

**FIRE
SERVICES
LEVY
MONITOR**

**Report to the
Minister for Consumer Affairs**

December Quarter 2013

CD/13/469012

Letter to Minister



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28 January 2014

Ref. CD/14/24650

Hon Heidi Victoria
Minister for Consumer Affairs
Level 6, 2 Kavanagh Street
SOUTHBANK VIC 3006

Dear Minister

I am pleased to present my report for the December quarter 2013 on the performance of the functions of the Monitor in accordance with section 110(1) of the *Fire Services Levy Monitor Act 2012* (the Act). As required by section 110(4) of the Act, this report relates to the quarter ending 31 December 2013.

Yours sincerely

A handwritten signature in blue ink that reads 'Allan Fels'.

Professor Allan Fels AO
Fire Services Levy Monitor

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Overview

The September quarter 2013 report set out broad expectations about the impact of the fire services levy (FSL) reform on the price of property insurance. This was designed to help policyholders and consumers assess the conduct of their insurance company and determine whether the benefit of the abolition of the FSL had been passed on. The report concluded that, even allowing for normal inflation and other cost pressures being reflected in insurers' base premiums, the abolition of the FSL from 1 July 2013 should have caused total premiums to fall. The preliminary conclusion in the September quarter 2013 report from monitoring data was that, on the whole, premiums had fallen as expected.

Data available during the December quarter has confirmed the preliminary conclusion of the September quarter 2013 report. Australian Bureau of Statistics (ABS) price index data relating to the price of home and contents insurance in Australia's capital cities has been obtained since the publication of the September quarter 2013 report. The ABS data indicates that the price index of home and contents insurance in Melbourne fell by 10.7 per cent between the December quarter 2012 and the September quarter 2013, compared with a weighted average price increase across the other capital cities of 4.5 per cent. The ABS price index data is significant because it derives from a broader sample set than that available to the Office of the Fire Services Levy Monitor through its own monitoring and enables a comparison with other states where there was no change to funding arrangements for their fire services.

With six months now having elapsed since the abolition of the FSL, insurers on the whole continue to pass on the benefit of the FSL reform to policyholders. The one exception, as noted in the September quarter 2013 report, is Insurance Manufacturers of Australia Pty Limited (IMA), the underwriter for residential property insurance policies distributed by RACV Insurance. Consequently, an investigation of IMA's pricing continued during December 2013, reflecting concern that its premiums for home building insurance were unreasonably high in the context of the removal of the FSL. As at the end of the reporting period, a resolution of these concerns was well advanced.¹

A major advertising campaign was conducted across Victoria during October 2013, advising policyholders to scrutinise their renewals carefully. Compulsory powers continued to be used extensively to obtain information and documents and examine insurance company executives relevant to assessing whether price exploitation, or false or misleading conduct about the effect of the FSL reforms, had occurred. An enforceable undertaking was given by QBE Insurance, leading to refunds for over 11,000 policyholders, totalling approximately \$1.3 million. The conduct of several brokers remained in contention, which prompted the issuance of a public warning in October 2013.

¹ On 16 January 2014, IMA entered into an enforceable undertaking. The undertaking and a media release issued the following day are available on the FSLM website. As this matter was resolved in the March quarter 2014 it will be reported in more detail in that report.

1. Introduction

This quarterly report to the Minister for Consumer Affairs under section 110 of the *Fire Services Levy Monitor Act 2012* (the Act) covers the period from 1 October 2013 to 31 December 2013. It also marks one year since commencement of the Office of the Fire Services Levy Monitor (FSLM).

The role of the FSLM is to ensure that household and business property insurance policyholders are not exploited as a result of the abolition, since 1 July 2013, of the fire services levy (FSL).

Under section 6 of the Act, the main statutory functions of the FSLM are to:

- provide information, advice and guidance to consumers and insurance companies in relation to the abolition of the FSL
- monitor insurance premiums, including the FSL component of premiums
- monitor compliance of the insurance industry with the legislative prohibitions on price exploitation and false representations or misleading or deceptive conduct
- investigate potential contraventions of the law and take appropriate action.

These functions have been distilled into three broad categories:

1. information, guidance & advice
2. price monitoring
3. compliance and enforcement.

This report is structured as follows:

- Section 2 outlines the provision of information to consumers through media, advertising, website and enquiries handling activities
- Section 3 reports on the monitoring of insurers' pricing and conduct
- Section 4 reports on compliance and enforcement activities
- Section 5 provides analysis of developments in premiums during the December quarter 2013.

2. Information provision

A key function under the Act is to inform and educate policyholders and insurance companies about their rights and obligations with regard to the abolition of the FSL. This is achieved by providing information directly to policyholders and insurance companies, and through the FSLM website, the media and a dedicated enquiries and complaints enquiries line (1300 300 635). There is ongoing contact and consultation with the insurance industry and queries from individual insurance companies are regularly answered. This section provides details of media and advertising activity, website visits and enquiry and complaint numbers.

2.1 Media and advertising

The FSLM continued its media and public relations activities throughout the December quarter. Issues included a public warning about insurance brokers, a legal undertaking entered into with QBE, the release of the September quarter 2013 report and ongoing investigations into conduct that potentially breaches the Act.

2.1.1 Media activity

Public warning – insurance brokers

On 13 October 2013 a public warning was placed in major metropolitan and regional daily newspapers relating to the charging of FSL after 1 July 2013 by some insurance brokers. The warning followed several complaints received by the FSLM and its related investigations. The public warning was intended to alert consumers to be aware that some brokers had improperly (and unlawfully) continued to charge FSL, meaning that policyholders need to carefully check premiums issued through brokers. The warning was also a reminder to brokers themselves of the penalties they face for breaches of the Act.

QBE undertaking

On 11 November 2013, a joint media release with QBE Insurance was issued regarding an enforceable undertaking entered into with the Monitor. The undertaking relates to an error which saw QBE Insurance inadvertently overcharge customers following its decision to cease collecting FSL earlier than the official FSL abolition date of 30 June 2013. Stories appeared in the Herald Sun and The Age newspapers. More information about the undertaking and the background is in Section 4 of this report.

September quarter 2013 report

On 21 November 2013 the September quarter 2013 report to the Minister for Consumer Affairs was published on the FSLM website. Key issues in the report included:

- monitoring data indicated that insurance companies on the whole had removed the FSL from premiums in the September quarter
- investigations into two major insurance companies
- a September spike in enquiries and complaints
- the QBE matter.

There was media interest in the FSLM analysis and investigation following the publication of the September quarter 2013 report. For example, on 26 and 29 November stories appeared in the Herald Sun regarding the observations about pricing trends for IMA property insurance policies

(sold under the RACV banner). An interview was conducted with 3AW radio on 26 November about significant increases in the price of RACV property insurance policies despite the abolition of the FSL from the beginning of July.

On 13 December 2013 a media release was issued warning policyholders that scammers were trying to get access to personal bank account details by telephoning policyholders, pretending that the caller represented the Government and asserting that they were authorised to refund [overpaid] FSL to the policyholder. The release confirmed that the Monitor does not engage in monetary transactions with policyholders and that further, as a general principle, consumers and policyholders should be very wary of unsolicited callers seeking access to personal bank account details.

2.1.2 Advertising

A consumer advertising campaign was undertaken in the print and online media in mid-October and at the end of October to alert consumers about what they should do before renewing their property insurance policy. The campaign was the planned follow-up to the more general awareness campaign run in the press in June 2013, just prior to the abolition of the FSL.

The main messages of the October campaign were:

- Policyholders should carefully check policy renewal notices to make sure the FSL has genuinely been removed, and to compare the new base premium with last year's base premium.
- There is a large variation in property insurance premiums being quoted by major insurers – policyholders should 'shop around' and may be better off switching insurers.
- If policyholders are concerned about a rise in their base premium, they should contact the FSLM.

Full page newspaper advertisements featuring mock sample premium and renewal notices ran in The Age and Herald Sun once during each of the second and last weeks of the month. The advertisements also ran in major regional daily newspapers, and major newspapers serving culturally and linguistically diverse communities. The print campaign was supported by an online campaign on the *Herald Sun* and *The Age* websites between 18 and 30 October, with a combined total of over one million impressions. The advertisement is reproduced on the next page.

A MESSAGE TO PROPERTY INSURANCE HOLDERS FROM THE FIRE SERVICES LEVY MONITOR

Before you renew, review.

From 1 July 2013 the Fire Services Levy must not be in your insurance total premium. So if you have home insurance, carefully check your next renewal notice and compare it with your existing premium.

