release suggested that policyholders shop around before renewing their policy, as well as checking that no FSL has been applied.

A number of radio and newspaper interviews were conducted to address the public perception of 'double charging', which continues to be the most common cause of calls to the enquiries and complaints hotline. This included interviews with the ABC morning program and 3AW 'drive' program, the Herald Sun and the Australian Financial Review. A number of ad hoc media enquiries were also answered on this issue.

Several media enquiries received in this quarter actually related to the Fire Services Property Levy (FSPL) and were accordingly referred to the Department of Treasury and Finance.

Advertising

A consumer advertising campaign was developed for placement in the print and online media in early October—following the conclusion of the Government's FSPL advertising campaign in September—to alert consumers about what they should do before renewing their property insurance policy. The advertising campaign will feature in the metropolitan, regional and CALD press, and online at the Herald Sun and The Age websites. The campaign follows a differently themed campaign run in the press in June 2013, prior to the abolition of the FSL.

The messages are:

- Policyholders should carefully check policy renewal notices to make sure the FSL has genuinely been removed, and to compare the new *base premium* with last year's base premium[1]
- There is a large variation in property insurance premiums being quoted by major insurers – policyholders should 'shop around' and may be better off switching insurers
- If still concerned about the change in premiums, contact the FSLM.

[1] Base premium is the total premium less GST, stamp duty, FSL (before 1 July 2013) and any fees.

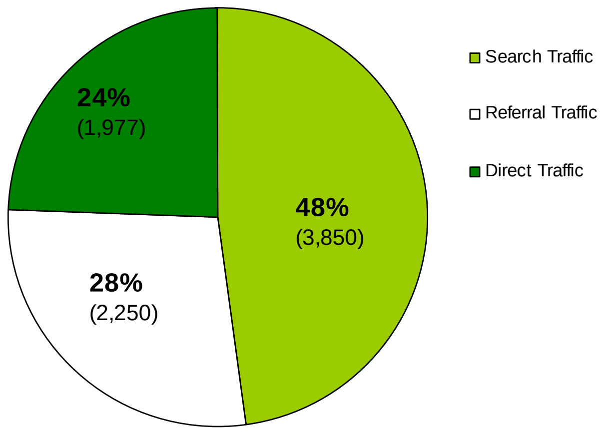
2.2 Website

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 FSLM activities.

Changes were made to the website during this quarter to increase the emphasis on assisting consumers to make informed choices about property insurance and helping consumers to scrutinise their insurance policy to make sure that no FSL component is charged. The website reflects the fact that

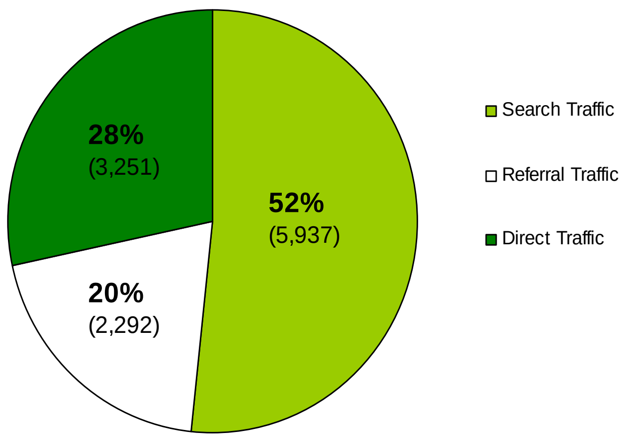
September quarter, the number of 'direct' visits grew by 4 percentage points from 24 per cent to 28 per cent, suggesting that a higher number of consumers knew where to find the FSLM website or had it bookmarked.

Figure 1: June quarter – website traffic sources overview



Note: Also included were two miscellaneous visits which are not shown in the chart above.
Source: Office of the Fire Services Levy Monitor and Google analytics.

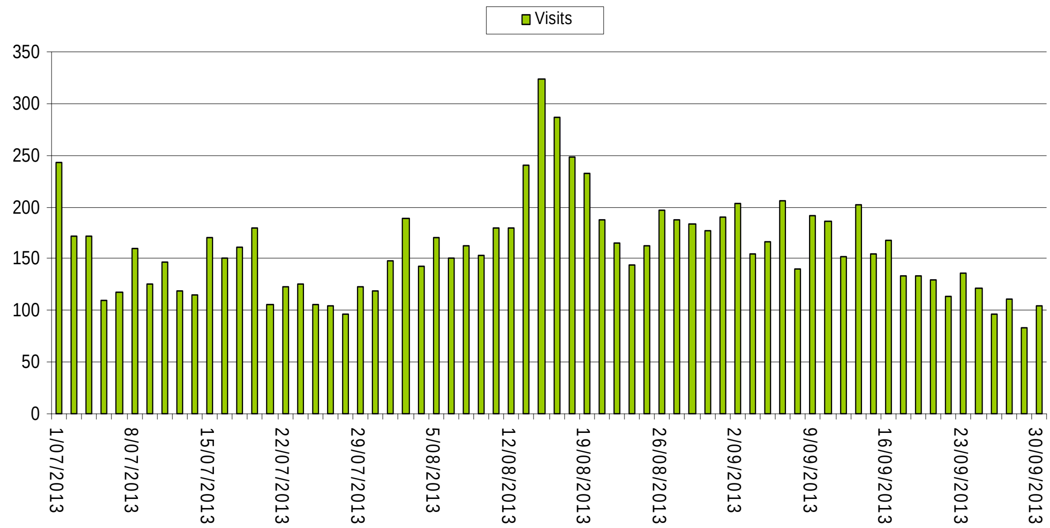
Figure 2: September quarter – website traffic sources overview



Note: Also included were two miscellaneous visits which are not shown in the chart above.
Source: Office of the Fire Services Levy Monitor and Google analytics.

Figure 3 displays the number of daily visits to the website in the September quarter. The intensity of visits peaks around mid-August, with an apparent substantial falling-away of visits towards the end of the quarter.

Figure 3: Daily website visits – September quarter 2013



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

To supplement the reach and benefit of information and guidance on the website, social media has been integrated to enable consumers to share information on the website via social media outlets such as Twitter and Facebook.

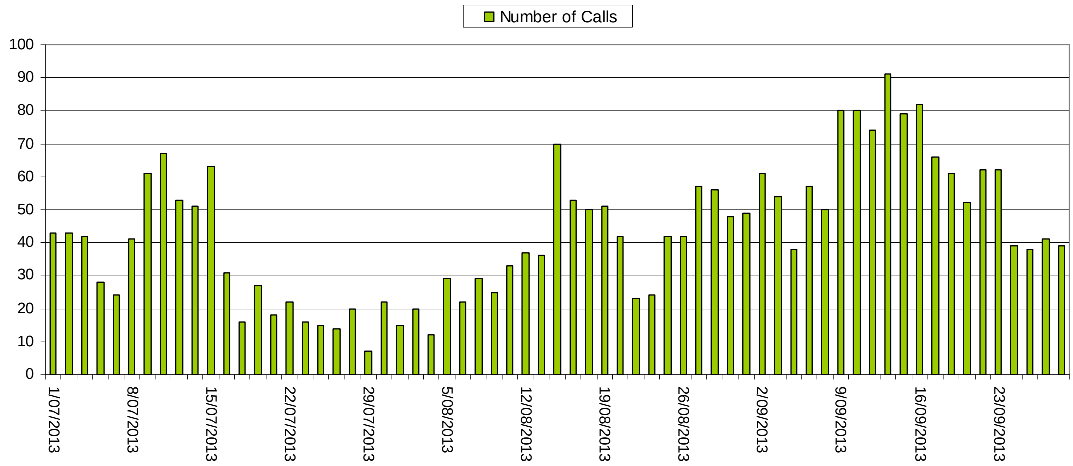
2.3 Enquiries and complaints 'hotline' 1300 300 635

An enquiries call service assists policyholders with queries and complaints regarding the FSL reform. The hotline received 4,329 calls between its launch on 30 January and 30 September 2013, with 2,832 calls, or 65 per cent of all calls, in the September quarter. The number of calls in the September quarter was three times the number in the June quarter.

