



Response to Discussion Paper – cover sheet

Post your response (if over 5 megabytes in size) with this cover sheet to:

Response
2009 Victorian Bushfires Royal Commission
GPO Box 4358
Melbourne VIC 3001

Or

Email your response with this cover sheet to: enquiries@royalcommission.vic.gov.au

Title: MR	First Name: Brendan	Surname: Tobin
Organisation represented by your response (if applicable): Westpac General Insurance Limited		
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Main topic(s) addressed by your response (please tick:)	<input checked="" type="checkbox"/> Insurance	<input checked="" type="checkbox"/> Fire Services Levy

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21 December 2009

Response
2009 Victorian Bushfires Royal Commission
GPO Box 4358
MELBOURNE VIC 3001

Subject: Discussion Paper – The Fire Services Levy and Insurance

Dear Commission,

Westpac General Insurance Limited (WGIL) welcomes the opportunity to respond to the 2009 Victorian Bushfires Royal Commission's recently released discussion paper titled *The Fire Services Levy and Insurance*.

WGIL is a wholly-owned subsidiary of Westpac Banking Corporation (WBC) and was established by WBC in 1989 to underwrite loan protection products to the Westpac customer base. In 1997 WGIL commenced the underwriting of Home and Contents insurance in addition to Consumer Credit lines.

Today, and following a number of acquisitions by WBC, WGIL also distributes Home and Contents insurance through St George Bank, RAMS and Bank SA.

As a result of Black Saturday, WGIL received 240 claims valued at \$18.9M.

WGIL supports the Insurance Council of Australia (ICA) submission dated 18 May 2009 and in particular the supporting evidence it has provided in relation to the impact of the current Fire Services Levy (FSL) funding model on non and under-insurance in Victoria.

With the above in mind, WGIL asserts that the current fire services funding model used in Victoria is inequitable as only holders of Home and Contents (home) insurance contribute towards the funding of fire services. We recommend an alternative mechanism be identified that ensures all households contribute towards the funding of the FSL (e.g collection through local council rates notices). We believe such an alternative has the potential to reduce FSL costs on a per household basis as total funding costs are spread across a broader user base.

Furthermore, WGIL is of the view that the affordability of home insurance is negatively impacted by the inclusion of the FSL in home insurance premiums. This impact on affordability is compounded by the requirement to calculate GST and stamp duty charges after the FSL charge is added to the actual insurance premium.

The result is higher insurance premiums for consumers than would otherwise be the case if the FSL was removed from home insurance policies.

Both the inclusion of FSL and inflated taxes have a detrimental effect on the affordability of home insurance and are material contributors to the current level of underinsurance in Australia.

With reference to the specific questions asked in the discussion paper we wish to assert the following:

1. What are the advantages/disadvantages of requiring insurance companies to fund a major part of the fire services?

The current model is inequitable as only holders of home insurance contribute towards the funding of fire services.

As a result, the FSL for home insurance policyholders is unnecessarily inflated as total funding costs are borne by a narrower premium base.

The inclusion of FSL in insurance premiums also leads to higher stamp duty and GST charges due to the current method of calculating both taxes. This further inflates overall insurance premiums for those who opt to insure their property.

Finally and as per ICA's May 2009 submission, the removal of the FSL from home insurance is likely to increase its uptake therefore providing a greater stamp duty/GST revenue base for government whilst at the same time reducing the issue of non and under- insurance.

Fire services are part of the social infrastructure and all households may potentially draw upon these services. Based on the above an alternative funding model that ensures all potential users share the cost of funding fire services is recommended.

2. What are the advantages/disadvantages of applying a levy to non-insured and under-insured properties (while maintaining the FSL on other properties)?

There is little value in maintaining a levy to non-insured and under-insured properties due to the significant administrative burden this is likely to place on government and insurers alike.

3. What are the advantages and disadvantages of funding fire services through a property-based levy on all Victorian property and vehicle owners? Are there any factors that make a property based levy more or less practicable in Victoria compared with other states?

We believe funding fire services through a property based levy is a more appropriate collection method as it removes both the equity and taxation issues previously identified.

This has been recognised for some time by Western Australia, South Australia, ACT and Queensland where fire services charges are not collected by the insurance industry.

We are not aware of any factors that make a property based levy more or less practicable in Victoria compared with other states.

4. What are the advantages and disadvantages of all Victorian property owners contributing to one fund for the funding of both the MFB and the CFA?

We offer no opinion on this matter

5. What are the advantages and disadvantages of introducing compulsory property insurance to address issues associated with the FSL?

Compulsory property insurance would resolve equity concerns around the current funding model as fire services funding costs would be spread across all home owners.

Nevertheless the issue of under-insurance would remain. Furthermore, under a compulsory regime, home owners who previously held no insurance could potentially under-insure to minimise the financial burden upon them and therefore potentially providing them with a false sense of security.

Finally, home insurance in some parts of Australia can be very expensive due to local risk factors (e.g flood). Compulsory home insurance in these localities may not be a viable option.

6. Is non-insurance and under-insurance a problem in Victoria? Do we have accurate data on this issue?

We are unaware of any specific data relating to the level of under-insurance in Victoria. However, in 2005 a report by the Australian Investments and Securities Commission estimated that 27 percent to 81 percent of consumers nationally were underinsured by 10 percent or more.

7. What reasons, if any, are there for the government to ensure residents in bushfire prone areas are adequately insured? What form should any government involvement take?

Regardless of the FSL funding model used, we believe it is in the interest of state governments to proactively promote adequate insurance cover in bushfire zones. Adequate insurance cover will clearly reduce the need for government financial support following natural disasters, as was the case in Victoria following the 2009 bushfires.

It must be pointed out that the Victorian bushfires brought to the fore the issue of under-insurance due to the high number of total loss claims involved and the need for insurers to pay the total agreed value under the policy in these instances. This meant that policyholders who had under-insured their properties were sometimes met with disappointment upon finding out the cost of rebuilding their homes. It is important for home owners especially in bushfire prone areas to understand that a total loss claim can be a real possibility and that adequate insurance cover for such an event is paramount.

8. What effect would removing the FSL and stamp duty on premiums have on the uptake of property insurance?

In its May 2009 submission, the ICA estimated that the level of building non-insurance in Victoria could be reduced by over 50% if fire levies were removed.

9. Are there better tools, for example web sites, ready reckoners, etc that could be made available to property owners to assist them in accurately calculating the replacement cost of their property? Would the availability of such tools reduce under-insurance?

Most insurers including WGIL already provide online property sum insured calculators to their customers to assist with calculating property reinstatement costs. WGIL frequently updates its calculators using Reed Construction data and Sum Insured Pty Ltd to ensure policyholders are able to accurately calculate replacement values. Customers are encouraged to use these during the new business and renewal process.

10. Would it be practical for insurers to rate houses in bushfire prone areas for fire safety? If so, would this affect premiums? What are the practical advantages and disadvantages of involving the CFA (or persons accredited by the CFA) in reporting a property's fire readiness for insurance purposes?

If insurers were to rate domestic dwellings for fire safety in bushfire prone zones it would represent a significant logistical and administrative burden regardless of CFA involvement. As a result, costs associated with any such initiative are likely to outweigh any pricing benefits gained.

Yours sincerely,

Brendan Tobin
Head of General Insurance