

# CLIENT ALERT

## ABOLITION OF NSW EMERGENCY SERVICES LEVY

IN DECEMBER 2015, THE NSW GOVERNMENT ANNOUNCED IT WOULD ABOLISH THE FIRE AND EMERGENCY SERVICES LEVY, CURRENTLY APPLIED ON INSURANCE POLICIES, FROM 1 JULY 2017. NOW REFERRED TO AS THE EMERGENCY SERVICES LEVY (ESL), IT WILL NO LONGER BE CHARGED FOR AFFECTED INSURANCE CONTRACTS ENTERED INTO FROM 1 JULY 2017.

### THE EMERGENCY SERVICES LEVY

The ESL is a levy on property-based insurance policies and provides about 74% of the funding for Fire and Rescue NSW, the State Emergency Service and the Rural Fire Service. The remaining costs are covered by the NSW Government and local councils.

Funding from insurance policies is determined retrospectively and insurers must determine the rate of ESL to charge having regard to their estimated final liability for the financial year. The current ESL obligations will apply to insurance companies (and others that are required to collect the levy under the current legislation) until 1 July 2017. Insurers will make their own independent decisions as to how to meet their ESL obligations in the period leading up to the abolition of the ESL (“transition period”).

### FUNDING OF THE FIRE AND EMERGENCY SERVICES FROM 1 JULY 2017

From that date, firefighters and emergency services will be funded by a property levy, to be paid alongside council rates and collected by local councils. Councils will clearly show the new Emergency Services Property Levy (ESPL) as a separate item on the council rates notice.

The change in the method of collecting funding is intended to ensure all property owners contribute their fair share to the cost of emergency services, rather than only those purchasing insurance. The government has indicated the change will not reduce the funds available to emergency services agencies.

### APPLYING ESL DURING THE TRANSITION PERIOD

The law prohibits insurers from anticipating removal of the ESL by increasing base premiums prior to 30 June 2017 on this account alone. Each insurer will determine its approach to phasing out the ESL in NSW but will adopt a general practice of tapering ESL rates until a 0% rate is reached by 1 July 2017. This broadly follows the approach taken when the Fire Services Levy was abolished in Victoria.

### POLICY PERIOD VARIATIONS OR CANCELLATIONS

While not prohibited, policy period variations are subject to insurer agreement and may include:

- Extending a policy ending before 1 July 2017 to 1 July 2017 or beyond so the renewal policy is entered into on or after 1 July 2017, for which no ESL is payable.
- For policies due for renewal from or after 1 July 2016, obtaining a policy on a short-term basis ending immediately before 1 July 2017 (or later) to minimise the premium period subject to ESL and then taking a new policy after this period, for which no ESL is payable.
- Cancelling a policy that extends beyond 1 July 2017 as at the end of 30 June 2017 and seeking a pro rata refund of premium including ESL, then buying a new policy from 1 July, for which no ESL is payable. Some local insurers may seek to endorse a policy at renewal to limit the refund of ESL available upon cancellation.

## OVERSIGHT OF THE CHANGES

The NSW Government appointed Professor Allan Fels AO as the ESL Insurance Monitor, and Professor David Cousins AM as the Deputy Monitor to head an independent agency overseeing the removal of the ESL. The role of the ESL Insurance Monitor is to ensure that any cost savings arising from the removal of ESL is fully passed on to policyholders.

The Monitor and Deputy Monitor have had ongoing consultation with industry representatives in order to prepare for the phasing out of the insurance levy and have published guidelines setting out their expectations. The guidelines have been finalised recently, following feedback from insurers, brokers and other interested parties.

## FURTHER INFORMATION

The NSW Government is providing information on the phasing out of the levy and the introduction of the ESPL on the following websites and we recommend clients review these websites:

- ESL Insurance Monitor ([www.eslinsurancemonitor.nsw.gov.au](http://www.eslinsurancemonitor.nsw.gov.au))
- Emergency Services Property Levy ([www.emergencyservicespropertylevy.nsw.gov.au](http://www.emergencyservicespropertylevy.nsw.gov.au))

## SECTION 30 NOTICE REQUIREMENTS

The Monitor has issued a notice under Section 30 of the Emergency Services Levy Insurance Monitor Act 2016 containing information about the emergency services levy reform and functions of the Monitor. Insurance companies, agents and brokers are required to include the information contained in the prescribed form of notice in or with invoices or other statements that they issue as to the actual dollar price payable for the issue of a policy that is subject to ESL. This applies to new business and renewals but not any variation of an existing contract of insurance.

Policyholders will receive the notice at the same time a quotation, renewal invitation or invoice is provided by an insurer, agent or broker. The obligation to issue the notice applies from 24 July 2016, however the Monitor has allowed a 12 week period from that date for insurers and others to fully comply.

If you wish to read the section 30 Notice earlier, visit the Monitor's website [www.eslinsurancemonitor.nsw.gov.au](http://www.eslinsurancemonitor.nsw.gov.au) and you will find it under the heading "notices".

**Should you have any queries, please contact your Marsh advisor.**

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