The substantial increase in the number of calls compared with the June quarter can be attributed to increased awareness of the role of the FSLM and the continuing impact of earlier advertising and media campaigns. Local councils dispatching annual council rates and FSPL notices between mid-July to early September is also likely to have contributed to the peak also. The number of calls trended upwards and then declined from about mid-September. Figure 4 shows the daily number of calls to the FSLM hotline from all sources. Most calls come via the 1300 hotline number. The peak in call numbers occurred around the middle of September, about a month later than the peak in website visits.

From 16 July 2013, three options were introduced for callers to the hotline, so they could more readily select the appropriate agency to address their enquiry: the FSLM regarding the insurance-based FSL; or the State Revenue Office (SRO) or the caller's local council regarding the FSPL. The call destination option system was instituted in light of the then pending dispatch of approximately 2.8 million FSPL notices by local councils across Victoria. These notices were accompanied by an information flyer on the FSPL with the FSLM hotline quoted as the sole enquiry/complaint number.

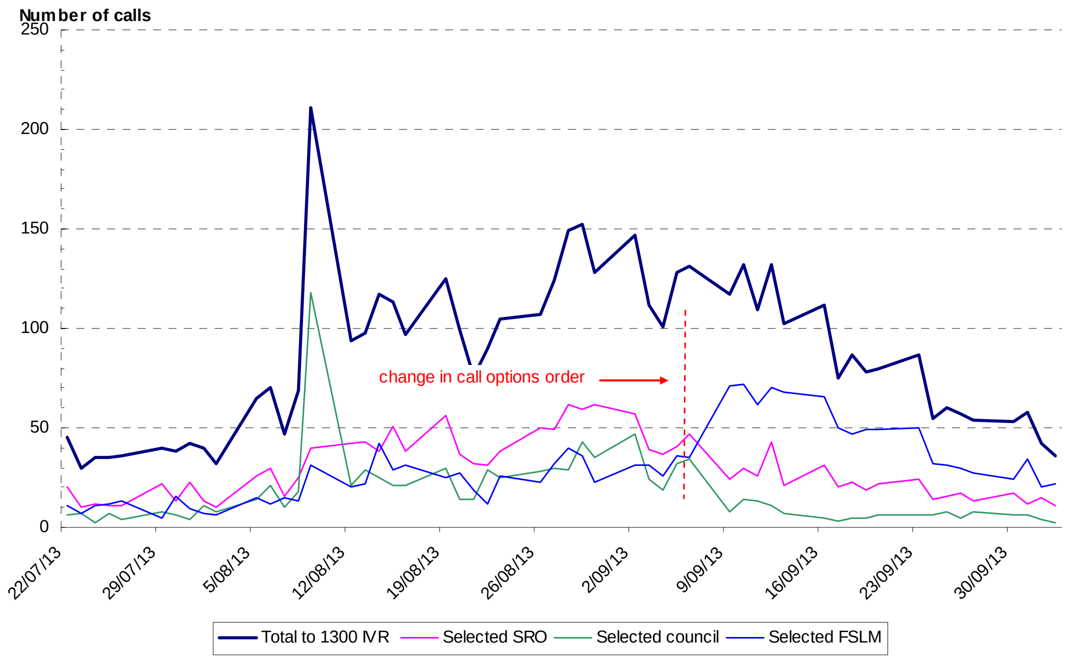
Figure 4 Total calls per day to the FSLM – September quarter 2013



Source: Office of the Fire Services Levy Monitor

A breakdown of the destination agencies of call traffic is shown in Figure 5. From 8 September 2013 the order of the announcement of options was changed in response to some callers completing their call without making any selection – the FSLM became the first-mentioned option for callers, rather than the third. This change almost certainly contributed to the higher number of callers to the hotline selecting the FSLM during the middle of September quarter.

Figure 5 Calls to 1300 300 365 hotline per day – September quarter 2013



Source: Office of the Fire Services Levy Monitor

A detailed analysis of enquiries and complaints to the FSLM by telephone, email and letter is contained in Section 4.

2.4 Comparison tool for insurance premiums

An observation at the property insurance market is that there is no market provided comparative information on premiums to assist consumers with their choice of insurer. For example, there is currently no online insurance quotation tool to obtain simultaneous multiple comparative quotes in relation to Victorian property. It is possible for consumers and policyholders to obtain multiple quotes themselves, but only by the time-consuming and repetitive process of visiting each insurance company's website, one-by-one, and supplying personal and property details each time.

An online tool for comparisons may increase price competition, which would contribute to consumers and small business in particular further benefiting from the abolition of the FSL. Larger businesses generally have greater capacity to search out and obtain best value insurance option. The potential for the development of an online comparison tool to assist property insurance consumers is being explored.

3. Price and conduct monitoring

Under section 6 of the Act, the FSLM monitors premium prices to assess industry compliance with the prohibitions on price exploitation and monitors compliance with the prohibition on conduct which falsely represents or misleads or deceives regarding the abolition of the FSL.

Sections 18 and 19 of the Act give the FSLM 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.

The FSLM continues to conduct an extensive price monitoring program drawing on a range of sources, including information obtained under sections 18, 19 and 30. This has helped the FSLM to develop a comprehensive understanding of property insurance pricing and FSL arrangements associated with the FSL reform.

Table 3: Statutory notices issued – September quarter 2013

Statutory notices issued under monitoring and investigation power – September quarter 2013	
Section 18 notices	85
Section 19 notices	12
Section 30 notices	9

3.1 Over-collection of FSL

At the 18 June 2013 public hearing held by the Monitor, insurance companies were asked whether they had a process in place to refund over-collected FSL amounts for the 2012–13 financial year. The indications were that insurers considered this process to be unnecessary, due to their deliberate strategy of planning for under-collection of the FSL in 2012–13. Three of the insurers at the June public hearing observed that, in the 'unlikely' event of an over-collection, they would contact the FSLM to remedy the situation, while another stated that it would implement a process to address the surplus. One insurance company confirmed that it would refund policyholders any FSL over-collection.

The FSLM will consult with the fire services authorities once their reconciliation of premiums collected and contributions by insurance companies is completed. This is expected by the end of October 2013. Guideline 5 of the *Guidelines on price exploitation in relation to the fire services levy reform* (*Guidelines on price exploitation*) indicates that insurance companies who over-collect should refund direct to policyholders or deal with the amount of over-collection by some other method of disbursement agreed with the FSLM.

3.2 Section 30 notice for ongoing premium quotes

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

- monitor the abolition of the FSL and track movements in contemporaneous base premiums
- cross-reference movements in insurance premiums against information provided by insurers earlier in 2013
- 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.

3.3 Section 30 notice on pricing of flood and bushfire risks

Under section 26(2)(b)(v) of the Act, an insurance company engages in price exploitation in relation to the FSL reform if the price of the supply of a regulated contract of insurance is 'unreasonably high' having regard, among other things, to the 'costs of supplying insurance against fire'.

Information that has been provided by insurance companies in response to the exercise of statutory information-gathering powers and 'please explain' letters often refers to the costs of supplying insurance to justify base premium price increases. Supply costs increases have generally been attributed to:

- repricing of flood and bushfire perils
- increases in reinsurance costs.

