

ANALYSIS

FENZ levy: fanning the flames of anger

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It took many years to achieve, but politicians, insurers and consumer leaders on the Australian mainland agree that taxes on insurance cause problems, are inefficient and contribute to underinsurance.

Which is why all Australian states and territories, except Tasmania, have abandoned levies on insurance policies to finance their fire services.

The Australian states made the switch after acknowledging that responsibility for financing the vital and increasingly varied emergency services should be shouldered by the entire community, not just those who take out insurance.

Victoria bowed to a recommendation of the 2009 Black Saturday bushfires royal commission and made the switch to a property rates-based system in 2013. The last mainland state to use a levy, NSW, will switch to a charge on property rates on July 1.

It's ironic that on the same day NSW moves to a system regarded as more efficient and certainly more equitable, across the Tasman the New Zealand Government – which still levies premiums to fund its fire services – will usher in a reform that will raise the levy by 40% and almost certainly cause dramatic increases in the levels of underinsurance and non-insurance.

On July 1 Fire and Emergency New Zealand (FENZ) will be established, amalgamating the New Zealand Fire Service, the National Rural Fire Authority, 12 enlarged rural fire districts and 26 territorial authority rural fire authorities.

It's a significant project, with an extra \$NZ303 million (\$278.83 million) approved over four years to cover the costs. And insurance policyholders will pay for it.

New Zealand politicians show no appetite whatsoever to remove the country's premium-based levy. Sources in Wellington have told insuranceNEWS.com.au the politicians fear upsetting the powerful rural councils whose constituencies would be affected.

Harsh criticisms from business leaders who will bear the brunt of the 40% levy rise are apparently easier to shrug off.

It would be an understatement to describe the local insurance industry as unhappy. A restructure that could, and should, have seen the levy kicked into touch and replaced by a tax on properties has instead been allowed to balloon into an even greater problem.

Because there's a very good chance the merger will fail, anyway. There are many international examples the New Zealanders who came up with the FENZ scheme could have examined to see just how difficult it is to merge the many different cultures and needs of fire and emergency services.

For example, the SA Government said in May 2015 that it had scrapped plans to merge the Country Fire Service, Metropolitan Fire Service and the State Emergency Service, spending more than \$550 million in the process.

Insurance Brokers Association of New Zealand CEO Gary Young is sceptical about the NZ fire services' merger, describing it as "doomed".

"Supposedly this will improve efficiencies in the service," he says. "[But] such mergers do not work. To add insult to injury, the cost is being lumped on the insured – all \$NZ303 million of it.

"Sure, the Government is putting in \$NZ112 million (\$103.06 million) of this initially, but it expects to be reimbursed over the next 10 years via the levy."

Mr Young says the Government has acknowledged that 38% of FENZ activities are not fire-related, and that figure is rising every year.

"However, to support this public good aspect, the Government contribution will be less than 2% of the total funding requirement."

Insurance Council of New Zealand CEO Tim Grafton agrees, saying FENZ should be funded through general taxation.

"Just pinging the insured doesn't make a whole lot of sense," he told insuranceNEWS.com.au. "Saving human life is a great thing to do, but it has nothing to do with general insurers."

Cabinet has approved the 40% increase and Mr Grafton says there is little the insurance industry can do at this point.

However, Internal Affairs Minister Peter Dunne – the single MP representing the United Future party and the man driving the levy-financed merger – has given insurers further cause for concern.

"The minister recently gave a speech in which he said FENZ should have responsibility for ambulance services and also civil defence responses," Mr Grafton says.

"We have written to him to say, 'If you're suggesting this, how is it going to be funded?' It is quite alarming. The cost would again increase dramatically, and that would be borne by insureds."

There is also an extraordinary amount of uncertainty over how the levy will be applied.

“The new calculation basis, to be introduced next year, is causing confusion through its complexity as they attempt to widen the net,” Mr Young says.

“Supposedly it will tax property insurance, but a lack of understanding of insurance has them including third-party liability covers as property insurance, for example.”

Mr Grafton says even travel policies could be caught up, and the increasing trend towards insurtech will make collecting the levy even more complex.

“There are ways to go online and insure some of your property for a matter of days or weeks,” he says. “If you insure \$2000 of property for a week, then the premium will be very small, and the levy miniscule, but you still have to have systems in place to deduct it.

“You have to ask how sensible this is. Why on earth would we carry on trying to tax insurance in this increasingly complex way?”

Small businesses could be hard hit by the levy increase, because there is no cap for commercial property, as there is for residential.

“If people want to make sure they are well covered, then they will be badly hit by this tax,” Mr Grafton says.

“It will act as a disincentive to insure, which is a very wrong-headed approach in a country that has been ranked the third most exposed in the world in proportion to GDP.”

The restructure of fire services should have presented a golden opportunity to do away with the levy on insurance, but the alternatives were never even considered.

The best the industry can hope for now is a change in political direction.

“The reality is that we can’t stop or change things, the legislation will go through,” Mr Grafton says. “There is a general election later this year, so let’s see what the result of that is.

“The levy is absolutely not sustainable in the future. It is not fair and it is not practical. Australia has been very enlightened. New Zealand will finally wake up one day.”