



2009 Victorian Bushfires
Royal Commission

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: DUNCAN	Surname: WEST
Organisation represented by your response (if applicable): CGU INSURANCE LIMITED		
Email address:	[REDACTED]	
Postal address:	[REDACTED] MELBOURNE, VIC 3000	
Telephone:	03 [REDACTED]	
Main topic(s) addressed by your response (please tick:) <input checked="" type="checkbox"/> Insurance <input checked="" type="checkbox"/> Fire Services Levy		

Confidentiality

All responses will be treated as public documents. This means that, in all but exceptional cases, responses will be published to the Commission's website.

Should you wish for your response, or parts of your response, to be treated as confidential, please clearly state the reason in the space provided below. If you require more room, please attach a separate page and provide together with your response.

Should the Commission consider the request for confidentiality not to be appropriate you will be provided with an opportunity to withdraw your response or re-submit it in a form suitable for publication.

Please select one of the following options

I acknowledge that my response will be treated as a public document and may be cited in reports or material published by the Commission.

OR

I request that my response, or parts of my response, be treated as confidential, and not published quoted or summarised by the Commission, for the reasons stated here:

Acknowledgements

I understand that:

- I can be contacted by the Royal Commission in relation to my response.
- Anonymous responses will not be accepted.
- The name and town or suburb of each submitter will be identified as part of every published response. Other contact details will be removed before publishing.
- The Commission will not publish responses if it believes that the response material is or could be defamatory, offensive, contravenes anti-discrimination or anti-vilification legislation or is outside the scope of the Commission's terms of reference.

Signature: D. WEST

Date: 21/12/09

Or if sending by email, please confirm your acknowledgment by ticking this box:



CGU Insurance

Melbourne VIC 3000

t (03) [REDACTED] f (03) [REDACTED]

21 December 2009

Submissions

2009 Victorian Bushfires Royal Commission

GPO Box 4358

Melbourne VIC 3001

By email - enquiries@royalcommission.vic.gov.au

Dear Commissioner Teague

CGU Insurance Limited (CGU) provides the attached response to the 2009 Victorian Bushfires Royal Commission Discussion Paper on the Fire Services Levy (FSL) and Insurance. CGU has already lodged a submission to the Royal Commission covering a range of topics relating to insurance, including the impact of under-insurance and non-insurance on the community and the need for more equitable funding of essential fire-fighting services. The attached response supplements our original submission.

CGU believes that the current system for funding fire services needs to be changed. While the Victorian Government continues to ask the public to fund fire services, which is a public good that benefits the broader community, the system for collecting funds must be based on the principle of fairness, with the contribution determined according to fire risk. With this fairness principle in mind, it is evident that the current method of funding fire services is grossly unfair as only those with property insurance carry the cost of providing fire services to the broader community. Instead, the cost of fire services should be shared by all those who stand to benefit from it and their contribution should ideally be based on their fire risk.

We appreciate that there are administrative difficulties in calculating fire risk for individuals and businesses, and this is why even the current system is not based on fire risk. As such, we believe the fairest method of risk rating currently available is one that takes the cost away from just those with property insurance and spreads it to a wider group of people who stand to benefit from fire services. CGU is therefore in favour of a system that requires all property (including government) and motor vehicle owners to contribute to fire services.

If you wish to discuss any matter raised in our response, or obtain further information, please contact Iwona Polski, Corporate Affairs Manager, on (03) [REDACTED]. Alternatively, feel free to contact me directly on (03) [REDACTED].

Yours sincerely

[REDACTED]
Duncan West
Chief Executive Officer

CGU Insurance Limited - Response

2009 Victorian Bushfires Royal Commission

The Fire Services Levy and Insurance Discussion Paper



Introduction

This response to the 2009 Victorian Bushfires Royal Commission Discussion Paper on the Fire Services Levy and Insurance has been prepared by CGU Insurance, one of Australia's leading general insurance companies, and part of Insurance Australia Group (IAG). CGU is the largest provider of insurance to Victoria's regional and rural communities, one of the nation's largest providers of workers' compensation services and a leading commercial insurer. Further information on CGU is provided in Appendix A.