To examine the validity of these arguments, the FSLM developed a survey to obtain information about the methodologies and data used by insurance companies to price flood and bushfire risks, as well as the allocation of reinsurance costs for residential buildings insurance. Actuarial advice was obtained to assist in the survey design. The survey covers three periods pre-transition (2011–12), transition (2012–13) and post-transition (July 2013 to September 2013). A copy of the survey form is available on the FSLM website.

The survey was issued in September to a sample of insurance companies that represent approximately 68 per cent of the Victorian property insurance market. The analysis of the responses will be reported in a subsequent quarterly report.

3.4 Section 18 notice on insurers' communications to policyholders

From the outset of FSLM operations, concerns have been held about the limited extent and detail of insurers' communications to policyholders regarding the abolition of the FSL. The *March quarter 2013 report* observed that communications to policyholders were 'limited and inadequate', especially during the first half of the 2012–13 financial year.

Guidelines on false representation or misleading or deceptive in relation to fire services levy reform (*Guidelines on misleading or deceptive conduct*) were issued at the end of May 2013 pursuant to section 6(1)(a) and section 6(2)(d) of the Act. In the June quarter 2013 report, it was observed that 'the method of communication [by insurance companies] was disparate, with planned communications varying from the use of renewal notices, special product disclosure statements, company websites and call centre staff, to information dissemination through intermediaries only'.

It is incumbent on insurance companies and brokers to provide clear and readily understandable information about how they have responded to the abolition of the FSL and how premiums have subsequently been calculated (see Guideline 2). This is especially important where the benefit of the abolition of the FSL on total premiums may be fully or substantially offset by increases in base premiums due to other factors. Insurance companies should readily be able to explain to policyholders how their particular policy premium reflects the abolition of the FSL.

During the September quarter, a review of the websites of 85 insurers and brokers was completed. The review was undertaken to determine whether insurance companies and brokers have been conforming with the *Guidelines on misleading or deceptive conduct* and in particular, to check whether:

- the abolition of FSL has been transparent and communications did not breach section 31 of the Act
- insurance companies and brokers provided information on the possible impact of FSL removal on 2013–14 insurance premiums
- contact details of the insurance company or broker were provided to enable policyholders to obtain further information about the abolition of FSL and concurrent premium increases.

Only 11 of the 85 insurers and brokers surveyed had any information at all about the abolition of FSL on their websites. The material on these websites ranged from basic details about the abolition of FSL to more comprehensive information on the impact of the abolition of FSL on insurance premiums.

As a consequence of the website survey, and having regard to the *Guidelines* and to complaints received to date, a section 18 notice was issued in September 2013. This was sent to more than 90 insurance companies and brokers seeking details of the communications they directed to their residential building/contents and fire and industrial special risks policyholders, including:

- policy renewal statements/invoices
- other communications issued about the abolition of FSL and its impact on premiums.

The notice also requested the provision of information on the procedures companies had in place to enable them to provide policy-specific information to policyholders when requested.

The results of the review of websites and the industry's responses to the section 18 notice will be reported in a subsequent quarterly report.

4. Compliance and enforcement

As a consequence of detailed ongoing monitoring and analysis combined with investigations of complaints, some issues emerged during the September quarter regarding the conduct of a limited number of insurance companies and insurance brokers.

4.1 Trends in enquiries and complaints

The level of enquiries and complaints, while rising in the September quarter compared to the June quarter, remains generally very low relative to the total number of property insurance policies in Victoria. The total number of enquiries and complaints over the period in which the FSLM has been operating is of the order of 0.1 per cent of the approximately 4 million residential and commercial property insurance policies subject to the FSL scheme.

However, it is a generally held view in consumer protection complaint-handling that for each consumer making the effort to formally complain about a specific matter, there are likely to be other consumers who have experienced the same circumstances, but without lodging a complaint. The extent to which the statistics in this report may under-represent the level of concerned or aggrieved policyholders cannot be estimated.

Complaint handling is an integral part of the FSLM's statutory functions. However, the mere fact that complaints have been received and are being investigated is not evidence that there has been a breach of the Act or that a conclusion has been reached about the substantiation or justification of the complaint.

4.1.1 Total enquiries and complaints

The total number of enquiries and complaints received by the FSLM to the end of the September quarter 2013 is just under 5,000, as shown in Table 4. Nearly 90 per cent of enquiries and complaints were made by telephone, with just under 10 per cent made via email.

Table 4: Enquiries/complaints to the FSLM mode of contact and quarter

Mode of contact	March quarter	June quarter	September quarter	Total	Per cent of total
Telephone	544	953	2,832	4,329	86.9
Emails	90	45	344	479	9.6
Letters	0	64	110	174	3.5
Total	634	1,062	3,286	4,982	**100.0**

Source: Office of the Fire Services Levy Monitor

4.1.2 Categories of enquiries and complaints

Enquiries and complaints were received about several aspects of the FSL, with perceptions of paying twice ('double charging') and insurers' charges regarding the amount of FSL or premium concurrent with the abolition of the FSL by far the two largest categories. Table 5 shows the distribution of enquiries/complaints where the nature of contact is more than general enquiry and the subject matter is able to categorised.

Table 5 indicates that the proportion of enquiries/complaints relating to the 'amount of FSL or premium charged' accounted for a greater proportion in the September quarter than over the total period, 40.6 per cent compared to 34 per cent. In the September quarter, nearly all of that category involved large increases in the premiums concurrent with removal of the FSL. Prior to about April 2013, most complaints in that category involved significant increases in the amount of FSL charged which reflected the practice of insurance companies tapering FSL rates during 2012–13.

Table 5: Enquiries/complaints to FSLM, by category

Issue	September quarter 2013 percentage	Cumulative to 30 September 2013 percentage
'Paying twice/double charging'	56.5	60.5
Amount of FSL or premium charged	40.6	34.0
Misleading/false representation	2.6	4.6
Other	0.4	0.9
Total*	**100.0**	**100.0**

* Total may not equal 100 due to rounding
Source: Office of the Fire Services Levy Monitor

Perceptions of 'paying twice'

A significant number of calls and emails to the FSLM in the September quarter continued to involve the perception by policyholders that they are paying to fund the fire services twice for the same year solely by paying an FSL amount prior to 1 July 2013, and then paying the FSPL collected by local councils from September 2013.

As explained in the *June quarter 2013 report*, the FSL component of an insurance premium was tied to a financial year, not the period of insurance coverage denoted in the policy. The FSL and the base premium of insurance premiums were for different purposes and related to different periods, even though they were charged in a single total price. For example, the FSL paid in a policy renewed in December 2012 was to fund the fire services for the 2012–13 financial year. It did not fund the fire services for the period of insurance cover, which, in this example, would be December 2012 to December 2013.

Even in the case of a person who paid their insurance premium on 30 June 2013, the FSL charged as part of that premium would have formed part of that insurance company's liability to fund the fire services for the 2012–13 financial year. However, as 2012–13 progressed, most insurance companies ceased charging FSL from April 2013, and relatively few policyholders were charged FSL during May and June 2013. This is despite the fact that insurance companies could have continued charging FSL up to and including 30 June 2013 under the statutory arrangements governing their contributions to the fire services.

Large increases in premiums on the abolition of FSL

Aside from the perception of double charging, the most common complaint in the September quarter was that while the FSL ceased to be a component of an insurance premium, the base premium charged by the complainant's insurance company was significantly higher than the base premium charged for the preceding period of insurance.

A typical scenario in the handling of this category of complaints is that a policyholder has been unable to obtain a satisfactory explanation for the rise in the price for renewal of their policy. A complaint is then lodged with the FSLM and the complaint is assessed. The complainant will be requested to provide full documentation of the current and preceding renewal to substantiate the premium levels and ensure that any readily identifiable factors, such as large increase in the sum insured, recent claims or reduction in excess, do not apply. Where documentation is received regarding a particular policy, the insurance company may be requested to supply information in writing regarding its general pricing factors and any factors specific to the particular policy. There were 27 please explain letters dispatched by the FSLM during this quarter.

