

6 December 2021

The Director
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National Insurance Brokers Association submission to the Fire Services Act Review

The National Insurance Brokers Association (NIBA) welcomes the opportunity to provide these comments in response to the review of the *Fire Services Act* (1979). NIBA supports the findings of the Blake review of the *Fire Service Act* 1979 (**the Blake review**), that the current funding arrangements for the Tasmanian Fire Service (**TFS**) are unsustainable, inequitable, and inefficient.

In light of these findings, NIBA supports the recommendation that the current funding model should be replaced with a broad-based property levy.

About NIBA

NIBA is the industry association representing almost all general insurance broking firms operating in the Australian market. Our members include major international broking firms, large Australian own firms operating in a number of States and Territories, and over 400 medium and small insurance broking firms operating in the cities, towns and regions across the length and breadth of Australia.

NIBA aims to promote the role of insurance brokers and the role they play in supporting and advising their clients on risk and insurance matters. NIBA provides this knowledge and expertise to governments and government agencies in order to promote understanding of the operation of general insurance markets.

Because NIBA Members invariably act for an on behalf of their clients, NIBA submissions to government reflect the extent to which insurance markets are meeting client needs. This includes availability of cover, terms and conditions of cover, and price.

About insurance brokers

Insurance brokers work with their clients to –

- Understand, assess, and manage their risks;
- Develop appropriate risk financing and insurance strategies;

- Seek cover from the insurance markets that meet those needs and strategies in a cost-effective manner; and
- Act as the client’s advocate if an insured event occurs, and a claim is made under the cover that has been arranged for the client.

In some cases, insurance brokers will seek to arrange alternative risk financing strategies, especially when few options are available within traditional insurance markets.

Australian insurance brokers have the knowledge and capacity to place risks into the Australian insurance market – either directly with insurers or via underwriting agencies, and overseas markets especially those in Singapore and London. Specific legislative provisions operate when insurance is placed with an unauthorised foreign insurer.

Insurance brokers process around \$25 billion in gross written premium each year, around half of the Australian general insurance premium pool.

Current Funding Model

Ensuring our emergency services are adequately funded is vital to governments’ ability to respond to natural disasters. Unlike other emergency services, such as the police force and ambulance services which are funded directly from consolidated revenue most state and territory governments, with the exception of Tasmania, New South Wales and the Northern Territory, fund their fire and emergency services through a property-based levy. (See table 1).

Tasmania’s fire service funding model is among the most complex with funds being levied from 3 separate taxes; a property tax collected by local government (Fire Service Contribution), a fixed fee applied to motor vehicle registrations (Motor Vehicle Levy) and a levy on commercial, marine and cargo and aviation insurance policies (Fire Service Levy).

Table 1: State Fire and Emergency Services funding arrangements.

State	Fire and Emergency Service Funding Model
Australian Capital Territory	<ul style="list-style-type: none"> • Property based system. • Residential and rural properties pay \$91.20 • Commercial properties levied on the basis of the average unimproved land value over three years.
New South Wales	<ul style="list-style-type: none"> • Statutory contributions system. • Insurers contribute 73.7% of funding, local government contributes 11.7% and State government 14.6%.
Northern Territory	<ul style="list-style-type: none"> • Funded through consolidated revenue

Queensland	<ul style="list-style-type: none"> • Property based system. • Urban Fire Levy contributes 73% of funding with State government and user charges making up the remainder. • Amount of levy is dependent on the “class” of the urban district (i.e. where the property is situated); the activity carried out on the property or the use to which the land is used and the size and nature of any improvements on the land.
South Australia	<ul style="list-style-type: none"> • Property based system. • Emergency Service Levy levied on capital values for fixed property, motor vehicles and other mobile capital. • Levy on fixed property is a fixed fee (\$50) plus a variable component derived from capital value, an “area factor”, land use “factor” and the levy rate. • A fixed fee applies for motor vehicles
Tasmania	<ul style="list-style-type: none"> • Statutory levy model. • Levy on insurance of 28% of gross premium for all commercial insurances against fire, including contractors all risk. For marine and cargo insurance levy is 2% of gross premium and for aviation 14% of gross premium. • Local government levies assessed on annual value of properties with minimum charges applicable. • A fixed fee of \$19 applies for motor vehicles.
Victoria	<ul style="list-style-type: none"> • Property-based system • Levy is a fixed fee plus a variable component derived from capital value improved, location and classification • Fixed charge varies for residential and commercial properties
Western Australia	<ul style="list-style-type: none"> • Property based system with emergency service levy applied on the gross rental value of all immobile properties. • No levy imposed on motor vehicles. • State is divided into fire levy categories according to level of service (i.e. extent of emergency service provision and access) • Minimum charge of \$43 with maximum levy payable by households of \$225 and commercial property owners \$130,000.