Premium 2012/13

Premium Breakdown	
Base premium	\$300
Plus Fire Services Levy (FSL)	\$100
Plus GST	\$40
Plus Stamp Duty	\$44
Annual Amount	\$484

Renewal 2013/14

Premium Breakdown	
Base premium	\$300+
Plus Fire Services Levy (FSL)	\$0
Plus GST	\$30+
Plus Stamp Duty	\$33+
Annual Amount	\$777

What to look for:

The FSL should be \$0. Check the base premium – while small increases are normal, watch out for large increases e.g. by more than 10%. If there's a significant increase in the base premium*, consider shopping around for other quotes.



Professor Allan Fels,
Fire Services Levy Monitor.

"There's a big difference in prices currently being quoted by insurers, so it really pays to get a few quotes. Just make sure the coverage of the policies is the same, so you're comparing 'like-with-like' quotes." – Allan Fels

If you have any questions or complaints, contact the Monitor on the number below.

firelevymonitor.vic.gov.au
1300 300 635



*Base premium is total premium less GST, stamp duty, FSL (before 1 July), and any fees.

F*54/DFC0024

2.2 Website

The website <www.firelevymonitor.vic.gov.au> continues to provide information to policyholders and insurance companies about the abolition of the FSL, the role of the FSLM and updates about FSLM activities. It complements the Fire Services Property Levy (FSPL) website, the FSPL having replaced the insurance levies. The FSPL website can be visited at <www.firelevy.vic.gov.au>.

The FSLM website had 5,813 visitors during the December quarter 2013, with 4,715 of these being first time visitors (unique visitors). This is a substantial decrease when compared with the September quarter. It suggests, as does the substantial drop in the level of telephone enquiries to the enquiries line, that the surge of concern coinciding with the introduction of the new scheme has passed. It also suggests that the community generally, and policyholders in particular, have developed a better understanding of the abolition of the FSL. The information and education program pursued from the very beginning of operations by the FSLM has undoubtedly contributed to this outcome. Data on visits to the FSLM website are provided in Tables 1 and 2.

Table 1 FSLM all website visits during 2013

Measure	March quarter	June quarter	September quarter	December quarter	Total
Total visits	3,158	8,079	11,482	5,813	28,532
Per cent of total	11.1	28.3	40.2	20.4	100

Source: Office of the Fire Services Levy Monitor and Google Analytics.

Table 2 FSLM unique website visits during 2013

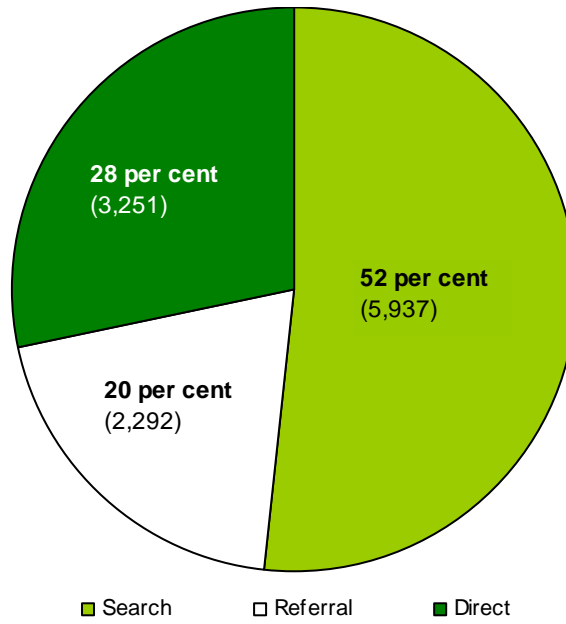
Measure	March quarter	June quarter	September quarter	December quarter	Total
Unique visits	2,302	5,268	7,865	4,415	19,850
Per cent of total	11.6	26.5	39.6	22.2	100

Source: Office of the Fire Services Levy Monitor and Google Analytics.

Other government agencies also host information about the FSLM, including Consumer Affairs Victoria, <www.consumer.vic.gov.au> and the Victorian Government's generic website, <www.vic.gov.au>. Links to the FSLM website from other sites provide additional opportunities for consumers and policyholders to acquire information about the FSL reform. These 'referral' visits represented 30.5 per cent of traffic to the FSLM website in the December quarter, compared with 20 per cent in the September quarter, as shown in Figure 1 and Figure 2.

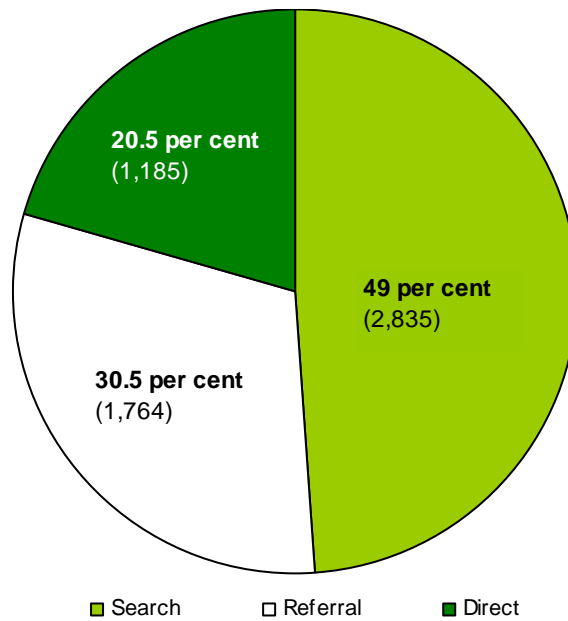
The majority of website visits originate through consumers and policyholders using a search engine: 49 per cent in the December quarter and 52 per cent in the September quarter. In the December quarter, the number of 'direct' visits dropped by 7.5 percentage points from 28 per cent to 20.5 per cent, suggesting that a higher number of consumers knew where to find the website, or had it bookmarked.

Figure 1 September quarter – website traffic sources overview



Source: Office of the Fire Services Levy Monitor and Google Analytics.

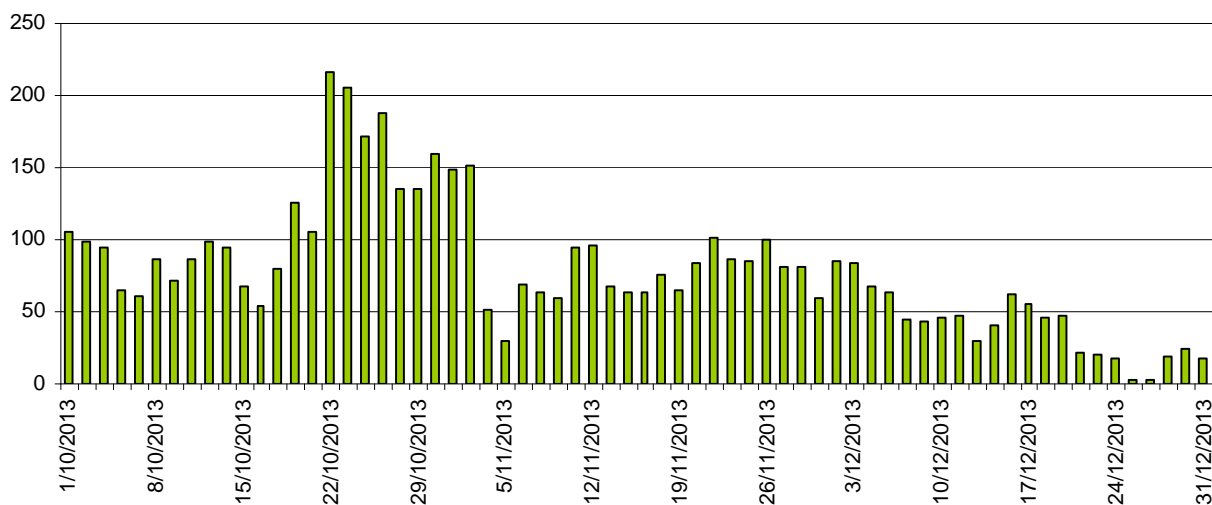
Figure 2 December quarter – website traffic sources overview



Source: Office of the Fire Services Levy Monitor and Google Analytics.

Figure 3 shows there was a peak during the December quarter in website visits, in the second half of October, which is likely to be related to the print media advertising campaign in that period, as described in section 2.1.2.

Figure 3 December quarter – daily website visits



Source: Office of the Fire Services Levy Monitor and Google Analytics.

2.3 Complaints and enquiries line – 1300 300 635

A dedicated enquiries line assists policyholders with queries and complaints regarding the FSL reform. This has received 5,110 calls between its launch on 30 January and 31 December 2013, with 781 in the December quarter. The substantial decrease in the number of calls in this quarter reaffirms the evidence and analysis in the September quarter 2013 report that the early months following abolition of the FSL was clearly the peak in enquiries traffic.