Responses to these 'please explain' letters are then considered together in the totality of the pricing information held on the company and form part of the overall assessment of the company's pricing. The fact that a 'please explain' letter has been submitted to an insurance company does not mean that a view has been formed that the complaint is considered to be substantiated or that the Act may have been contravened. On the other hand, the fact that not every documented complaint about premium levels results in a 'please explain' letter, or that responses to please explain letters are not followed up further with the company in question, does not necessarily mean that concerns about that company have been resolved or that the company is not the subject of further investigation.

False representations or misleading or deceptive conduct

Table 5 shows a very small proportion of enquiries/complaints in the September quarter about possible misleading or deceptive conduct or false representations. This is consistent with the fact that false representation or misleading or deceptive conduct in the context of the abolition of the FSL is, by its nature, unlikely to be readily identifiable by individual policyholders. The onus is on the FSLM on behalf of policyholders generally to monitor closely the conduct of insurance companies and brokers in this regard. Section 2 of this report describes the steps that have been taken to ensure that communications to policyholders are clear and informative.

4.1.3 Enquiries/complaints regarding insurer brands

FSLM data on enquiries or complaints, excluding those regarding the perception of paying twice and those calls concluded during the initial phase of telephone contact, identify the brand of insurer involved. Many of these escalated enquiries and complaints involve substantive issues, but there is no necessary implication of wrongdoing on the part of the insurer that is the subject of the complaint. There are a limited number which form part of broader examinations by FSLM that were ongoing at the end of the September quarter. The observation earlier in this section that the overall number of enquiries/complaints is low relative to the total number of policies in operation also holds for the number of complaints concerning an individual insurer and the total number of its policies.

Table 6 summarises the data on complaints disaggregated by insurers' brand. In the September quarter, the insurer that was the subject of the most complaints was Insurance Manufacturers of Australia Pty Limited's 'RACV Insurance' (IMA). IMA was the subject of just over half of the complaints logged, with AAMI the next most common respondent, approximately on 11 per cent.

In the cumulative data for the period to the end of September 2013, IMA and AAMI attracted 33.8 per cent and 10.3 per cent respectively, with GIO accounting for 13 per cent of complaints. IMA was more over-represented compared to its share of the property insurance market than these brands, particularly in the September quarter where it accounted for 54.5 per cent of complaints, compared to its 7.8 per cent share of property insurance premiums.

Table 6 Number of complaints by insurer brand, to 30 September 2013

Insurer	September quarter 2013		Total to 30 September 2013		*Market share of insurer#*
	No.	*%*	*No.*	*%*	*%*
Allianz Australia Insurance Limited	6	4.9	20	5.6	*8.6*
Aon Risk Services Australia Limited	0	0.0	1	1.3	*0.2*
Australian Alliance Insurance Company Limited (APIA)	6	4.9	41	11.5	*2.6*
Australian Associated Motor Insurers Limited (AAMI)	13	10.6	37	10.3	*6.7*
Auto & General Insurance Company Limited	0	0.0	3	0.8	*0.4*
Calliden Insurance Company	0	0.0	2	0.6	*1.9*
CGU Insurance Limited	6	4.9	14	3.9	*9.7*
Chartis Australia Insurance Limited	0	0.0	2	0.6	*1.5*
Commonwealth Insurance Limited (CommInsure)	3	2.4	10	2.8	*3.1*
Defence Service Homes Insurance	0	0.0	3	0.8	*0.2*
Elders Insurance Limited	0	0.0	2	0.6	*1.7*
GIO General Limited	4	3.3	47	13.1	*6.3*
Insurance Manufacturers of Australia Pty Ltd (RACV)	67	54.5	121	33.8	*7.8*
OAMPS Insurance Brokers Limited	1	0.8	2	0.6	**0.0*
QBE Insurance (Australia) Limited	4	3.3	14	3.9	*13.9*
Suncorp Metway Insurance Limited	0	0.0	1	0.3	*0.3*
The Hollard Insurance Company Pty Ltd	0	0.0	1	0.3	*0.5*
Vero Insurance Limited	2	1.6	9	2.5	*6.1*
Wesfarmers General Insurance Limited	3	2.4	9	2.5	*6.0*
Westpac General Insurance Limited	7	5.7	17	4.8	*2.1*
Youi Pty Ltd	1	0.8	1	0.2	*0.4*
Zurich Australian Insurance Limited	0	0.0	1	0.2	*3.7*
Total**	**123**	**100****	**358**	**100****	

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.
** Total does not equal 100.0 due to rounding.
Source: Office of the Fire Services Levy Monitor

4.2 Investigations

As already noted, compliance monitoring, analysis and investigation activity was the primary focus of the FSLM during the September 2013 quarter. 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. This quarter also saw the commencement of an in-depth analysis of the factors influencing the costs of supplying insurance against fire, using statutory notice powers as well as examining the operation of the insurance market in general. Formal statements have been taken from 16 policyholders who have made complaints against insurance companies, and the conduct of certain insurance brokers has been raised in complaints.

Notices issued under compulsory powers to specific insurance companies were used to progress investigations. While insurance companies have generally ceased charging FSL since April or May 2013, some very limited instances have emerged of charging FSL on policies effective after 1 July 2013.

In light of complaint data and publicly available and insurer-provided monitoring data, the FSLM has undertaken detailed analysis of the pricing of two insurance company's policies during the latter part of 2012–13. Consistent with the common practice of regulators with investigatory powers, the names of regulated entities that are subject to investigation are not made public while investigations continue.

QBE Insurance (Australia) Limited advised in June 2013 that an error had been detected across two of its residential property policy platforms, adversely affecting the premium prices of approximately 9,800 policyholders. This was also referred to by company representatives in submissions at the public hearing on 18 June 2013. The circumstances surrounding the pricing of these policies have been considered carefully, including: remedial steps taken by QBE to ensure that all affected policyholders have been identified and the error reversed; systems corrections implemented to ensure that the error will not be repeated, and an independent audit conducted to verify these. An appropriate resolution to this matter is expected in the near future.

A small number of policies of another insurance company were charged FSL after 1 July 2013. The charging was notified to the FSLM by the company in late August 2013. The reason that these policyholders were charged the FSL related to the particular circumstances of the affected policies. This matter was nearing resolution at the end of the September quarter.

The conduct of a limited number of brokers has also been scrutinised closely during this quarter. Several members of a brokerage group and a small number of other unrelated brokers charged several policyholders FSL after 1 July 2013. The exact circumstances of these occurrences are still under investigation. Two brokers are also under investigation, one relating to representations about an increase in a base premium and the other relating to fee increases concurrent with the removal of FSL.

4.3 Compliance with FSLM Guidelines

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. The *Guidelines on price exploitation* and the *Guidelines on* *misleading or deceptive conduct* were issued under these two sections of the Act. The two sets of guidelines provide an interpretation of the legislation and the associated requirements for compliance. They also incorporate useful background and commentary.

4.3.1 CEO Declarations

Guideline 3 of the *Guidelines on price exploitation* states that 'the FSL will no longer constitute a valid component of a price for a new or renewed contract of insurance issued from 1 July 2013'. Guideline 4 requests each insurer to provide a declaration signed by the Chief Executive Officer of the company (or equivalent position) stating that the company has implemented internal controls designed to ensure that no FSL will be charged on new policies issued or policies renewed from 1 July 2013.