Principles of good taxation

Taxes form an integral part of the fiscal social contract that exists between governments and society

In order to be considered a “good” taxation model, a tax should meet five basic principles:

1. The tax should minimize any changes in behaviour unless the behaviour is undesirable, in which case it should be effective at changing that behaviour,
2. The tax should reduce inequality,
3. The tax should be levelled on those who are best able to pay,
4. The tax should be simple to comply with, simple to administer and easy to understand, and
5. The tax should be difficult to avoid.

Insurance based taxes such as the Fire Service Levy fail all five principles (See Table 2).

Table 2: Evaluating various tax models in line with good taxation principles.

	Principle 1	Principle 2	Principle 3	Principle 4	Principle 5
Fire Services Levy	No	No	No	No	No
Good & Services Tax	Yes	Yes	Yes	Partial	Yes
Income Tax	Partial	Yes	Yes	Partial	No
State Payroll tax	Yes	Yes	Yes	Yes	Yes

1. Minimise changes in behaviour

Insurance-based taxes such as the Fire Service Levy discourage policy holders from taking out appropriate insurance, leading to higher rates of under and non-insurance.

Under-insurance is generally regarded as occurring when the sum insured is insufficient to enable full replacement of the damaged or destroyed property or the reestablishment of the business where a commercial enterprise is involved. This amount can differ significantly from the "market value" of the property, which is also commonly used in insurance.

Often under-insurance only becomes known following a large-scale insurable event, such as the Black Summer bushfires of 2020. Because of this it is extremely difficult to estimate the rate of under-insurance.

Notwithstanding the difficulties involved in quantifying the extent of under-insurance in Tasmania, the available evidence indicates that it remains a significant problem. Current estimates by the Insurance Council of Australia (ICA) indicate that only 60% of businesses have building insurance.

The ICA's report into non-insurance found that states with higher tax rates on insurance premiums have higher rates of non-insurance for both building and contents insurance.

Similarly, the ACCC Northern Australia Insurance Inquiry second interim report found that a leading contributor to a property owners' decision to underinsure or not insure their property was affordability.

Modelling by the ICA on other insurance-based taxes shows a demonstrable link between an increase in premiums and a reduction in pre-tax expenditure on insurance.

2. The tax should reduce inequality

Unlike property levies which spread the burden of funding emergency services across the broadest range of beneficiaries, insurance-based levies have been widely criticised for being unfair, forcing responsible property owners to pay for a service that is beneficial to all of society, whilst those who are not required to contribute continue to receive the benefits.

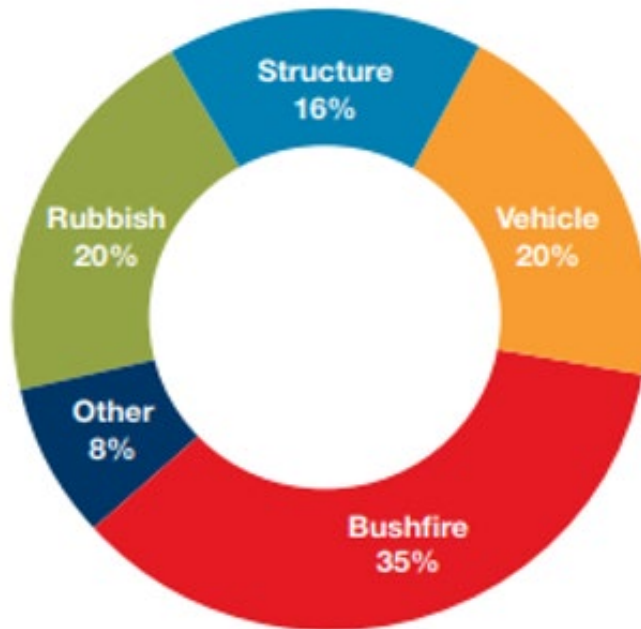
Under the existing model businesses who also own their premises are required to pay both the Fire Service Contribution on their council rates and the Fire Services Levy on their insurance premiums for the same property.