CGU's interest in the Royal Commission and the Discussion Paper

CGU has already lodged a submission¹ to the 2009 Victorian Bushfires Royal Commission covering a range of topics relating to insurance, including the impact of under-insurance and non-insurance on the community and the need for more equitable funding of essential fire-fighting services. This response supplements our submission, providing further information for the Royal Commission to consider regarding fire services funding. It also supplements separate responses provided by IAG and the Insurance Council of Australia.

Funding Fire Services – CGU Response to Discussion Questions

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

In our previous submission (Section 2 – Equitable funding of essential fire-fighting services), CGU highlighted a number of problems with the current system for funding fire services in Victoria, including inequity, lack of transparency, and administrative complexity.

CGU believes that a fire service, like that of the police service, is a public good² that should be funded in a manner that provides transparency in service provision and a demonstrated link between levies and benefits. Where the government chooses not to fund this public good out of consolidated revenue and instead asks the community to fund it, then, in the interests of equity, the contribution of individuals and businesses to fire services should correspond with the level of benefit they stand to receive.

The current funding system consists of a small contribution by state and local governments, with the vast majority (75 - 77.5%) sourced from insurance company policyholders. In relation to the insurance portion, the primary disadvantage of requiring insurance companies to fund a major part of the fire services is that the contribution of individuals and businesses to fire services is not based on their fire risk, as explained below:

1) Only those with property insurance pay for fire services

As explained in detail in CGU's previous submission, only those with property insurance contribute to funding fire services. However, non-insured and those with motor vehicle or liability insurance, as well as a number of government authorities that are insured through the VMIA, pay nothing for fire services yet are entitled to the same benefits. While the Metropolitan Fire and Emergency Services Brigade (MFB) and Country Fire Authority (CFA) may retrospectively charge uninsured property owners for using their fire services, this rarely occurs; for example, the CFA did not charge non-insured who used their services in the Victorian bushfires.

¹ 2009. CGU Insurance Limited Submission to the 2009 Victorian Bushfires Royal Commission. CGU Insurance Ltd.

² The fire service is a public good because it is characterised by non-excludability – users cannot be excluded from consuming the good.

In addition to being inequitable, the current system provides a disincentive for people to take up full, or any, insurance, as they try to minimise the amount they have to pay for fire services that everyone else is receiving for free anyway. This inequity is particularly noticeable during major catastrophe events such as the Victorian bushfires, where large numbers of non-insured people need, and rightly receive, the help of the fire services, but they get it for free.

2) Insurance premiums are based on more than just fire risk

In addition to the unfairness of a system that requires only some people to pay for fire services that benefit the broader community, those with property insurance also pay an amount that is not based solely on their fire risk. The FSL is applied to the total premium of property insurance policies that provide cover not only for fire risk, but also other types of risk such as theft, storm and accidental breakage. Further, government taxes and charges are levied not just on the total premium, but the total premium plus FSL, so the government receives a further windfall by taxing its own tax.

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

It is evident that the current model of funding fire services needs to be changed to widen the contribution base so its more equitably based on fire risk. However, there are significant challenges to implementing a proposal to apply a levy to non-insured and under-insured properties.

1) Applying a fire levy to non-insured

CGU believes that non-insured should contribute to fire services funding as they are a potential beneficiary of these services. Other than self-insured government agencies which currently do not contribute to fire services funding but can be easily identified and levied, it would be administratively difficult to identify who is actually non-insured. Such a proposal would require data held by State and local governments to be matched against insurance company information in an attempt to identify properties without insurance. In addition to privacy laws and administration costs for insurers to provide this data, the following hurdles would need to be overcome:

- The data match would be a snapshot in time, and would likely become out-dated by the time non-insured were identified and levied
- Some insurance policies do not record every insured risk address, e.g., Industrial Special Risks (ISR); and master policies for schemes / bordereau
- There may be more than one eligible party for insurance at a risk address, e.g., high rise, multiple buildings, multiple tenancies
- Matching of risk addresses may be poor, as each insurance company has different protocols for recording addresses
- The tenant may be insured, but not the property owner, and vice versa. The property would still be recorded as "insured"
- Business placed with Direct Offshore Foreign Insurers (DOFIs) and Lloyd's Underwriters, who do not have a presence in Australia, may not be captured.