The objective is to enhance insurers' accountability for ensuring that no FSL can be charged after 1 July 2013, and to focus attention on this issue at the highest level of each company. A list of 34 insurance companies that have provided declarations, and the content of those declarations, is published on the FSLM website. This represents all but one of the total number of declarations required. It should also be noted that Guideline 4 is only applicable to 35 insurance companies that actually determined premiums and the amount of FSL charged to policyholders. Entities that merely pass on changes set by others are excluded from the scope of Guideline 4.

While the Declarations provide reassurance for policyholders, they are not a guarantee that FSL has not been charged on some classes of policy or some policies. Monitoring will continue and policyholders will continue to be urged to check their policy renewal statements carefully.

4.3.2 Assurance opinions

Under Guideline 11 of the *Guidelines on price exploitation*, insurers were requested to provide by 18 October 2013 a declaration of the amount of FSL they collected in respect of 2012–13, accompanied by an 'assurance opinion' obtained in accordance with the Auditing Standard on Review Engagements *ASRE 2405 Review of Historical Financial Information Other than a Financial Report*. Under the previous FSL funding arrangement, insurance companies and brokers declared their FSL collections to the Victorian fire authorities under section 40 of the *Metropolitan Fire Brigades Act 1958* and section 77 of the *Country Fire Authority Act 1958*. Declarations submitted by insurers and brokers to the Victorian fire authorities were, prior to 2012–13, 'not externally verified'. It was essentially a self-reporting system. This aspect of the FSL arrangements limits the usefulness of the declarations for the specific purposes of the Act.

There was consultation with the insurance industry, assurance providers and the Victorian fire services about how to obtain external verification. The *Guidelines on Price Exploitation* state that that 'external attestation of FSL collections would assist in confirming the integrity of the FSL collection process during its final year of implementation'. Guideline 11 is in these terms:

> *A review engagement should be undertaken under the Auditing Standard on Review Engagements, ASRE 2405, Review of Historical Financial Information Other than a Financial Report, to ensure that the FSL collection for the year ending 30 June 2013, declared to the Monitor reconcile in all material respects, and with the amounts recorded in the insurer's accounting system (which have been traced through to fire services levy charges in policyholders' new/renewal schedules). All declarations and assurance opinions should be submitted to the Monitor by the close of business 18 October 2013.*

Ninety-five insurers and brokers contributing to the funding of the fire services in 2012–13 were sent a reminder in mid-September about what is expected of them under Guideline 11. In conjunction with this, copies of the FSL declaration and assurance opinion template were made available on the FSLM website for downloading. As at 30 September 2013, 18 insurance companies had provided an assurance opinion. The December quarter 2013 report will report on compliance with this guideline.

5. Removal of FSL and developments in premiums

The September quarter 2013 is the first full quarter where the combined effects of both the abolition of FSL and the changes in base premiums on total premiums, can be monitored. The distinction between base and total premiums is important in analysing premium monitoring data. The total premium is made up of the base premium, any taxes (the Goods and Services Tax), other government charges (stamp duty), fees (such as broker fees) and FSL charged by insurance companies prior to 1 July 2013. The base premium is what the insurer charges purely for the insurance cover provided, exclusive of any other charge.

It is also helpful to have a hypothesis of what the combined effect on total premiums broadly could be expected to look like. This will provide a parameter for assessing observed outcomes and identifying those that warrant closer examination or more formal investigation for potential contraventions of the Act.

Section 5 presents some broad expectations for total premium outcomes which set the scene for the subsequent reporting of monitoring data. The section also concludes with data indicating the variability of premiums charged across major insurers and, by implication, the potential benefit to consumers from 'shopping around' for property insurance cover.

5.1 Expected movements in total premiums in 2013 on abolition of the FSL

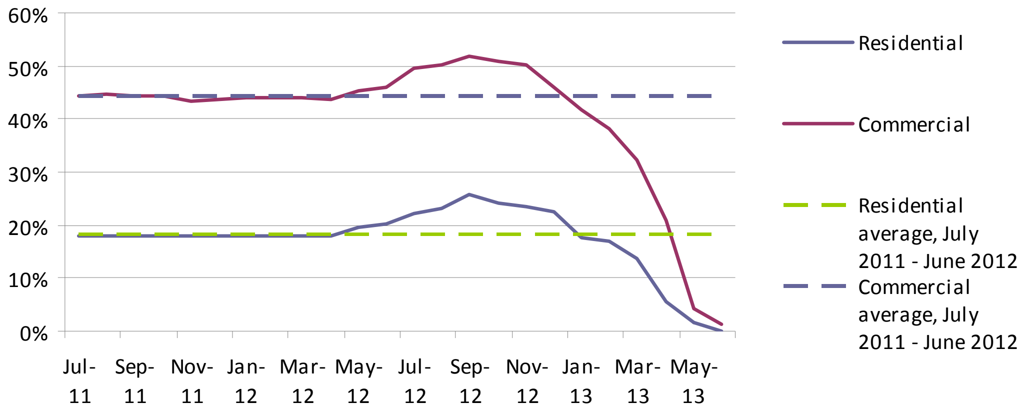
The FSLM's broad expectations for total premium outcomes for 2013–14 on renewals of property policies reflect the rates of FSL charged by insurers during the course of 2012–13 and the following assumptions about pricing behaviour in general:

- complete abolition of the FSL
- general changes in base premiums reflecting changes in insurers' costs
- variable property-specific risk and claims factors resulting in base premium changes.

5.1.1 The effect of removing 2012–13 FSL rates from total premiums for renewals

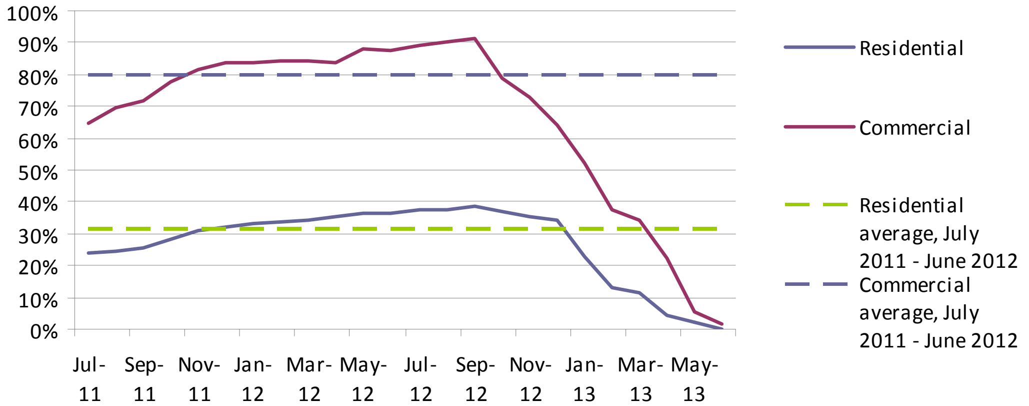
The rates of FSL charged by insurers in 2012–13 were set out in the FSLM *June quarter 2013 report*. It was noted there that most insurers in the market applied a 'tapering' approach to FSL rates for the 2012–13 financial year. As shown in the graphs at Figure 6 and Figure 7, this involved increasing FSL rates at the start of the 2012–13 financial year, before rates were lowered later in that year. The lowering of rates started around November 2012, before dropping to below the average FSL rates of previous years by around January 2013. By March 2013, some insurers were applying a zero FSL rate. In effect, insurance companies had brought forward the abolition of the FSL to the beginning of May 2013 for the bulk of policies.