The burden placed on businesses to fund the states fire services is not proportionate to the risk they pose. During the 2020/21 financial year, structural fires accounted for only 16 per cent of all fires attended. It is not known, what percentage of these were residential or commercial premises. In comparison vehicle and roadway accidents accounted for 20 per cent. (See figure 1)

Despite accounting for less activity, commercial policy holders contributed \$29.2 million in funding through the fire service levy compared to only \$9.2 million contributed by vehicle owners.

The 2008 New South Wales IPART Review concluded that fire services funding was amongst the least inefficient state taxes. While the Victorian Royal Commission into the Black Saturday bushfires found that a similar insurance-based levy was "inequitable" as it forces responsible property owners - those who have adequately insured their properties against loss- to shoulder the costs of funding the emergency services rather than a fairer system in which all property owners collectively fund state emergency services.

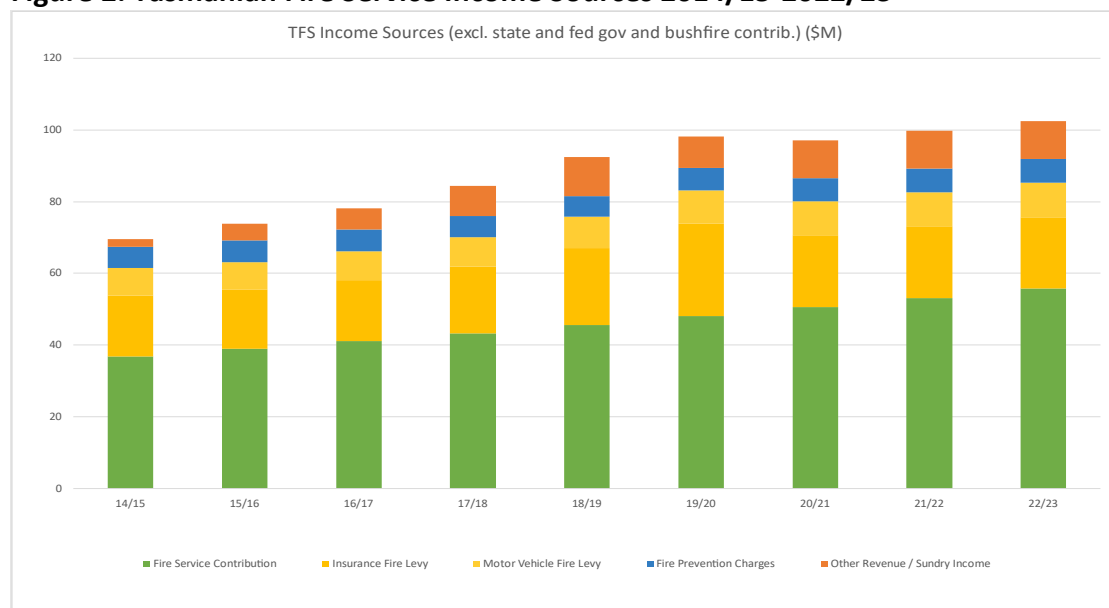
Figure 1: Types of fires attended 2020-21



3. The tax should be levelled on those who are best able to pay.

Commercial Insurance premiums have increased dramatically over the past few years, as a result the amount collected under the Fire Services Levy has also increased. Over the past three years, the amount collected by the Fire Service Levy has increased by 56%. In comparison, contributions from the Fire Service Contribution only increased by 11%. (See figure 2)

Figure 2: Tasmanian Fire Service Income Sources 2014/15-2022/23



This increased financial pressure from both increased premiums and an increase in the Fire Service Levy collected on the premium is a double blow to businesses, many of whom are facing an uncertain economic future.