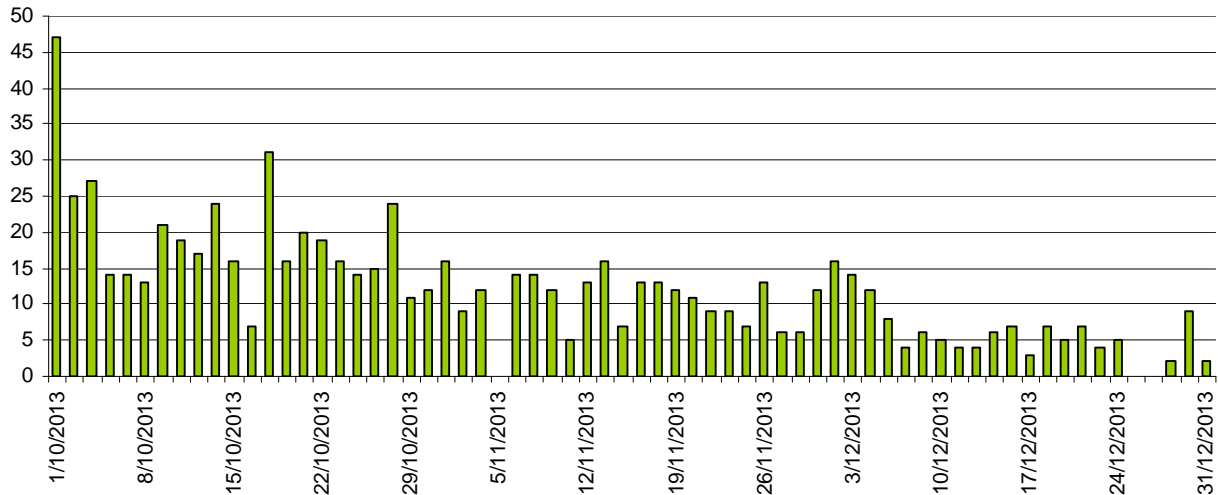
It would appear that the significant impact of local councils dispatching their rates and FSPL notices during the September quarter has ended. While the FSLM's extensive advertising campaign undoubtedly contributed further to awareness and understanding, it did not prompt a reversal of the downwards trend in call rates. Nevertheless, there are still policyholders receiving their first 'post-abolition' property insurance policy renewals, and it is important to provide a call centre facility to assist these policyholders in particular. With call rates in the December quarter lower than the June and September quarters, it is likely that the FSLM's key messages were gaining traction.

The extent to which policyholders can easily assess their renewal *total* premium² to see if they have received any benefit from the abolition of the FSL is very much dependent on the information they receive in their insurers' renewal notices, or otherwise have available to them. Critically, if the *base* premium component of the total premium is not separately itemised by the insurer in the renewal details, the impact of the abolition of the FSL and concurrent changes in base premiums will not be able to be determined. In other words, the policyholder will not readily be able to determine the influence of the abolition of the FSL on the price of their total premium, regardless of whether the premium moves up or down. The *Guidelines on false representation or misleading or deceptive conduct in relation to fire services levy reform* (Guidelines on misleading conduct) issued in May 2013 urge insurance companies to be transparent when issuing renewals, by explicitly showing the components of total premium (base premium, FSL pre-1 July 2013, GST, stamp duty and other fees) so that policyholders know the amount of base premium and changes in base premium between renewals (see guideline 4).

² The total premium is the amount actually paid by a policyholder for insurance cover. It is made up of several components: the base premium; FSL (prior to 1 July 2013); GST; stamp duty; and any other fees (such as brokers fees) or charges. The base premium is the price of the insurance alone.

Figure 4 displays the number of daily calls received by the FSLM in the December quarter. Apart from some spikes in the period during the October advertising campaign, the general trend is clearly downwards.

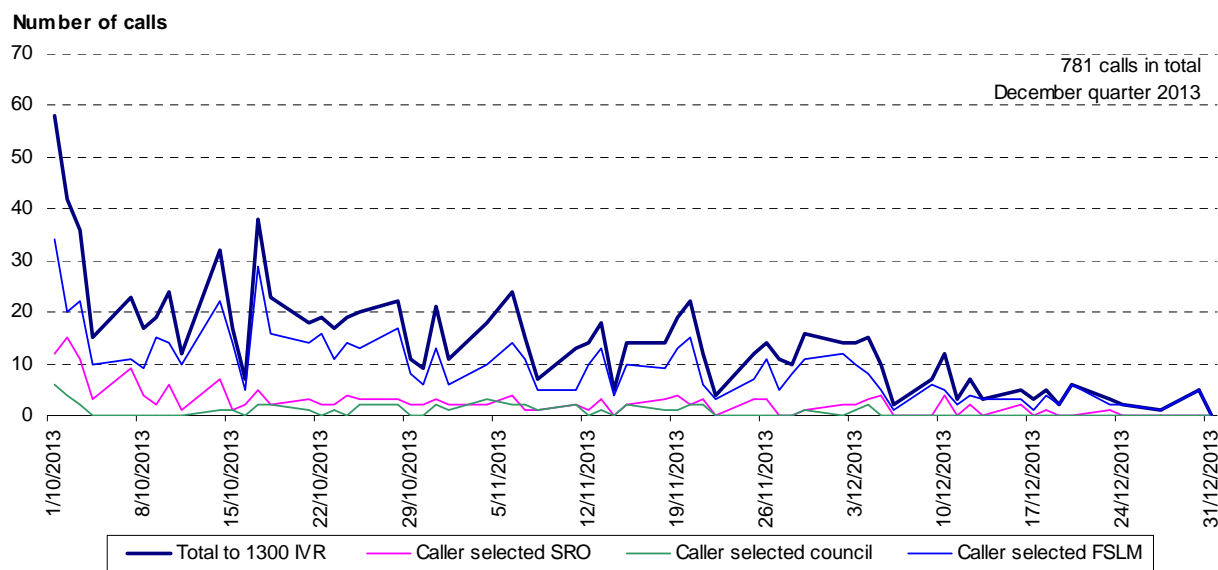
Figure 4 Number of call to the FSLM



Source: Office of the Fire Services Levy Monitor

Figure 5 shows the break-up of calls to the enquiries line during this quarter. Initial options for callers to select are the FSLM, their local council or the State Revenue Office (SRO). If the selection is their council or the SRO, it suggests that the caller believes their issue is with the FSPL. If the selection is the FSLM option, this suggests that the caller believes their issue is with the fire insurance-based FSL or their insurance premium. Having the FSLM placed first means that some calls are directed to the FSLM when the actual issue is the FSPL. Such calls are redirected by FSLM enquires staff to the SRO or local councils as appropriate.

Figure 5 Calls to 1300 300 365 enquiries line December quarter 2013



Source: Office of the Fire Services Levy Monitor.

3. Price and conduct monitoring

Under section 6 of the Act, the FSLM monitors premiums to assess industry compliance with the prohibition on price exploitation and monitors compliance with the prohibition on conduct which falsely represents or misleads or deceives regarding the effect of the abolition of the FSL.

Sections 18 and 19 of the Act give the FSLM power to require the provision of information that may assist in monitoring compliance with the Act. Section 30 specifically allows the monitoring of prices to assess the general effect of the abolition of the FSL on prices charged by insurance companies for regulated contracts of insurance and/or to assist in consideration of whether false representation or misleading or deceptive conduct has occurred.

The FSLM continues to conduct an extensive price monitoring program drawing on a range of sources, including information obtained under sections 18, 19 and 30 of the Act.

Table 3 Statutory notices issued under monitoring and investigation power – December quarter 2013

Statutory notices	Number
Section 18 notices	8
Section 19 notices	15
Section 30 notices	11
Section 57 notices	1

Source: Office of the Fire Services Levy Monitor

3.1 Ongoing premium quotes

Analysis continues of monthly data representing 11 insurance brands, supplied under section 30 of the Act, continues. The methodology of this monitoring was explained in the June quarter 2013 report. This data is being used to:

- cross-reference movements in insurance premiums against information provided by insurers in 2013
- cross-reference movements in insurance premiums against quotes obtained from insurers' internet-based quotation facilities.

Up-to-date analysis of this data is provided in Section 5 of this report.

3.2 Property specific pricing factors: flood and bushfire perils

Property-specific factors, in addition to any general increases in the cost of supplying insurance, can result in substantial base premiums increases. Pursuant to statutory powers under section 30 of the Act, major insurers have supplied information relating to the assessment of bushfire and flood risks (and reinsurance costs) in the setting of base premiums. The information supplied warrants careful analysis, which is continuing. It is intended to provide an analysis of the responses provided by insurers in the March quarter 2014 report.

