



*National Insurance Brokers Association.*



23 November 2009

KIM WELLS MP  
Victorian Shadow Treasurer  
State Member for Scoresby  
9 Lynton Place  
Scoresby VIC 3179

Dear Kim,

**RE: Fire Services Funding (Feasibility Study) Bill**

**The Purposes of the Bill**

The purpose of the Bill is to establish a framework to facilitate a pilot study of the levels of non-insurance and under-insurance in Victoria.

Put simply, the Bill will:

1. Amend the Taxation Administration Act 1997 so as to enable the Commissioner to undertake the feasibility study.
2. Require persons to provide relevant information to the Commissioner.
3. Limit the use and disclosure of personal information obtained for the purposes of the pilot study.

**NIBA's General Position In Relation to the Bill**

**The Need for Change**

The National Insurance Brokers Association (NIBA) welcomes the Victorian Government's announcement of a Review of the current funding of fire services through a levy on insurance and the Pilot Study of non-insurance and under-insurance.

Taxes and charges on property insurance in Victoria are extremely high. The rate of fire services levy for Victorian country commercial insurance is 84% of the basic insurance premium. When GST and stamp duty are applied the total taxes and charges are a staggering 123% of the basic premium.

These extreme rates of taxation drive normally prudent people away from insurance.

Clearly, in Victoria there is a very large section of the public who do not, or do not fully, protect their property with insurance. Not only do these people risk financial ruin and are a burden on the Government but they do not make an appropriate contribution towards the funding of fire services in Victoria.

Their fair share of the contribution towards funding the fire services is picked up by those who do fully insure their property.

### **NIBA Supports the Concept of the Pilot Study**

NIBA supports the concept of a Pilot Study of the levels of non-insurance and under-insurance in Victoria. The personal tragedies that have resulted from non-insurance and under-insurance following the Black Saturday fires are becoming increasingly obvious to all.

The more that can be done to increase understanding of the extent and the reasons for non-insurance and under-insurance the better the community will be at tackling this very real problem.

### **NIBA's Concerns about the Pilot Study Proposed by the Government**

Apart from the need to maintain the privacy of individuals providing information and that the Department of Treasury and Finance and State Revenue Office officials will be involved in the study, the Minister has provide very little information as to how the Pilot Study will actually be conducted.

Whilst it is very important to treat information obtained from the public for the purposes of the Pilot Study as confidential and to maintain effective and efficient privacy standards, the study needs to be undertaken in a professional and transparent way if its findings are to be taken seriously.

### **Privacy should not be used as a reason for conducting a poorly designed or implemented study.**

The pilot study must be undertaken in a professional, transparent and independent way. Independent outside experts should be engaged in all stages of the Pilot Study to ensure that the resulting report is balanced and of a high standard and can be relied upon for effective decision making. Independent experts would not need direct access to personal information in order to perform this function.

The Pilot Study will not be a simple exercise. Many definitional and procedural decisions will need to be taken. The quality of those decisions will directly influence how robust the final report is and the usefulness of the conclusions drawn.

Examples of the type of issues that will need to be considered include the definition of under-insurance, the method of selecting participants for the study and the valuation methodology.

## **Under-Insurance**

Under-insurance is generally regarded as occurring when the sum insured is insufficient to enable full replacement of the damaged or destroyed property. “Replacement value” is different from the concepts of “Capital Improved Value” or “the value of the building structures” mentioned in the Green Paper. “Replacement value” is the amount required to completely rebuild and refurbish following the destruction of a property and includes all costs associated with the restoration.

People who had their homes destroyed by the Black Saturday bushfires would like to hold insurance that covered the completed restoration (replacement) of their home and contents. “Market value” is usually less than the “replacement value”.

In order to determine the extent of under-insurance in Victoria it is necessary to compare sums insured against “replacement value”. Not an easy task, but a necessary one if the true position in relation to under-insurance is to be determined.

Independent experts at valuing property will be required and it is suggested that those experts report to a committee made up of both Government and insurance industry officials.

## **Timing for the Pilot Study**

NIBA notes that the Royal Commission, in a discussion paper issued on 19 November 2009 entitled *The Fire Services Levy and Insurance* indicated that the Pilot Study would not be completed in time for its findings to be taken into consideration in the Commission’s final report. The discussion paper stated:

“The Victorian Government’s announced in its Green Paper a pilot study to provide an estimate of non-insurance and under-insurance.<sup>24</sup> The study will collect data from insurers on properties insured within sample geographic regions. The State Revenue Office will then cross check this with information it holds about property values. The study will assist in the assessment of the policy options outlined in the Green Paper **but will not be available in time to inform the Commission’s final report.**” (Emphasis added)

As the results of the Pilot Study will not be taken into account by the Royal Commission in its final report there is little point in undertaking a quick and dirty Pilot Study.

## **Conclusion**

- The Minister needs to provide more information about how the study is to be conducted.

- The study needs to be undertaken in a professional, independent and transparent way.
- A committee including independent experts needs to be appointed to oversee the study if the study is to be taken seriously in considering options for the future funding of Victoria's fire services.

Yours sincerely,



Noel Pettersen  
Chief Executive