

EMERGENCY SERVICES LEVY INSURANCE MONITOR BILL 2016

First Reading

Bill introduced on motion by Ms Gladys Berejiklian, read a first time and printed.

Second Reading

Ms GLADYS BEREJIKLIAN (Willoughby—Treasurer, and Minister for Industrial Relations) (16:14): I move:

That this bill be now read a second time.

As this House knows, in December 2015, the Government announced its intention to abolish the insurance-based Emergency Services Levy [ESL] from 1 July 2017 and to replace it with an Emergency Services Property Levy [ESPL]. The New South Wales Government considers that the current system of funding fire and emergency services is unfair. Fire and Rescue NSW, the NSW Rural Fire Service and the NSW State Emergency Service have operating costs of more than \$1 billion per year, and 73.7 per cent of this cost is paid through a levy on insurance policies. Only people and businesses who buy insurance are currently contributing to the funding of these vital services.

Under the proposed new system, which we will bring before Parliament later in the year, all property owners will contribute to the cost of our essential and valued fire and emergency services through the ESPL. The abolition of the insurance-based levy, and introduction of a property-based levy, will bring NSW in line with all other mainland States. In Victoria, the most recent State to transition to a property levy, the reform received bipartisan support, with the ALP announcing the reform and the Coalition Government implementing it. We anticipate that the vast majority of insured residential property owners will be better off under the ESPL, with the average residential insured property owner saving around \$40 per year.

Importantly, the proposed ESPL will be revenue neutral for the Government. The ESPL will replace the revenue currently generated by the ESL, including insurance duty levied on ESL amounts. The State Government and local governments will continue to provide the remainder of the funding required by our emergency services.

This reform will, importantly, help address the serious issue of underinsurance in NSW, which sees 36 per cent of households in the State without contents insurance, by reducing the cost and improving the affordability of insurance. That figure of 36 per cent is from a 2009 Australian Bureau of Statistics [ABS] report and is the most recent figure we have. The existing insurance levy increases the cost of property insurance by around 20 per cent for residential policies and 40 per cent for commercial policies. Abolishing the levy will reduce the cost of insurance, enabling more people and businesses to take out insurance to protect their properties from fire, floods, storms and other natural disasters.

This bill is the first of two pieces of legislation dealing with the reform of the funding of our emergency services. This bill will establish the Emergency Services Levy Insurance Monitor, who will be responsible for ensuring that insurers pass on the benefits of abolishing the ESL to households and businesses in the form of lower insurance premiums.

This bill will also allow the monitor to obtain insurance data and to pass this information to NSW Treasury to be used to model the effects of different options for the proposed ESPL. This data is crucial to understanding the impacts of the ESPL on different sectors of the community so that we can ensure a fair system is designed. Later this year, once we have done this work, the Government intends to introduce legislation abolishing the ESL and establishing the ESPL. We will then have more details about the new levy and will welcome an informed discussion about the proposed ESPL.

The bill before the House does not establish an ESPL or remove the current ESL. It merely puts in protections to ensure a smooth transition to the new system. I ask all members of this House to consider this in their decision-making—that the key decision point is later in the year.

The NSW Government is building on the lessons learned from Victoria, the most recent State to reform the funding of their emergency services. One of the key lessons was the need to establish an insurance monitor well before the date on which the insurance levy is abolished. This bill acts upon that lesson. By establishing the consumer protection framework now, before legislation abolishing the ESL is introduced, the Government is providing a framework that will enable insurers to gradually transition insurance prices so that the ESL will be fully removed from insurance prices by 1 July 2017.

Oversight of the industry will continue until the end of 2018. Professor Allan Fels, AO, and Professor David Cousins, AM, have been appointed as the monitor and deputy monitor respectively—they performed the same roles in Victoria. Until the end of 2018 insurers will be prohibited from engaging in price exploitation or false and misleading conduct regarding the effects of ESL reform.

These prohibitions will be subject to civil penalties of up to \$10 million, which is a hefty fine. Price exploitation is when an insurance company does not pass on to consumers the full reduction in cost from the abolition of the insurance-based levy or seeks to recover more in fire services levy from policyholders than the insurance company is required to remit to the Government. The monitor and deputy monitor will help to ensure this does not happen.

The monitor may seek penalties in respect of prohibited conduct occurring between 10 December 2015—when the reform was publicly announced—and 31 December 2018. The monitor may hold public inquiries and instigate legal proceedings if necessary. The monitor will issue guidelines to assist insurers when setting their ESL rates during this period. The monitor will also have powers to deal with consumer complaints and may seek compensation orders on behalf of consumers where they have been overcharged. The monitor will report to the Minister for Innovation and Better Regulation and will work closely with NSW Fair Trading. At the end of the monitor's period of operation—that is, after 31 December 2018—any outstanding consumer complaints, litigation or other matters will be passed to NSW Fair Trading for resolution.

This bill provides for an increase in the ESL in 2016-17 to cover the costs of the monitor in 2015-16 and 2016-17—these costs are estimated at around \$9.3 million. I emphasise that this will have no impact on the funding for NSW Fire and Emergency Services. This is an opportunity for New South Wales to catch up with the rest of the mainland States, to make the funding of our emergency services fairer and to make insurance premiums more affordable for those who feel they have been priced out of the market. This is the first part of the legislation needed to make the transition to a property levy. It will allow the monitor to obtain insurance data and to pass this information to NSW Treasury to be used to model the effects of different options for the proposed ESPL. This data is crucial to understanding the impacts of the ESPL on different sectors of the community so that we can ensure a fair outcome is reached.

In conclusion, I emphasise that this one of two bills. It simply sets out the role of the monitor and deputy monitor. This bill allows them to collect data on behalf of the NSW Treasury to ensure that we make the right decisions in relation to details of the levy in the new system, which will be discussed in this place later this year. On that basis I seek the support of all members. I commend the bill to the House.

Debate adjourned.