Figure 6 Average FSL rates (market-share weighted) 2011–13, MFB region



Source: Office of the Fire Services Levy Monitor, using data obtained from insurance companies

Figure 7 Average FSL Rates (market-share weighted) 2011–13, CFA region



Source: Office of the Fire Services Levy Monitor estimates, using data obtained from insurance companies

The effect of the patterns shown in Figure 6 and Figure 7 on expectations for the contribution of the abolition of the FSL to changes in total premiums in 2013–14 is twofold:

- policyholders renewing in the first half of 2013–14 would expect significant reductions in total premiums, as the high 2012–13 FSL rates (up to 90 per cent for commercial property and nearly 40 per cent for residential property) fall out of total premiums;
- on the other hand, policyholders renewing in the second half of 2013–14 would expect smaller reductions in total premiums or, for many renewing in the June quarter of 2014, no reduction in total premiums as there was no 2012–13 FSL to fall out of premiums.

MFB-region FSL rates

The weighted average residential FSL rate over July 2012 to November 2012 was 23.8 per cent for the MFB region. All else being equal, this should result in an average total premium reduction for renewals during July 2013 to November 2013 of 19.2 per cent on removal of the FSL.

However, the weighted average residential FSL rate over March to June 2013 was 5.3 per cent for the MFB region. All else being equal, this should result in an average total premium reduction for renewals during March to June 2014 of 5.1 per cent on removal of the FSL.

CFA-region FSL rates

The weighted average residential FSL rate over July 2012 to November 2012 was 37.1 per cent for the CFA region. All else being equal, this should result in an average total premium reduction for renewals during July 2013 to November 2013 of 27.1 per cent on removal of the FSL.

However, the weighted average residential FSL rate over March to June 2013 was only 4.5 per cent for the CFA region and much closer to the MFB region average. All else being equal, this should result in an average total premium reduction for renewals during March to June 2014 of 4.3 per cent on removal of the FSL

5.1.2 The effect of base premium increases

In reality, it is unlikely that no changes occur that may affect insurance premiums during the roughly two year period of the life of the FSLM Act. Obviously, insurance base premiums, like the prices of many other products in the economy, tend to increase over time. For example, there are invariably annual increases in the Consumer Price Index (CPI) which is often used as a measure of general price inflation in the economy. The 'Insurance' expenditure class within the CPI (Melbourne) increased on average by 4.7 per cent per annum over the 10 years ending June quarter 2013 and 7.4 per cent per annum over the two years ending June quarter 2013.[2] While this includes a broader range of insurance products than residential property insurance, such as comprehensive motor vehicle and compulsory third party motor vehicle insurance,[3] it is nevertheless one indicator of the insurance price rises faced by household consumers in recent years.

This order of magnitude is consistent with statements by four major insurers to the FSLM 18 June 2013 public hearing, as reported in section 2.4 of the June quarter 2013 report. These indicated increases in base premiums for residential property insurance over calendar 2012 or financial year 2012–13 of 'single digit' for CGU, 8 per cent for Allianz and 'significantly less than 16 per cent' for the Suncorp Group and QBE.

If recent history is a guide, it might be anticipated that base premiums could increase generally by the order of 7 to 10 per cent over 2013–14. That range fits with the public hearing submissions of CGU and QBE, at least, which refer to planned increases for 2013 of 7 and 8 per cent respectively on a like-for-like assessment of risks.[4] Thus, and solely for the purpose of formulating an hypothesis about an expected outcome for total premiums, an increase in base premium of 10 per cent is assumed.[5] A given base premium percentage increase, with the charges of GST and stamp duty added, translates to the same percentage increase in total premium in the absence of FSL or any other charges.

5.1.3 The combined effect of removing FSL and base premium increases on total premium outcomes

Taking into account the average FSL rates applying in the first half of 2012–13 and assuming removal of the FSL combined with a general increase in base premiums (even at the upper

[2] Australian Bureau of Statistics, *Consumer Price Index, June Quarter 2013*, Australia, catalogue no. 6401.0,Time series workbook, Table 11, CPI: Group, Sub-group and Expenditure Class, Index Numbers by Capital City.

[3] Australian Bureau of Statistics, *A Guide to the Consumer Price Index: 16th Series*, 2011, catalogue no. 6440.0, Appendix 2

[4] 'Like-for-like' means that the assessment of risk does not change significantly from one renewal to the next. FSLM Public Hearing 18 June 2013, transcript, p. 82. available at <www.firelevymonitor.vic.gov.au>

[5] Meaning the assessment of risk does not change significantly from one renewal to the next. FSLM Public Hearing 18 June 2013, transcript, p. 82.

end of the range of 10 per cent in 2013), the following broad outcomes would be expected for renewals in the September quarter 2013:

- MFB-region renewals – reductions of around 11 per cent on average; and
- CFA-region renewals – reductions of around 20 per cent on average.

As noted above, with FSL rates declining further to zero in the June quarter 2013, renewals of those policies in the June quarter 2014 would be expected to show increases in total premiums of the order of 5 per cent, assuming base premium increases of the order of 10 per cent.

5.1.4 The effect of property-specific pricing factors on total premium outcomes

In addition to the cost inflation based price increases applied across portfolios, insurers periodically review the pricing of individual properties taking into account the particular characteristics of properties (and policyholders) and their assessments of the risks to individual properties associated with natural perils such as bushfire, floods, storms and earthquakes. Explanations from insurers in response to enquiries about complaints stated that the large increases in base premiums in many of these cases were substantially due to recent re-assessment of risks specific to the individual properties. This includes insurers utilising more detailed, or 'granular', data to assess risk that previously was assessed on a much broader basis, for example suburb, postcode or even State.

It is clear from a number of complaints that have been investigated in the September quarter that these property-specific factors, in addition to whatever general increase may apply, can result in substantial increases in base premiums. In some complaints concerning individual policies which were investigated, the base premium increase was about 50 per cent, resulting in significant increases in total premiums despite no FSL being charged in the renewal premium.

This pattern, as already noted, has resulted in the powers under section 30 of the Act being utilised to obtain information from major insurers relating to assessment of bushfire and flood risks and reinsurance costs in the setting of base premiums. In particular, details of the methodologies and data utilised to assess and price the risk of bushfires and floods, and any recent changes in either, have been sought. The outcomes of the analysis of this information will be reported in a subsequent quarterly report.

5.2 Approach to monitoring

Two approaches have been pursued in monitoring movements in insurance premiums for property insurance over 2012–13 and into 2013–14. Both involve obtaining quotes for a sample of policies and observing changes in those quotes over time. The sample comprises a small number of properties at particular locations and with specific characteristics sufficient to enable premiums for the buildings and contents to be calculated and compared. One approach obtains quotes from insurers through the on-line quotation facilities on their Internet sites. This is replicating a process that is available to any member of the public. This has been undertaken since shortly after commencement of the operations of the OFSLM at the end of January 2013 with the first month of data being February 2013. This is the only publicly-available source of data on individual property insurance premiums.

The second approach involves obtaining quotes for a small sample of policies from a number of insurance companies under the price monitoring powers provided by section 30 of the Act.

Quotes have been obtained, and continue to be obtained monthly on an ongoing basis, from 11 major brands of insurance that account for approximately three quarters of the residential property insurance market in Victoria. Quotes have also been obtained on a monthly basis going back to July 2012. Only one company was unable to provide quotes retrospectively. The series of data for that company starts at February 2013. The methodology is described in detail in Appendix 4 of the *June quarter 2013 report*.

The small sample size for this regular monitoring means that it can only be indicative of actual movements in the market. However, the sample size has been adequate for the FSLM's monitoring purposes and has been complemented by other factors:

- information on price changes over time has been obtained under section 18 of the Act;
- complaints received provided pointers to price movements that were further examined through the use of 'please explain' letters or notices under section 19; and
- movements in prices over time were identified through more extensive and detailed information on policies obtained under section 19 of the Act.