2) Applying a fire levy to under-insured

As noted in CGU's previous submission, individuals and businesses that are under-insured avoid contributing their fair share to fire services funding while secure in the knowledge that they would still receive fire services assistance should they need it. This places a higher burden of funding on those who do fully insure and arguably discourages people from insuring. However, we are not certain how under-insured could be identified and how the level of under-insurance would be quantified.

In addition to the points raised above, the proposal to levy only those with properties means that other beneficiaries of fire services would still not contribute to funding, e.g. motor vehicle owners.

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?

There are many advantages to funding fire services through a levy on property and vehicle owners. Firstly, as discussed under Q1, this proposal shares the responsibility for funding more equitably to a wider range of individuals and businesses which stand to benefit from the fire services. In addition, it could easily be implemented through Council rates and State Government vehicle registrations, and in the case of State government organisations who currently don't pay FSL, they could provide the funds directly to the fire services authorities.

This proposal would further benefit the community by potentially reducing the level of non-insurance and under-insurance. Moving to a property and vehicle-based funding system would enable the insurance sector to pass on savings to policyholders from the abolition of statutory contributions. We believe that the reduced cost of insurance will encourage households and businesses to insure more prudently.

In relation to the second part of this question, we are not aware of any factor that would make this approach less practical in Victoria than in other states where it is operating effectively.

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?

The main advantage of one fund for both fire services authorities would be economies of scale and reduced administration costs which would result in more funds being available for operational activities. However, a proposal requiring only property owners to contribute to funding fire services does not fully address the issue of equity as other groups, such as motor vehicle owners, also stand to benefit from fire services and would not be required to contribute.

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

As noted above, a proposal requiring only property owners to contribute to funding fire services still means that others who benefit from fire services, such as motor vehicle owners, would not be required to contribute.

The private insurance sector is large and diverse. It provides cover against property losses and liabilities that might otherwise bankrupt companies and individuals, causing economic disruption and personal hardship. As insurance cover against property losses is readily available in Australia, there is no need to introduce a form of compulsory insurance to cover the risks of fire, earthquake, cyclone or other natural disaster.

CGU is against any form of mandatory insurance. In addition, we believe that individuals should retain the right to choose insurance. However, it's important to keep in mind that the consequences of not insuring or under-insuring impact not only individuals but the wider community.

Insurance – CGU Response to Discussion Questions

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

In our previous submission, CGU provided views on the impact of non-insurance and under-insurance on the community, and how the insurance industry, government and the community can work together to reduce the incidence and impact of non-insurance and under-insurance.

In relation to accurate data, CGU does not have any readily available information on under-insurance. Individual insurers would not have information on non-insurance because we do not keep records on people who are not our customers.

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?

In our previous submission, CGU commented on the impact of non-insurance and under-insurance on the community, and how the insurance industry, government and the community can work together to reduce the incidence and impact of non-insurance and under-insurance.

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

As detailed in our previous submission, as one of Australia's leading general insurance companies, CGU regularly hears first hand how excessive taxes and charges on insurance impact our customers and, in particular, how the resulting increased premiums can discourage people from taking up full, or in fact any, insurance protection. We firmly believe that removing the FSL and stamp duty on premiums would increase the number of people taking up insurance.

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?

Insurers see the problems of under-insurance every day when customers make claims and realise that they have not adequately insured their property. As we explained in our previous submission, to help reduce the levels of under-insurance, many insurers, including CGU, offer products such as 'new' for 'old' replacement cover, and also recommend that customers regularly review their cover and adjust it accordingly. In our submission, we also recommended a number of practical measures to deal with the problems of under-insurance and non-insurance which will help reduce their incidence and impact on the community.