3.3 Insurers' communications to policyholders

The guidelines on misleading conduct were issued pursuant to section 6(1)(a) and section 6(2)(d) of the Act. As detailed in the September quarter 2013 report, almost 90 insurance companies and brokers were formally requested to provide details of communications with their residential building/contents policyholders. The communications material sought included 'frequently asked questions', policy renewal statements, and procedures for providing policy-specific information to policyholders. Details were also sought in connection with fire and industrial special risks policies offered by insurers to commercial policyholders. Analysis of the responses provided by insurers will be provided in a future quarterly report.

3.4 Collection of FSL by insurers

The March quarter 2013 report included the following description of the basis on which, and the method by which, insurance companies were required, until 1 July 2013, to contribute to the funding of Victoria's fire services:

Currently Victoria's fire services are funded largely through contributions made by insurance companies. As provided in Section 37 of the Metropolitan Fire Brigades Act 1958 and section 77A of the Country Fire Authority Act 1958, insurance companies are required to contribute 75 per cent and 77.5 per cent respectively of the statutory contributions to MFESB and CFA annual expenditure respectively.

MFESB and CFA provide the Victorian Government with a proposed estimate of expected expenditure for the coming financial year. The Minister for Police and Emergency Services determines the total statutory contributions and the proportion required from insurance companies is allocated among insurers based on their market share – determined by their annual gross premium income for each specified class of fire insurance for the financial year to which its budget relates.

Insurance companies have historically generally chosen to recoup their contribution costs through a fire services levy (FSL) charged to residential and commercial policyholders in their premiums for insuring property against fire. The FSL is an additional charge to the 'base premium' and is based on applying a percentage rate to the base premium.

Insurance companies have to estimate the FSL rates to be applied to each policy for each financial year well before their exact liability to each fire services authority is determined after the end of that financial year. The Insurance Council of Australia (ICA) provided insurance companies with 'advisory' FSL rates prior to 2012–13.

These were commonly applied by insurance companies. For the 2012–13 financial year, most insurers obtained advice independently from a consulting firm, which had previously worked with the ICA, to determine FSL rates.

Guideline 5 of the *Guidelines on price exploitation in relation to the FSL reform* (Guidelines on price exploitation) states that insurance companies that over-collect FSL should make a refund direct to policyholders. However, guideline 5 also states that there may be circumstances in which direct refunds would cause "practical difficulties", in which case the insurer should remedy the over-collection by some other method of disbursement agreed in advance with the FSLM and formalised in an undertaking.

The 2012–13 financial year, being the very last in which insurers collected FSL, has required final reconciliation and accounting that differs from previous years. By late December 2013, the fire

services authorities were well advanced in the reconciliation process, which involves annual returns from insurers, adjustments to finalise the contributions required from each insurer and invoices to those required to top up their contribution or refunds to those who exceeded their required contribution.

The total statutory contribution required from insurers collectively for the funding of the fire services for 2012–13 was \$549,284,200: \$227,032,800 for the MFESB and \$322,251,200 for the CFA. An analysis of the FSL collected by insurance companies during 2012–13, across both regions, depends on the completion of the final reconciliation process described above and will be reported in the March quarter 2014 report.

4. Compliance and enforcement

As with the September quarter, the predominant compliance and enforcement focus was on the conduct of a small number of major insurance companies and insurance brokers.

4.1 Enquiries and complaints

Complaint handling is an integral part of the FSLM's statutory functions. However, the mere fact that complaints have been received about an insurer or broker and are being investigated is not objective evidence that there has been a breach of the Act or that a determination has been made to that effect.

The level of enquiries and complaints, which rose sharply in the September quarter 2013 compared with the June quarter 2013, has dropped just as sharply in the December quarter.

4.1.1 Total enquiries and complaints

The total number of enquiries and complaints received by the FSLM to the end of the December quarter 2013 was 5,929, as shown in Table 4. Eighty-six per cent of enquiries and complaints were made by telephone, with about 10 per cent by email and the remainder by letter.

Enquiries and complaints were received about key aspects of the FSL, with insurers' charges regarding the amount of FSL or premium concurrent with the abolition of the FSL, and perceptions of paying twice ('double charging') being by far the two largest categories. Table 5 shows the distribution of enquiries/complaints where the nature of contact is more than a general enquiry and the subject matter is able to be categorised (hence the total in Table 5 is less than the total in Table 4).

4.1.2 Perceptions of paying twice

The December quarter 2013 reflects an increased understanding by policyholders of the transition from FSL to FSPL – in particular, that it was structured to prevent any double charging or overlapping payments between the 2012–13 and 2013–14 financial years. The proportion of calls and emails to the FSLM in the December quarter involving the perception that a policyholder was paying twice to fund the fire services – once by paying an FSL amount prior to 1 July 2013 and once by paying the FSPL after 1 July 2013 – declined. In the September quarter, 56.5 per cent of enquiries/complaints were in this category, compared with the December quarter with 43.7 per cent of enquiries/complaints.

4.1.3 Misleading or deceptive conduct

Table 5 shows a small rise in the proportion of enquiries/complaints in the December quarter about possible misleading or deceptive conduct or false representations in relation to the effect of the abolition of the FSL. In the September quarter 2013, 2.6 per cent of the enquires/complaints were in this category, whereas the December quarter registered 5.3 per cent. Despite this increase, it remains the case that misleading or deceptive conduct is unlikely to be readily identifiable by individual policyholders.

The FSLM continues to be concerned about insurance companies who do not provide policyholders with clear information that enables a comparison of the base premium component of the total premium, given that the base premium is the key pricing component of a policy. Guideline 4 clearly states the FSLM's preferred manner of presenting a policy renewal in 2013–14.

4.1.4 Large increases in premiums after the abolition of FSL

The prominence of enquiries and complaints about large premium increases has risen. The most common complaint in the December quarter was about the amount of premium charged to the complainant.

As Table 5 shows, almost 51 per cent of the enquiries/complaints in the December quarter involved the amount of the premium, compared with 43.7 per cent for perceptions of double charging. Table 5 also indicates that the proportion of enquires and complaints relating to the 'amount of FSL or premium charged' accounted for a greater proportion in the December quarter than over the total period to 31 December 2013. In the December quarter, as with the previous quarter, nearly all of this category involved enquiries/complaints concerning large increases in premiums concurrent with the removal of FSL.

Table 4 Enquiries/complaints to the Fire Services Levy Monitor in 2013

Mode of contact	Mar quarter	June quarter	Sept quarter	Dec quarter	Total	Per cent of total
Telephone	544	953	2,832	781	5,110	86.2
Emails	90	45	344	108	587	9.9
Letters	0	64	110	58	232	3.9
Total	634	1,062	3,286	947	5,929	100.0

Source: Office of the Fire Services Levy Monitor

Table 5 Enquiries/complaints by category

Issue	December quarter 2013 number	December quarter 2013 per cent	Cumulative to 31 December 2013 number	Cumulative to 31 December 2013 per cent
Paying twice/double charging'	139	43.7	1,466	59.5
Amount of FSL or premium charged	162	50.9	882	35.8
Misleading/false representation	17	5.3	117	4.7
Total *	318	100.0	2,465	100.0

* The sum of the components may not equal 100.0 due to rounding

Source: Office of the Fire Services Levy Monitor

Table 6 Number of complaints by insurance brand

Insurer	Dec quarter 2013		Total to 31 December 2013		Market share of Insurer [#]
	number	per cent	number	per cent	per cent
Allianz Australia Insurance Limited	0	0.0	22	5.2	8.9
Aon Risk Services Australia Limited	0	0.0	1	0.2	0.2
Australian Alliance Insurance Company Limited (APIA)	1	1.9	42	9.8	2.8
Australian Associated Motor Insurers Limited	1	1.9	40	9.4	7.1
Auto & General Insurance Company Limited	0	0.0	3	0.7	0.6
Calliden Insurance Company	0	0.0	4	0.9	0.8
CGU Insurance Limited	0	0.0	15	3.5	9.3
Chartis Australia Insurance Limited	0	0.0	2	0.5	* 0.0
Commonwealth Insurance Limited	0	0.0	10	2.3	3.4
Defence Service Homes Insurance	0	0.0	3	0.7	0.2
Elders Insurance Limited	0	0.0	3	0.7	0.4
GIO General Limited	2	3.8	49	11.5	5.4
Insurance Manufacturers of Australia Pty Ltd (RACV)	45	84.9	173	40.5	8.5
OAMPS Insurance Brokers Limited	0	0.0	2	0.5	* 0.0
QBE Insurance (Australia) Limited	1	1.9	16	3.7	14.2
Suncorp Metway Insurance Limited	0	0.0	1	0.2	0.2
The Hollard Insurance Company Pty Ltd	0	0.0	1	0.2	0.5
Vero Insurance Limited	0	0.0	9	2.1	7.2
Wesfarmers General Insurance Limited	0	0.0	9	2.1	5.9
Westpac General Insurance Limited	3	5.7	20	4.7	2.3
Youi Pty Ltd	0	0.0	1	0.2	0.6
Zurich Australian Insurance Limited	0	0.0	1	0.2	3.5
Total	53	100.0**	427	100.0**	