In addition to the monitoring of quotes outlined above, price change information on approximately 140,000 existing policies has been obtained across three insurance companies as a result of notices issued under section 19 of the Act.

In establishing the sample for ongoing monitoring, regard was had also to the total regulatory burden imposed on insurers who are also the subject of other information provisions requirements under section 18, and potentially section 19, of the Act.

Monitoring of prices for commercial property insurance under section 30 is confined to retail businesses' contents and public on-line quotes are only available for residential property. The reasons for the limited focus on commercial property are:

- commercial property insurance does not involve the same information asymmetry that residential property insurance does – the owners of commercial property are generally more informed about insurance than householders and were generally more aware of the FSL component of premiums (in part due to FSL rates on commercial insurance being up to nearly 100 per cent of base premiums);
- commercial property owners obtain the advice of insurance brokers much more frequently than householders do; and
- commercial property is far more diverse in nature than residential property and involves particular risks (for example, flammable materials on site) that do not occur in dwellings, and hence the insurance is much more a 'bespoke' product.

5.3 Insurer's premium data

Premium quotation data provided by the major insurers for base premiums for the sample of properties is available for the whole of 2012–13 financial year, the September quarter 2013 and the 12 months ending September 2013.

5.3.1 Base premium changes 2012–13 financial year

Property insurance policyholders incurred FSL when first taking out or renewing policies over most of the 2012–13 year, except for the last few months when most insurers were charging zero per cent FSL rates. Responses provided by insurers to the section 30 notice (see Section 3) for the sample of properties indicated that the residential building insurance experienced larger increases in base premiums than was the case for commercial and residential contents policies over the 2012–13 financial year. After weighting companies by their market share, the average *base* premium increase for residential buildings in the sample was 12 per cent in the MFB region and 13 per cent in the CFA region. This is higher than the increases indicated by some companies in the public hearings. The average base premium increase, weighted by marker share for commercial contents was 4 per cent in the MFB region and 2 per cent in the CFA region.

In the 2012–13 financial year, three companies (IMA, QBE, and Wesfarmers) implemented increases of over 13 per cent in one increment. There has been no indication of increases of that magnitude so far in the 2013–14 financial year from any of the insurers monitored through the provision of data under section 30 of the Act. Consultations with some insurers indicate that premium increases for some major brands have been capped in response to the operations of the FSLM.

5.3.2 Premium changes – September quarter 2013

Movements in residential property insurance premiums observed within the September 2013 quarter have been almost negligible based on the data provided by insurers as part of the ongoing monitoring under section 30, as Table 7 shows. As FSL did not apply in the quotes provided during the entire quarter, percentage changes in base premium are identical to percentage changes in total premium for the September quarter. Table 7 lists the average total premium change across the sample of scenarios/suburbs monitored, for all quarters from September 2012 to September 2013, inclusive.

With half of the residential brands implementing no premium changes in the September quarter 2013 this first quarter of 2013–14 has seen little price movement compared to 2012–13 as a whole, but it is data for only one quarter.

Table 7 Average *total* premium change for residential insurance, by quarter, September 2012 to September 2013

	Average total premium change (by quarter ending) percentage				
Insurer	**Sep-12**	**Dec-12**	**Mar-13**	**Jun-13**	**Sep-13**
AAMI*	N/A	N/A	N/A	-4.1	3.1
Allianz	3.0	5.8	-19.2	-4.5	0.0
APIA	9.8	0.0	-18.2	-3.9	0.8
CGU	0.0	-8.6	-10.0	-2.8	0.0
CommInsure	0.0	3.4	-11.6	-9.9	0.0
GIO	9.5	-0.9	-18.9	-4.3	0.2
IMA	0.0	-4.9	4.6	2.8	0.0
QBE	0.0	4.1	-5.9	-14.9	0.0
Vero	4.9	23.7	-37.6	-4.9	0.5
Wesfarmers	9.7	0.9	-7.0	-8.5	-2.2

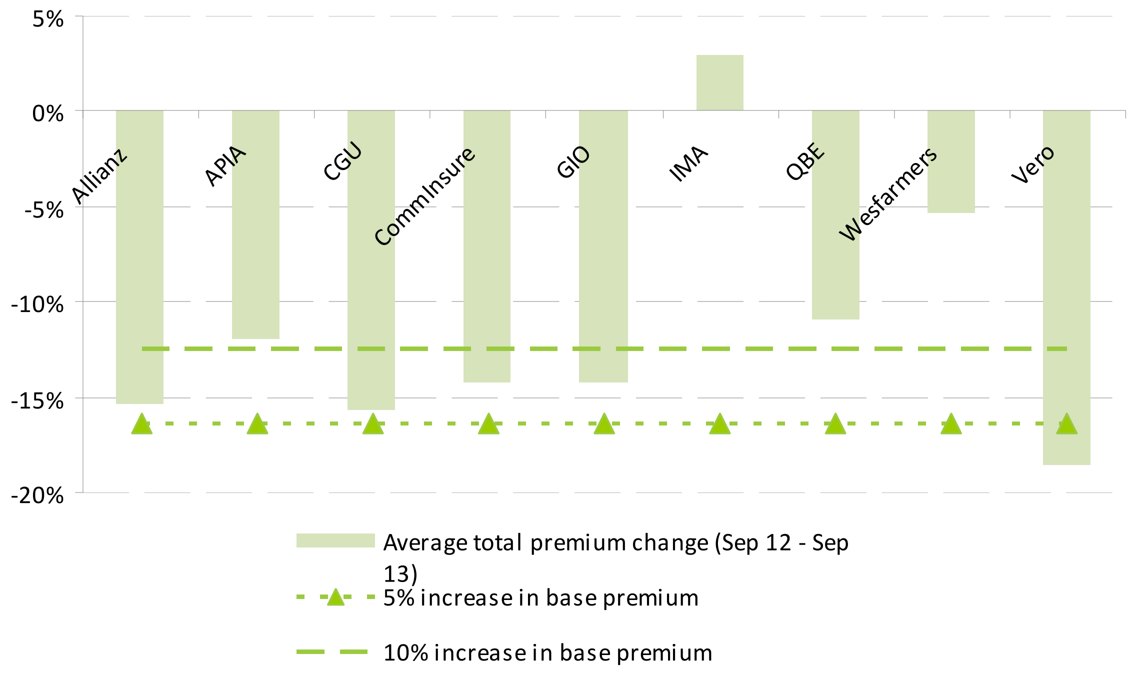
*AAMI systems did not allow retrospective quoting for periods earlier than February 2013.
Source: Office of the Fire Services Levy Monitor

None of the retail commercial property insurance scenarios that are monitored through the section 30 notice increased in the September quarter 2013, and only APIA and GIO in the residential contents market increased materially over this period. The averages of these latter increases were 4.6 per cent and 1.9 per cent respectively.