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?

Standard general insurance policies provide cover not only for fire risk, but also other types of risk such as theft, storm and accidental breakage. Insurance premiums are determined through an assessment of all potential risks and while some locations may be considered to have a higher fire risk, premiums may not be noticeably different if the same area has, for example, a lower storm or theft risk. As fire risk is only one consideration in a policy, any potential benefit to the customer or the insurer of specifically rating fire safety of individual properties in bushfire-prone areas could be outweighed by these differences, as well as the administrative costs and complexity of undertaking such a rating.

However, it would be beneficial for insurers to have access to data currently collected by the fire and environmental authorities such as fire risk mitigation activities, information on topography such as slope of land, distance to vegetation, thick brush, bushland, etc. This information would likely improve the fire risk rating and lead to premiums that more accurately reflect the fire risk portion of the policy.

Other comments

11. Please feel free to comment on any other issues relevant to the fire services levy and insurance below.

CGU believes that the current system for funding fire services needs to be changed. While the Victorian government continues to ask the public to fund fire services, which is a public good that benefits the broader community, the system for collecting funds must be based on the principle of fairness, with the contribution determined according to fire risk. This fairness principle should ensure that, as far as possible, the amount that people pay is risk based so that ideally those with higher fire risk would pay more than those with lower fire risk. Of course, those who are unable to contribute their fair share for valid reasons, such as those on a pension, should have their obligation reallocated equitably amongst the remaining pool of contributors.

With this fairness principle in mind, CGU believes that the current method of funding fire services is grossly unfair. It must be changed so that those with property insurance are no longer required to carry the cost of providing fire services to the broader community. Instead, the cost of fire services should be shared by all those who stand to benefit from it and their contribution should be based on their fire risk.

We appreciate that there are administrative difficulties in calculating fire risk for individuals and businesses because currently the relevant data is collected by a various number of organisations and not shared amongst them, including the CFA, MFB, insurers, and government. As such, we believe the fairest method of risk rating currently available is one that takes the cost away from just those with property insurance and spreads it to a wider group of people who stand to benefit from fire services. CGU is therefore in favour of a system that requires all property (including government-owned) and motor vehicle owners to contribute to fire services. The funds could be collected through Council rates and State Government vehicle registrations and in the case of State government organisations who currently don't pay FSL, they could provide the funds directly to the fire services authorities.

We also believe that while the government continues to choose not to fund this public good from consolidated revenue and instead asks the community to pay for it, then it must commit to the fairness principle as an ultimate position. Governments, insurers and the community must work together to share fire risk data so that ultimately the public pays for fire services according to their fire risk. In addition, we must also work together to tackle the issues of under-insurance, non-insurance and reducing taxes and charges on insurance, to ensure we have more robust and sustainable communities that are adequately protected from fire for the longer term.

Appendix – About CGU

CGU is the largest provider of insurance to Australia's regional and rural communities, one of the nation's largest providers of workers' compensation services and a leading commercial insurer.

We offer a comprehensive range of commercial, rural and personal insurance products for individuals, families, farms, business and large multi-national corporations. CGU has a network of over 75 branches throughout metropolitan, regional and rural Australia, with 14 branches in Victoria including a large regional office in Ballarat. CGU works in partnership with a network of more than 1,000 insurance brokers and Authorised Representatives, many servicing regional and rural communities, and we partner with more than 100 major financial institutions including NAB, St George, Bendigo Bank and a number of credit unions.

After over 150 years of serving Australians in their time of need, CGU is deeply embedded in the communities we serve. With a head office in Melbourne, CGU employs almost 2,000 people in Victoria. In our home state, we insure more than 350,000 motor vehicles and over 250,000 homes, including over 125,000 homes in regional and rural areas. We also insure over 20,000 farms; and more than 45,000 Victorian businesses, including 20,000 in regional and rural areas.

CGU is part of Insurance Australia Group (IAG), Australasia's leading general insurance group that is publicly listed on the Australian Stock Exchange.