Share of combined residential and commercial property insurance premiums subject to contributions to the fire services. Share of number of policies is not estimated due to unavailability of disaggregated data on the number of policies

* Share of less than 0.1

** The sum of the components may not equal 100.0 due to rounding

Source: Office of the Fire Services Levy Monitor

Table 6 summarises the data on enquiries/complaints disaggregated by insurers' brand. As was the case for the September quarter, the insurer which was the subject of the most complaints was IMA. In the December quarter, the preponderance of complaints was about IMA, at almost 85 per cent of the total. The only other insurers that were the subject of complaints to the FSLM during this quarter were Westpac, AAMI and APIA. In the cumulative data (column headed "Total to 31 December 2013"), IMA accounts for 40.5 per cent of complaints to the FSLM, with the next most represented being GIO General Limited, AAMI and APIA (representing 11.5, 9.8 and 9.4 per cent of total complaints, respectively). IMA's tally of complaints is heavily disproportionate to its market share of 8.9 per cent of the combined residential and commercial property insurance markets.

4.2 Investigations

Detailed compliance monitoring, analysis and investigation activity continued during the December quarter. The processes of section 19 of the Act regarding the provision of documents and/or examinations of insurance company personnel were utilised on several occasions regarding pricing of property insurance premiums.

Six insurance company executives were issued statutory notices to appear in person and give evidence. In addition, six formal statements were taken from policyholders who have made complaints against insurance companies and insurance brokers.

Fifteen detailed 'please explain' letters were put to insurers during the December quarter. All involved requests for more detail on the basis of substantial increases in base premiums around the time of, and after, the abolition of the FSL. The requested detail was provided in each case.

4.2.1 Enforceable undertaking

As stated in the September quarter 2013 report, QBE Insurance (Australia) Limited (QBE) advised in June 2013 that it had detected an error across two of its residential property policy platforms, adversely affecting the premiums of more than 9,000 policyholders. The summary below consists of extracts from an enforceable undertaking entered into by QBE on 31 October 2013. Paragraph numbers are references to paragraphs of the undertaking, which is published on the register of undertakings on the FSLM website:

Extract from undertaking given by QBE Insurance

- 2.2 QBE, an insurance company for the purposes of the Act, is the largest Australian owned general insurer and reinsurer. Locally, QBE has a market share of about 4.7 per cent of the personal household insurance market in Victoria. During the financial year, ending in 2013 it had issued and/or undertaken liability under approximately 250,000 regulated contracts of insurance relating to Victorian property.
- 3.1 Throughout 2013, the Monitor and his staff reviewed quotes for regulated contracts of insurance available by visiting insurance company websites, including the QBE website www.qbe.com.au ("the website"). This monitoring suggested the application of reduced rates of FSL imposed on regulated contracts of insurance relating to Victorian property, until about 23 March 2013, when QBE removed FSL entirely from such contracts of insurance.
- 3.2 However, this monitoring also suggested that base premiums payable under these contracts of insurance increased simultaneously with the reduction in the rate of FSL on or about 23 March 2013, resulting in minimal changes in the overall premiums quoted via the QBE website.
- 3.3 As part of the Monitor's oversight role, on 5 April 2013, the Monitor issued and caused to be served on QBE a statutory notice under section 19 of the Act requiring the provision of information and the production of documents relating to matters that constitute or may constitute a contravention of section 26 of the Act, dealing with price exploitation. QBE's response to the Monitor's statutory notice confirmed that it:
- issued or undertook liability under regulated contracts of insurance covering Victorian property during the 2012/2013 financial year; and
 - on or about 23 March 2013, it reduced to zero the amount of FSL recovered from policy holders in respect of such contracts of insurance.

- 3.4 In or about early May 2013, the Monitor received and proceeded to investigate, a small number of complaints from QBE policyholders. These complaints, about the premiums payable on the renewal of their existing insurance arrangements with QBE, were principally to the effect that the reduction in the FSL had not resulted in a reduction of the premiums payable under these policies.
- 3.5 On 15 May 2013, the Monitor issued and caused to be served on QBE, a further statutory notice, under section 19 of the Act, again requiring the provision of information and the production of documents relating to matters that may constitute contraventions of section 26 of the Act dealing with price exploitation.
- 3.6 Early in June 2013, QBE contacted the Monitor and requested a meeting with the Monitor, which was held on 11 June 2013. At that meeting, QBE Senior Executives informed the Monitor that, in or about mid-May 2013, as a result of undertaking its own review and audit procedures, QBE had identified an "inadvertent algorithm error" ("the error") in two of the computer systems, used by QBE to determine insurance premiums. ...
- 3.7 The application of the error led to calculation errors in the premiums payable by 11,495 persons insured under regulated contracts of insurance, relating to Victorian property issued by QBE, resulting in QBE recovering from those insured persons approximately \$1,120,000 beyond what was intended ("the affected policies").
- 5.4 The error resulted from the unintended incorrect application of the "collar" component of the "cap 'n' collar" premium smoothing mechanism, which is the moderating algorithm, which was employed by QBE to moderate premium price volatility over time for persons renewing regulated contracts of insurance. The "collar" component, was incorrectly applied within these legacy systems to the total premium payable by an insured rather than the base premium, with the result that as QBE reduced the amount of the FSL charge in respect of a regulated contract of insurance, renewed under two of its systems, there was a corresponding increase in the base premium of such contracts of insurance.
- 6.1 QBE acknowledges that the Monitor considers that, on various occasions between 27 November 2012 and 18 June 2013, QBE contravened section 26 of the Act, by issuing regulated contracts of insurance in respect of Victorian property, where the price of supplying those regulated contracts of insurance was unreasonably high because of the matters identified in paragraphs 5.3 and 5.4 above.
- 7.0 Undertaking
- 7.1 QBE undertakes to the Monitor, pursuant to section 92 of the Act, that it has:
- 7.1.1 taken all appropriate and necessary steps to correct the identified errors in the affected policies;
 - 7.1.2 notified the affected policyholders of the error and apologised for the error;
 - 7.1.3 disclosed the error to the public; and
 - 7.1.4 rectified the error by refunding all amounts incorrectly charged to affected policyholders.
- 7.2 QBE undertakes to the Monitor pursuant to section 92 of the Act that it will, at its expense, deliver to the Monitor or his nominee, by no later than 30 November 2013, a report of an

independent audit of QBE's computer systems, including its "Anubis" and "Dinweb" systems, which are employed by QBE to determine insurance premiums payable under regulated contracts of insurance in respect of Victorian property ("the systems") and which analyses the background to and impact of the error, and specifically confirms that QBE has:

- 7.2.1 identified and remediated the error in the systems;
- 7.2.2 identified all the affected policies;
- 7.2.3 affected a full refund to all persons who, under affected policies, paid premiums in excess of those that would have been payable if not for the error, with such refunds also to address the impact of stamp duty and GST charges; and
- 7.2.4 put in place appropriate, identified safeguards and audit systems to ensure that similar errors do not reoccur.

7.3 The Monitor has approved PricewaterhouseCoopers for this purpose.

The independent audit required by virtue of clause 7.2 of the undertaking, carried out by PricewaterhouseCoopers (PwC), was lodged with FSLM on 29 November 2013. The PwC audit included an investigation of what happened and QBE management's understanding and conclusions about what happened. PwC also reviewed the process used by QBE to identify impacted policyholders and quantify that impact, the relevant communications to policyholders, and lastly, the refund protocols. PwC has confirmed QBE's own findings – that is, that the error arose from the application in two of QBE's underwriting systems of a “cap and collar” rule to the total renewal premium rather than the base premium. The PwC audit confirms that QBE issued refunds (or refund equivalents) totalling \$1,308,165 to approximately 11,500 policyholders, representing 15,517 policies in total.

