

Tuesday May 16, 2016

## Insurers reiterate commitment to pass on benefits from removal of NSW Emergency Services Levy

Insurance industry representatives today explained how they were preparing to remove the Emergency Services Levy (ESL) from New South Wales premiums in six weeks' time.

Five of the largest insurers providing products in NSW – IAG, Suncorp, QBE, Allianz and CommInsure – gave evidence at a public inquiry called by the Emergency Services Levy Insurance Monitor, Professor Allan Fels. The Insurance Council of Australia (ICA) provided a submission to the inquiry but was not asked to provide evidence.

From July 1, 2017, firefighting and State Emergency Services activities in NSW will no longer be funded by a levy on insurance premiums. No policies will have an ESL component on or after July 1. Instead, all property owners will pay a levy through their council rates.

ICA CEO Rob Whelan said: "The imminent removal of the ESL from premiums will help improve the affordability of insurance and lower the levels of underinsurance in NSW.

"Today, insurance companies were pleased to appear before this public inquiry to explain how they are transitioning to the removal of the ESL. Insurers will pass on to their customers all savings attributable to ESL removal.

"With more than 100 insurance companies and brands collecting ESL from their household and commercial customers – in 2016-17 about \$785 million will go to the government – this reform will have a widespread impact on NSW customers.

"For many decades this unfair and inequitable tax has added about 20 per cent to household premiums and 30 per cent to commercial premiums, and has penalised those property owners who have chosen to insure their assets despite the entire community being protected by firefighting and emergency services."

The companies discussed how the changes were being explained to their customers. They detailed factors that may affect base premiums for many consumers, as well as levels of competition and financial performance, including:

**Competition:**

- The industry is highly competitive with relatively low barriers to entry and the establishment of challengers to established brands
- Insurers compete fiercely on price, product features, claims servicing, innovation and customer service. In December 2016, 109 APRA-authorized general insurers were operating in Australia

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- The competitive nature of the general insurance market has been highlighted and affirmed in comments by APRA, the Australian Treasury, the final report of the Financial System Inquiry, KPMG and PwC

**Premiums:**

- Between 2004 and 2016, NSW home and contents premiums rose by an average of 5.5 per cent a year, but in the past three years, home and contents premiums rose by only 1.4 per cent a year
- Between 2004 and 2016 there was an average rise in annual claims of 7.1 per cent and a 4.5 per cent annual rise in average sum insured
- Other factors that have influenced premium rises in NSW include the cost of natural disasters, higher asset values, higher rebuilding costs, the burden of regulatory changes, higher global reinsurance costs, poor investment returns and a dramatic increase in the availability of flood cover

**Range of quotes:**

- The wide range of premiums quoted by insurers for similar properties in NSW, as observed this year by the ESL Insurance Monitor, is a reflection of insurers using different underwriting criteria, possessing different risk appetites, and offering policies that differ in terms of features. It is not a sign that competition is lacking – it is a sign that competition is robust

**Financial performance:**

- Though prudentially sound, the general insurance industry has experienced a deterioration in financial performance over recent years
- Total net profit after tax in the year ending December 31, 2016, for general insurers was about 29 per cent down on the longer-term average

Mr Whelan said: “All savings attributable to ESL removal will be passed on. Normal commercial factors remain that may affect final premium prices next financial year.”

Though the industry asked the state government to mandate a transition rate for the removal of the ESL, this was not implemented. Insurers remain in the predicament of each having to estimate the amount of ESL they have to collect in 2016-17.

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**Editors Note:**

The ICA Submission to the Emergency Services Levy Insurance Monitor Public Inquiry can be found [here](#).

The Emergency Services Levy – Key Facts Sheet can be found [here](#).