

EMERGENCY SERVICES LEVY INSURANCE MONITOR BILL 2016

Second Reading

Mr SCOT MacDONALD (18:37): On behalf of the Hon. Duncan Gay: I move:

That this bill be now read a second time.

I seek leave to have my second reading speech incorporated in *Hansard*.

Leave not granted.

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, 73.7 per cent of which 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 the essential and valued fire and emergency services through the ESPL. The abolition of the insurance-based levy and the introduction of a property-based levy will bring New South Wales 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 Australian Labor Party 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 emergency services property levy 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 help to address the serious issue of underinsurance in New South Wales by reducing the cost and improving the affordability of insurance, which sees 36 per cent of households in the State without contents insurance. 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 an Emergency Services Levy Insurance Monitor, who will be responsible for ensuring that insurers pass on the benefits of abolishing the emergency services levy 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 we can ensure that 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 ESPL. I ask all members to consider in their decision-making that the key decision point is later this year. The New South Wales Government is building on the lessons learned from Victoria, the most recent State to reform the funding of its 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. Professors Fels and Cousins 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. 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 the fire services levy from policyholders than the insurance company is required to remit to the Government. The 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. I seek leave to incorporate the remainder of my speech in *Hansard*.

Leave not granted.

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 covering the costs of the monitor in 2015-16 and 2016-17. These costs are estimated at \$9.3 million. I emphasise that this will have no impact on the funding for New South Wales fire and emergency services. This is an opportunity for New South Wales to catch up with the rest of the mainland States and make the funding of our emergency services fairer and insurance premiums more affordable. This is the first part of legislation needed to make the transition to a property levy and 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. I commend the bill to the House.

The Hon. ADAM SEARLE (18:45): I lead for the Opposition in debate on the Emergency Services Levy Insurance Monitor Bill 2016. As Labor members did in the other place, we will propose a number of amendments to this bill. As members are aware, in December 2015 the Government announced that it would seek to introduce an emergency services levy added to council rates to fund fire and emergency services. These services are currently funded through a levy on insurance companies that then include them in premiums. The Government has claimed that by introducing the levy insurance prices will drop. To guarantee insurance companies pass on the price difference in full it is intended that the monitor and the deputy monitor will operate from proclamation of this legislation until 31 December 2018.

It is perhaps no accident that this price monitoring mechanism is due to cut out just short of the next State election. That is a somewhat cynical if not short-sighted approach by the Government. The Government has not introduced or released any legislative details about the specifics of the new levy. As the shadow Treasurer in the other place indicated, the Labor Opposition remains very sceptical about the emergency services levy that the Government intends to introduce. However, the Emergency Services Levy Insurance Monitor Bill 2016 now before this House is designed for consumer protection should that levy proceed.

Notwithstanding what sounds like good intentions, the short-term nature of the bill deprives it of much of its potential efficacy. As Labor members did in the lower House, we will put forward a number of amendments to improve the legislation and provide real consumer protection rather than a pale shadow thereof. The first amendment will be to make the emergency services monitor a permanent position and not one that conveniently ends a few months before the next election. We want to ensure that the Emergency Services Levy Insurance Monitor is put in place on a permanent basis. We think everyone in the community should have a high degree of scepticism in relation to the market power of insurance companies and the ability of regular people to navigate that maze when exposed to very high increases in insurance premiums.

Labor members in the other place have had many representations made to them about severe increases in insurance premiums as a result of fire and flood risk and the like. The fact is that those threats