4.2.2 FSL charged unintentionally

In addition to the enforceable undertaking entered into by QBE, it came to the attention of the FSLM during the September quarter 2013 that an insurer had intended to cease charging FSL by May 2013 (as part of its FSL rate 'tapering' strategy), but that this had not actually occurred. In late September, the FSLM issued a statutory notice under section 19 of the Act requesting documents and information relevant to the insurer's policyholder communications. The ensuing response formed the basis for an analysis of whether it had breached section 31 of the Act in its communications with policyholders about when, under the tapering strategy, policyholders would cease to be charged FSL. Since there was no evidence of policyholders having been misled as to when FSL would actually cease to be charged, no adverse conclusion was reached that it had acted inconsistently with section 31. All of the affected policyholders have been provided with full refunds of the fee charged, totalling \$67,805.

Table 7 Refunds to policyholders

Pricing issue	Number of policyholders	Amount
Pricing error on reducing FSL rates	11,500	\$1,308,165
Charging FSL after planned cessation of FSL	1,051	\$67,805

Source: Office of the Fire Services Levy Monitor

In December 2013 the FSLM was approached by an insurer with tentative details about two of its retail brands. A small number of policyholders had apparently either been invoiced inclusive of FSL (but the policyholders had not yet paid the invoice) or had been charged FSL (and the policyholders had already paid the FSL as part of their premium). It appears from the limited information available to the FSLM that in unusual or infrequently occurring policy circumstances, 'switching off' the FSL charging process in billing had been overlooked. If on further examination by the insurer, refunds are warranted, the FSLM has been assured that they will be provided. Where invoices were able to be withdrawn and reissued correctly before the policyholder made a payment, this has reportedly been done.

The insurer concerned assures the FSLM that it is working on eliminating any possibility of a repetition occurring on the relevant underwriting platforms. It is also implementing a system to detect and avoid any inappropriate renewal quotations or invoices that a policyholder or consumer may unwittingly invoke. This will be monitored.

4.2.3 FSL charged unlawfully

As stated in the September quarter 2013 report, an insurer advised the FSLM in August 2013 that it may have breached section 26 of the Act with regard to a small number of policies that were charged FSL "in error". A formal examination (convened under section 19(1)(c) of the Act) of a senior executive of the insurer was conducted during September 2013. This examination focused on clarifying precisely what had occurred, the manner in which affected policyholders had been identified and refunded (or the policyholder had had the relevant charges reversed or withdrawn) and what had been done to rectify the information technology and underwriting systems that were responsible for the 'errors'.

The affected policies had been issued, renewed or varied in limited and specific circumstances that, by definition, would not have affected the vast majority of property insurance policies issued by the insurer. An informal administrative resolution of the matter was achieved with the insurer providing written assurance that the underlying systemic issues had been addressed and that arrangements had been made to provide refunds to affected policyholders.

4.3 Brokers

A public warning was issued on 13 October 2013 under section 106 of the Act. It emphasised that where policyholders use the services of a broker, they need to be equally as vigilant about the price of their policy following the abolition of FSL as if they obtained their insurance directly from underwriters. The public warning also reminded brokers of their obligation to comply with the Act so as to avoid price exploitation and misleading policyholders. This message was reinforced to its members by the National Insurance Brokers Association following contact with the Monitor.

The conduct of a limited number of brokers was a feature of the compliance monitoring and investigation activity during this quarter. FSL charged by an interstate-based broker in connection with insurance renewed after 1 July 2013 triggered a chain of investigation to determine which entity actually issued the insurance, which entity underwrote the insurance, and the extent to which other brokers in Victoria may also have sold similarly affected policies. The FSLM investigation required the issuance of a series of statutory notices under section 19 of the Act, extensive company searches, policyholder interviews and obtaining formal statements. On the information available to date, it does not appear that a significant number of policyholders have been adversely affected. This investigation is continuing.

There is a separate concern that a few brokers may have increased their commission or fee (or received such an increase) concurrent with the abolition of the FSL. A thorough investigation of this issue involved the issuance and follow-up of statutory notices under section 19 of the Act seeking documents and information and one site visit. It also involved determining the true extent of a broker's discretion as regards the cost of the insurance policy in question and the commission or other fee payable to the broker in connection with policies sold or renewed. There does not appear to be any evidence of a practice of fees being increased concurrent with the abolition of the FSL.

The section 106 public warning issued in October includes the following statement:

Brokers have obligations under the Fire Services Levy Monitor Act 2012 (the Act), particularly the provision prohibiting false representations or conduct likely to mislead or deceive policyholders about the effect of the abolition of the Fire Services Levy from 1 July 2013.

It is important that those who purchase insurance through a broker share equally in the benefits from the abolition of the FSL obtained by policyholders who purchase their insurance direct. It is also crucial that those who engage brokers are provided with information about the abolition of FSL that is easily accessible and readily comprehensible.³ This assists policyholders, whether residential or commercial, to determine for themselves the extent to which they have benefited from the removal of FSL.

4.4 Compliance with guidelines

Section 27 of the Act enables guidelines to be issued about when prices for regulated contracts of insurance may be regarded as contravening section 26. Section 6(2) (d) of the Act contains a more general power to prepare and publish guidelines in relation to the operation and enforcement of the Act. The guidelines on price exploitation and the guidelines on misleading conduct were issued under these two sections of the Act in May 2013. The two sets of guidelines provide an interpretation of the legislation and the associated requirements for compliance. They also incorporate useful background and commentary.

4.4.1 CEO declarations

Guideline 4 requests each insurer to provide a declaration signed by the Chief Executive Officer of the company (or equivalent position) stating that the company has implemented internal controls designed to ensure that no FSL will be charged on new policies issued or policies renewed from 1 July 2013. The objective is to enhance each insurer's accountability in ensuring that no FSL can be charged after 1 July 2013, and focus attention on this issue at the highest level of each company.

A list of all 35 insurance companies that have provided declarations, and the content of those declarations, is published on the FSLM website. This represents the total number of declarations required, as Guideline 4 is only applicable to those insurance companies that actually determined premiums and the amount of FSL charged to policyholders. Insurance entities that merely passed on charges set by others are excluded from the scope of the Guideline. Despite the CEO Declarations, the FSLM's regular monitoring will continue and policyholders will continue to be urged to check their policy renewal statements carefully.

³ More information about the view of the FSLM regarding communications to policyholders is contained in the guidelines.

4.4.2 Assurance opinions

Under guideline 11 of the guidelines on price exploitation, insurers were requested to provide, by 18 October 2013, a declaration of the amount of FSL they collected in respect of 2012–13, accompanied by an 'assurance opinion' obtained in accordance with the Auditing Standard on Review Engagements ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*. Under the previous FSL funding arrangement, insurance companies and brokers declared their FSL collections to the Victorian fire authorities under section 40 of the *Metropolitan Fire Brigades Act 1958* and section 77 of the *Country Fire Authority Act 1958*, respectively. Declarations submitted by insurers and brokers to the fire authorities were not externally verified: it was essentially a self-reporting system. This aspect of the FSL arrangements limited the usefulness of the declarations for the specific purposes of the Act.

The guidelines on price exploitation state that that 'external attestation of FSL collections would assist in confirming the integrity of the FSL collection process during its final year of implementation.' Guideline 11 is in these terms:

A review engagement should be undertaken under the Auditing Standard on Review Engagements, ASRE 2405, Review of Historical Financial Information Other than a Financial Report, to ensure that the FSL collection for the year ending 30 June 2013, declared to the Monitor reconcile in all material respects, and with the amounts recorded in the insurer's accounting system (which have been traced through to fire services levy charges in policyholders' new/renewal schedules). All declarations and assurance opinions should be submitted to the Monitor by the close of business 18 October 2013.

The assurance practitioner's responsibility is described in the template issued in conjunction with guideline 11:

Our responsibility is to express a conclusion on the Schedule based on our review. We have conducted our review in accordance with the Standard on Review Engagements ASRE 2405 Review of Historical Financial Information Other than a Financial Report, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the Schedule does not reconcile, in all material respects, with the amounts recorded on the Insurer's accounting system. No opinion is expressed as to whether the fire services levy stated are appropriate to the needs of the Fire Services Levy Monitor. ASRE 2405 requires us to comply with the requirements of the applicable code of professional conduct of a professional accounting body.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As at 31 December 2013, 81 insurance companies had provided an assurance opinion. A list of these insurers is on the FSLM website.

5. Removal of FSL and developments in premiums

This section builds on the September quarter 2013 report which set out broad expectations about the reduction in total premiums that policyholders should experience following the abolition of the FSL. The monitoring data available for the September report confirmed that on the whole, prices for total premium, compared to a year earlier, had fallen by around what had been expected. This section of the December quarter 2013 report draws on additional data to assess the impact of the FSL reform on policyholders. It confirms that the trend of total premium reductions continues to be as expected.

