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Insurance e-alert

Fire Services Levy Extinguished

If you handle business or residential property insurance claims in Victoria, you should be aware that the government intends to extinguish the fire services levy.

The Honourable Premier John Brumby recently announced his intention to adopt the Victorian Bushfires Royal Commission's recommendation to replace the fire services levy ("FSL"), previously paid by those who have property insurance, with a progressive property based levy, to be charged to all property owners.

It is expected that the property based levy will:

- ensure that the funding of emergency services will be more fairly shared by all property owners who benefit from the services;
- reduce the cost of property insurance; and
- take away an insurer's burden to recover the FSL from insured property owners.

It is anticipated that the new system will be in place by 1 July 2012.

What is the FSL?

Currently, the Metropolitan Fire Brigade and Country Fire Authority, are funded largely through:

- insurers, who attach a FSL to insured's who take out property and building insurance;
- direct contributions received from the State Government; and
- contributions received from metropolitan councils.

The current insurance based model allows fire risk to be distributed amongst insureds. This means that a property with a high fire risk, such as a fish and chip shop, will pay a higher levy than a low fire risk property, such as a library.

After the Black Saturday fires in Victoria, it has been suggested that the current insurance based model is no longer appropriate as high premiums are becoming a disincentive for property owners to adequately insure. This is particularly exacerbated by the fact that property owners who do not have insurance and do not contribute to the levy, receive the same protective fire services as insured property owners. The result is a funding burden which is spread across a smaller proportion of insured property owners.

What is the property based levy?

Details of the property based levy are not yet known. The only information released by the government is that it would take steps to ensure that insurers pass on the full benefit from having the levy removed from premiums. The Brumby government has indicated that they will determine the best model by embarking on a period of consultation with the options being released in February 2011.

We will release a further E-Alert once the options proposed by the government are released in February 2011.

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