4. The tax should be simple to comply with, simple to administer and easy to understand.

Insurance-based taxes have often been criticised for being needlessly opaque and complex. Such funding models are generally poorly understood by the public, while individual policyholders may not be aware of the extent to which they are funding the States' fire and emergency services.

Due to the unpredictable nature of the insurance market, the amount raised by the Fire Service Levy varies each year. If market conditions ease, and premiums return to previous levels, the amount raised by the levy would also reduce, forcing an increase in the amount to be collected by the Fire Service Contribution. This unpredictability is a significant flaw in the current funding model.

5. The tax should be difficult to avoid.

The artificial inflation of premiums caused by these taxes acts as incentive for policyholders to seek out alternative risk financing mechanisms, such as mutual pools and captive insurance, which do not attract the levy. NIBA members have reported an increase in the number clients inquiring about mutual funds and other alternative risk-financing options.

Funding Model

Of the proposed models presented by the Treasury Options Paper, NIBA's preferred option is a combination of a single-rate property levy and a motor vehicle levy (Option 3A), to allow for the greatest number of people to contribute to the funding of the TFS.

While NIBA acknowledges that replacing the current model with a single property levy would be more efficient, in NIBA's view this option is less equitable and fails to take into consideration TFS' role in responding to road accidents.

Bushfire-prone areas

Given the significant resources required to protect homes in bushfire areas NIBA supports an additional bushfire prone area charge on these properties.

Continuation of the Motor Vehicle Levy

NIBA believes that the continuation of the Motor Vehicle Levy remains appropriate given that a significant portion of TFS activities includes attending road accidents, as such it is reasonable to expect road users to also contribute to the funding these services.

Given the significant demand, road accidents place on the TFS and the relatively low amount collected from the Motor Vehicle Levy, NIBA encourages the review to also consider whether the levy should be increased to represent a more equitable contribution. As previously stated, road accidents account for 20% of all TFS activities, yet road users contributed less than 8% of funding for the 2020/21 financial year¹.

NIBA notes that Tasmania has one of the highest rates of vehicle ownership per capita, at 885 vehicles per every 1000 people, compared to the national average of 771 vehicles. Tasmanians also pay less to register their vehicles than most other states and territories (See Table 3).

Table 3: Vehicle registration fees by State (fees based on a 4-cylinder SUV)

	QLD	NSW	ACT	VIC	TAS	SA	WA	NT
Registration fees	\$753.35	\$1287	\$1108.7	\$845.9	\$610.5	\$591.05	\$867.86	\$781.75

The current exemption for motorcycles should also be removed. Based on figures provided by government there are currently more than 20,000 motorcycles registered in the state of Tasmania, the owners of which may not be contributing to the funding of the TFS, unless captured under the Fire Services Contribution or the insurance-based Fire Services Levy.

Collection Fee

NIBA supports the recommendation that local councils should continue to collect any levy to fund the states fire and emergency services.

Currently, local councils receive a 4% fee in return for collected the Fire Service Contribution from ratepayers. Given that a consolidated property levy would significantly increase the value of contributions collected NIBA believes that the current arrangement would no longer be appropriate and would result in a significant windfall to local councils, especially those in areas with higher numbers of high AAV properties. Instead, NIBA proposes that the collection fee be changed to a fixed amount, payable to each local council.

¹State Fire Commission Annual Report 2020-21

NIBA commends the Tasmanian Government for their commitment to implementing the recommendations of the Blake Review, including a more equitable and sustainable funding model for Tasmania's fire and emergency services.

While NIBA notes that transitioning from the current funding arrangement will take time, it should be noted that the issues raised above will continue during any transition period. As such, NIBA encourages the Department to work with relevant organisations to ensure that any funding model is equitable, transparent and sustainable and meets the needs of the TFS

NIBA would like to acknowledge our Tasmanian members, in particular Ian Gonion and the team at Capital Innovation Insurance Group for their valuable input to this submission.

Please do not hesitate to contact me if you would like to discuss any aspect of this submission.



Philip Kewin
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National Insurance Brokers Association