5.1 Movements in total premiums in September quarter 2013 on abolition of the FSL

The September quarter 2013 report endeavoured to estimate the extent to which policyholders would make savings when renewing their premiums in the initial year after the abolition of the FSL. The report noted that on average, policyholders renewing in 2013–14 could expect reductions in the cost of their premiums, though the scale of the reduction would diminish by the June quarter 2014. The latter is due to insurers using a tapering strategy in 2012–13, such that the rates of FSL applied dropped away quite sharply from about March 2013.

When a reasonable allowance is made for inflation and other cost pressures, the September quarter 2013 report suggested that policyholders renewing in the first three months after the abolition of the FSL would be entitled to expect reductions in total premiums of around 11 per cent and 20 per cent, in the MFB and CFA regions respectively, based on average FSL rates charged by the market during the September quarter 2012. Section 30 monitoring data revealed (with the exception of IMA) total premium reductions on average in the September quarter 2013, when compared to 12 months prior, of between 11 and 18 per cent in the MFB region and 21 to 35 per cent in the CFA region.

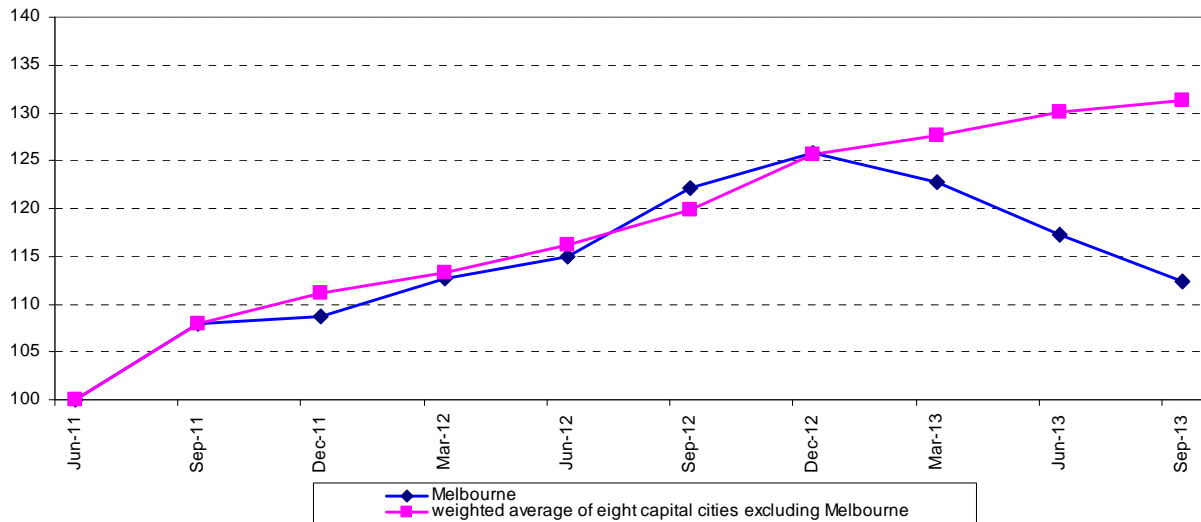
The monitoring undertaken by FSLM does not cover all policies renewed or taken out, as this is not practicable and would be burdensome on insurers. As the September quarter 2013 report stated, the sample size for the section 30 data and the online quotes is small, and is therefore “indicative of actual movements in the market” rather than being specific to all existing policies. To test more thoroughly the trend that the FSLM has identified in premium prices as a result of the FSL reform, it was necessary to seek access to a larger sample of policies.

The FSLM obtained Australian Bureau of Statistics (ABS) Consumer Price Index (CPI) data for capital city home and contents insurance for the period June quarter 2011 through September quarter 2013. It includes data for the March, June and September quarters in 2013, coinciding with the period in which the bulk of the tapering of FSL rates and their eventual removal was undertaken by insurers. The ABS home insurance price data is based on thousands of policies from a representative sample of insurance companies across the eight capital cities. These are selected carefully by the ABS to reflect the range of different policies acquired by the CPI population.

The CPI data in Figure 6 shows that the price of home and contents insurance policies in Melbourne fell by 10.7 per cent in the first nine months of calendar 2013 compared with a weighted average rise across the other capital cities of 4.5 per cent in that same period. Looking at the full year difference from the September quarter 2012 to the September quarter 2013, the ABS data

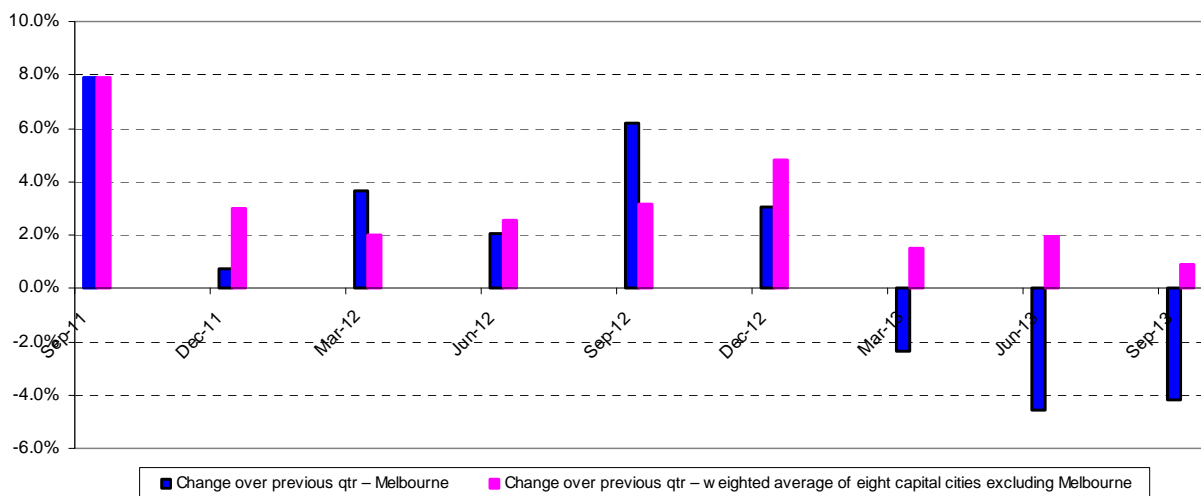
reveals that the price of home and contents insurance policies in Melbourne fell by 8 per cent, whereas it rose in the other capital cities by 9.5 per cent.

Figure 6 ABS CPI home & contents insurance price indexes – June quarter 2011 to September quarter 2013



Source: Australian Bureau of Statistics data.

Figure 7 ABS CPI home & contents insurance – percentage change over previous quarter – September quarter 2011 to September quarter 2013



Source: Australian Bureau of Statistics data.

Figure 7 provides the quarter-by-quarter change in the home insurance price indexes for Melbourne compared to the weighted average of the other capital cities. It shows the reductions in prices in Melbourne over each of the March, June and September quarters 2013.

The ongoing price monitoring undertaken by the FSLM and the ABS price index data above provide significant evidence that policyholders have thus far benefited from the abolition of the FSL. However, it is necessary for the FSLM to remain vigilant, as there will be policyholders receiving their first post-FSL renewal up until June 2014. Their interests in being free of price exploitation (that is, free of unreasonably high prices for property insurance) must continue to be

protected. Accordingly, during 2014 the FSLM intends to continue its approach to monitoring as described in Section 5.2 of the September quarter 2013 report.