5.3.3 Total premium changes – 12 months ending September 2013

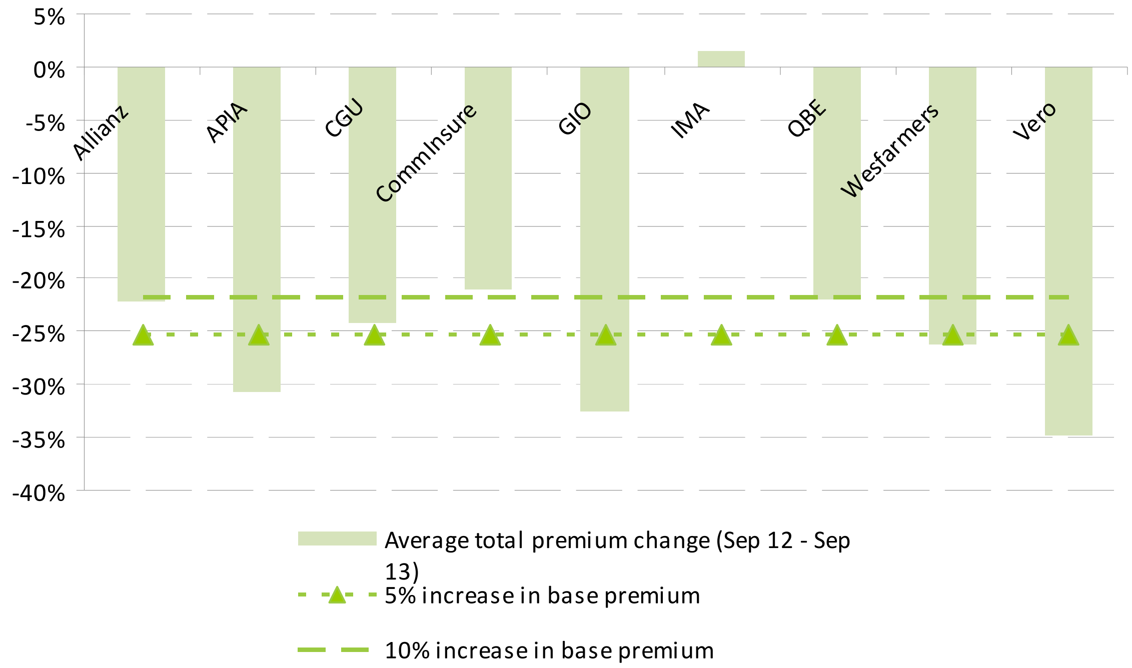
Average total premium data was calculated using quotes provided by the major insurers for the sample in the ongoing section 30 monitoring. Changes over the 12 months from September 2012 to September 2013 were averaged across properties in both the MFB region and CFA region. Total premium values include the effects of any base premium increases as well as the effect of the abolition of the FSL. The comparison of average changes across major insurers is shown in Figure 8 (for MFB region) and Figure 9 (for CFA region).

Figure 8 Insurers' quotes, average change in residential building insurance total premiums 12 months – September 2012 to September 2013 (MFB region)



Source: Office of the Fire Services Levy Monitor

Figure 9 Insurers' quotes, average change in residential building insurance total premiums 12 months – September 2012 to September 2013 (CFA region)



Source: Office of the Fire Services Levy Monitor

Most brands have averaged a total premium reduction of between 11 and 18 per cent in the MFB region and between 21 and 35 per cent in the CFA region, largely due to the FSL coming out of the total premium. However IMA have averaged an increase in total premium of 2.2 per cent across the two regions due to large base premium increases contemporaneous with charging zero per cent FSL rate prior to 1 July 2013 or removing the FSL from 1 July 2013.

Figure 8 and Figure 9 also include an average expected change in total premium for each region, 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. In both regions, the majority of insurers had average total premium reductions lower than the line assuming a 10 per cent increase; meaning these insurers had base premium increases of less than 10 per cent for the sample of policies monitored.

As in Table 7, Figure 8 and Figure 9 appear to indicate that IMA has taken a different pricing path over the period September 2012 to September 2013, compared to the other major insurers included in the monitoring data. The data in these figures appears to confirm the indications given publicly by the five major insurers in which IMA was the only insurer to clearly foreshadow increases in total premiums for its policyholders as they renew policies during 2013–14.

IMA indicated at the 18 June 2013 public hearing that, '…most of our policyholders will see increase within a building risk where they hold a stand-alone building policy with us over the next year…the building portfolio in Victoria is challenged and further price remediation is going to be required.' [7] At the same forum, IMA attributed its prices increases to its claimed need to address rising costs of supplying insurance affecting the profitability of its residential buildings insurance portfolio.

5.4 FSLM website monitoring

Capturing on-line quotations from major insurers' websites over time has further assisted in understanding general base premium increases since the beginning of March 2013. The period March 2013 to September 2013 encompasses the period in which most insurers ceased to charge FSL on their policies (a minority of insurers ceased charging FSL prior to March 2013).

The percentage change in base premium, between March 2013 and September 2013, for each of the sample properties was calculated for the top eight insurance brands by market share. 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 Table 8. Three insurers registered a decrease or a slight increase, while Vero, AAMI, Wesfarmers, CommInsure and IMA, in ascending order, registered larger increases. The insurer with the highest increase, IMA, registered an average 17.5 per cent increase which was an increase 37 per cent larger than the next highest, Wesfarmers (Coles).

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

Insurer	Average base premium ($) in March 2013	Average base premium ($) in September 2013	Average base premium increase percentage
AAMI	301	327	9.0
Allianz	356	344	-3.3
APIA	359	361	0.6
CommInsure	306	345	12.8*
IMA (RACV)	521	612	17.5
QBE	522	493	-5.5
Vero (Bankwest)	476	498	4.6
Wesfarmers (Coles)	562	625	11.1

* CommInsure introduced flood cover to their home insurance policies on 25 March 2013. The increase observed in the FSLM sample may fully or partly reflect that change. The increase shown is not indicated in Table 7 quarterly movements as Table 7 data relates to properties without flood insurance.
Source: Office of the Fire Services Levy Monitor

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 amounts outlined in Table 9 represent a sample of on-line quotes gathered in September for a sample of properties using standardised policy specifications. The differences between the highest and lowest quote premiums for the same property ranged between $223 and $826. Across the sample the lowest premium was no more than 64 per cent of the highest premium. Some of the variation in prices at Table 9 is

[7] Insurance Manufacturers of Australia Pty Limited, transcript of the OFSLM Public Hearing, 18 June 2013, p.54, at <http://www.firelevymonitor.vic.gov.au/home/news+and+information/public+hearing/public+hearing+transcript>, accessed 25 October 2013

probably due to different levels of cover (for example, flood cover is a standard inclusion in six of the eight brands).

Table 9 Quotes from insurers' websites, *total* premiums by brand – September 2013

Property location ($300,000 sum insured)	AAMI*	Allianz	CommInsure*	APIA*	RACV*	Coles*	Bankwest*	QBE	*Range*	*Low as % of high*
Bacchus Marsh	$391	$407	$433	$432	$697	$574	$582	$587	*$306*	*56%*
Balwyn North	$423	$412	$442	$460	$500	$574	$624	$658	*$246*	*63%*
Bendigo	$361	N/A	$433	$394	$471	$530	$596	$786	*$425*	*46%*
Blackburn South	$413	$400	$417	$458	$486	$540	$612	$623	*$223*	*64%*
Brunswick West	$407	$443	$410	$447	$604	$659	$600	$727	*$320*	*56%*
Echuca	$345	$389	$403	$385	$973	$1,171	$574	$634	*$826*	*29%*
Footscray	$418	$439	$383	$451	$575	$609	$611	$727	*$344*	*53%*
Glen Iris	$443	$428	$424	$482	$688	$621	$653	$588	*$264*	*62%*
Kew	$425	$400	$433	$463	$604	$540	$627	$588	*$227*	*64%*
Kilmore	$430	$435	$383	$471	$435	$519	$640	$657	*$274*	*58%*
Sale	$398	$404	$442	$432	$444	$621	$584	$634	*$236*	*63%*
Surrey Hills	$478	$416	$433	$520	$515	$585	$701	$588	*$284*	*59%*

* Flood cover is included in these policies. Allianz has the option of selecting flood cover, and it is not part of the standard insurance cover offered by QBE.
Source: Office of the Fire Services Levy Monitor, using quotes generating from Internet quotation facilities.

The FSLM website and press advertisements to be published in October 2013 promote the message that residential property policyholders may make savings in their insurance costs by 'shopping around' to obtain a range of quotes and changing insurers on the basis of quotes obtained.