5.2 Movements in total premiums to the December quarter 2013

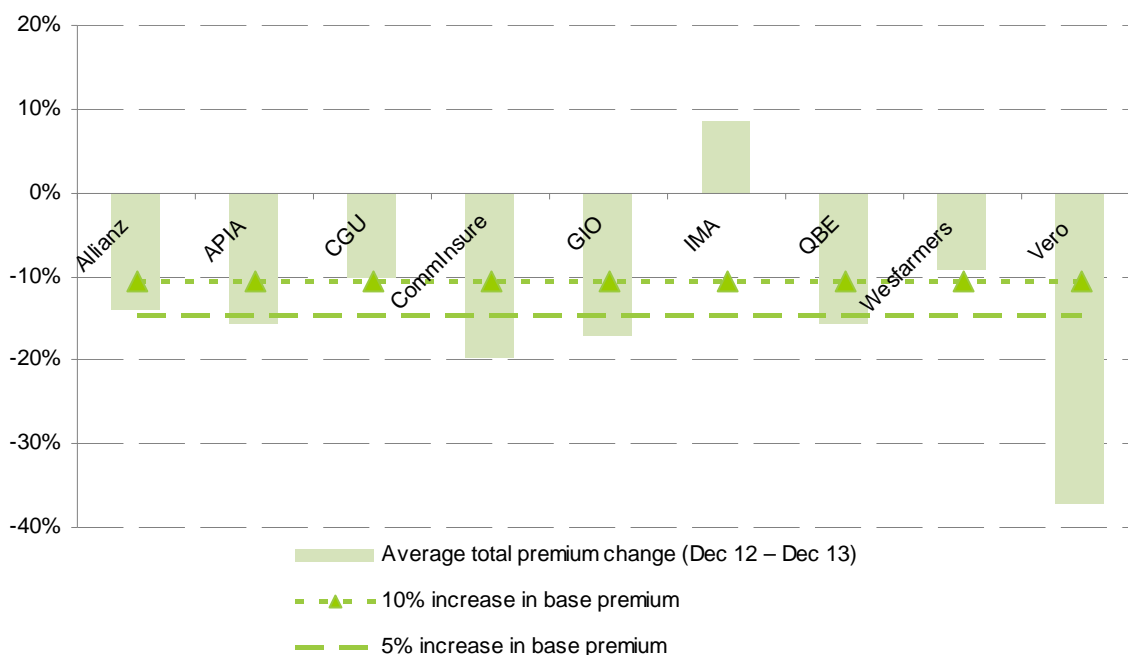
As noted previously, when a reasonable allowance is made for inflation and other cost pressures, policyholders who renewed in the December quarter were entitled to expect reductions in total premiums of around 11 per cent and 19 per cent in the MFB and CFA regions respectively, based on average FSL rates charged by the market during the December quarter 2012. The CFA figure is reduced from its September quarter equivalent (20 per cent) as some insurers had already begun to reduce their FSL rates by this stage of the year.

5.2.1 Total premium changes – 12 months ending December 2013

Average total premium data was calculated using quotes provided by the major insurers for the sample in the ongoing section 30 monitoring. Changes over the 12 months from December 2012 to December 2013 were averaged across properties in both the MFB and CFA regions.

Total premium values include the effects of any base premium increases as well as the effect of the abolition of the FSL. The comparison of average changes across major insurers is shown in Figure 8 (for MFB region) and Figure 9 (for CFA region).

Figure 8 Insurers' quotes, average change in residential building insurance total premiums 12 months – December 2012 to December 2013 (MFB region)



Source: Office of the Fire Services Levy Monitor

Figure 9 Insurers' quotes, average change in residential building insurance total premiums 12 months – December 2012 to December 2013 (CFA region)



Source: Office of the Fire Services Levy Monitor

Most brands have averaged a total premium reduction of between 9 and 37 per cent in the MFB region and between 15 and 44 per cent in the CFA region, largely due to the FSL coming out of the total premium. However IMA has averaged an increase in total premium of 9.2 per cent across the two regions due to large base premium increases contemporaneous with charging a zero per cent FSL rate prior to 1 July 2013.

Figures 9 and 10 also include a 'bandwidth' showing the average expected change in total premium for each region, assuming either a 5 or 10 per cent increase in base premium for inflation and general cost increases. A market weighted average FSL rate was applied to determine these expected total premium changes. In both regions, the majority of insurers had average total premium reductions either around or lower than the line assuming a 10 per cent increase, that is, these insurers had base premium increases of equal to or less than 10 per cent for the sample of policies monitored. However, in the CFA region, QBE's reductions fell noticeably outside the estimated range. This was largely due to the addition of flood cover into their residential policies from December 2013.

5.2.2 Premium changes – December quarter 2013

As with the September quarter 2013, based on the data provided by insurers as part of the ongoing monitoring under section 30, movements in premiums observed in the December quarter 2013 have, on the whole been, negligible. Table 8 lists the average total premium change across the sample of scenarios/suburbs monitored, for all quarters from December 2012 to December 2013, inclusive.

Table 8 Average total premium change (per cent) for residential insurance, by quarter, December 2012 to December 2013

Insurer	Dec 2012	March 2013	June 2013	Sept 2013	Dec 2013
AAMI*			-4.1	3.1	0.8
APIA	0.0	-18.2	-3.9	0.8	0.8
Vero	23.7	-37.6	-4.9	0.5	0.6
IMA	-4.9	4.6	2.8	0.0	1.7
QBE	4.1	-5.9	-14.9	0.0	12.8
CommInsure	3.4	-11.6	-9.9	0.0	0.0
Allianz	5.8	-19.2	-4.5	0.0	7.2
CGU	-8.6	-10.0	-2.8	0.0	0.0
GIO	-0.9	-18.9	-4.3	0.2	0.7
Wesfarmers	0.9	-0.7	-8.5	-2.2	-3.2

* AAMI systems did not allow retrospective quoting for periods earlier than February 2013.

Source: Office of the Fire Services Levy Monitor

In the December quarter 2013, all but two of the residential brands implemented premium changes of less than 1.7 per cent, with some having no change at all or reductions in total premium. The two brands that had total premium increases greater than 1.7 per cent were QBE (12.8 per cent) and Allianz (7.2 per cent). As mentioned previously, the increase observed in QBE pricing is largely due to the inclusion of flood cover in December 2013. They were the final insurer (of those monitored) to include this cover. Allianz has a history of modest base premium movements in the last 12 months and total premiums fell in line with expectations on removal of the FSL. In light of this, its average premium increase of 7.2 per cent in the December quarter alone was not considered to warrant further investigation at this stage, but close monitoring will continue during 2014.

On the whole, total premium movements in residential building insurance for the December quarter 2013 align with FSLM estimates. None of the commercial property or residential contents insurance scenarios that are monitored were subject to material increases, with the exception of a particular property under one of QBE's residential contents policies that increased by 43.3 per cent due to the inclusion of flood cover.

5.3 FSLM website monitoring

Capturing online quotations from major insurers' websites since March 2013 has further assisted in understanding general base premium increases. The monitoring encompasses the period in which most insurers ceased to charge FSL on their policies, with only a minority of insurers charging FSL after March 2013.

The percentage change in base premium between March 2013 and December 2013, for each of the sample properties, was calculated for the eight insurance brands monitored. By averaging the base premium change across the sample properties, a single average percentage increase for this period was obtained. These figures are provided in Table 9 below. Four insurers registered

increases below 5 per cent, while Vero, AAMI, CommInsure and IMA, in ascending order, registered larger increases. The insurer with the highest increase, IMA, registered an average 17.5 per cent increase. This was an increase 37 per cent larger than the next highest, CommInsure.

Table 9 Quotes from insurers' websites – average base premium percentage change, March 2013 to December 2013

Insurer	Average base premium (\$) in March 2013	Average base premium (\$) in December 2013	Average base premium increase percentage
AAMI	301	330	9.8
Allianz	356	361	1.6
APIA	359	364	1.4
CommInsure*	306	345	12.8
IMA (RACV)	521	612	17.5
QBE**	522	524	0.3
Vero (Bankwest)	476	501	5.2
Wesfarmers (Coles)	562	589	4.8

* CommInsure introduced flood cover to their home insurance policies on 25 March 2013. The increase observed in the FSLM sample may fully or partially reflect that change.

** QBE introduced flood cover to their dominant Australian Intermediaries Division on 7 December 2013. The premium increase associated with this, as described in 5.2.2 and shown in Table 8, is not observed in Table 9 as these quotes were obtained from QBE's online quoting system which had yet to include flood cover at the time of quotation.

Source: Office of the Fire Services Levy Monitor

5.4 Price variations across the major insurers

Ongoing monitoring of residential insurance premiums has continued to highlight the price differences between insurance brands. Total premium values outlined in Table 10 represent a sample of online quotes gathered in early December 2013 for a sample of properties using standardised policy specifications. The differences between the highest and lowest quoted premiums for the same property ranged between \$264 and \$747 and across the sample the lowest premium was no more than 62 per cent of the highest premium.

The message for consumers is clear. It pays to shop around by comparing the price of different insurers before purchasing and renewing policies.

Table 10 Quotes from insurers' websites – total premiums (December 2013)

Property location (\$300k insured)	AAMI	Allianz	APIA	CommInsure	QBE	RACV	Bankwest	Coles	Range	Low as percentage of high
Bendigo	\$364	\$415	\$397	\$433	\$786	\$471	\$599	\$490	\$422	46
Glen Iris	\$446	\$449	\$486	\$424	\$588	\$688	\$657	\$581	\$264	62
Echuca	\$347	\$408	\$388	\$403	\$634	\$973	\$577	\$1,094	\$747	32
Surrey Hills	\$497	\$437	\$540	\$433	\$588	\$515	\$705	\$547	\$272	61

* Flood cover is included in these quotes. Allianz has the option of selecting flood cover, and it was not part of the standard insurance cover offered by QBE's online quoting system in December.

Source: Office of the Fire Services Levy Monitor

