

# Anglican Insurance Board Seminar on Fire Service Levies

14 October 2015

**David Leather**

**Insurance and Risk Seminar**

**Auckland Airport Conference Centre**

## Fire Service Levy

- Provides for the running of the New Zealand Fire Service
- Charged on all policies of fire insurance (indemnity value)

Church / School and Commercial property		
Levy rate per \$100	Sum Insured	Fire Service Levy
0.076¢	\$1,000,000	\$760

Note Insurer premium  $\$1,500,000 \times 0.10 = \$1,500$

- FSL large element of total cost

# Fire Service Levies

## Minimising Cost

### 1. Single Commercial Property Owner - Fire Sum Insured

1	\$2,000,000	Levy	\$1,520

### 2. Multiple Property Owner - Buildings

1	\$2,000,000	Levy	\$1,520
2	\$2,000,000	Levy	\$1,520
3	\$1,000,000	Levy	\$760
4	\$3,000,000	Levy	\$2,280
	<b>\$8,000,000</b>		<b>\$6,080</b>

## Minimising Cost Power of leverage

Single property owner must pay levy on \$2,000,000 to be fully insured		\$1,520
- Cost per million on assets	\$760	
Multiple Property owner can select to pay on all indemnity values or selected fire insurance sum insured		
Multiple Property Owner selects Highest Risk \$3,000,000 and insures Fire for \$3,000,000 and saves 37.5%		\$2,280 (not \$6,080)
- Cost per million on total assets	\$285	
Not all Properties can be lost through one event of fire		

## Significance for AIB members

- The Anglican Insurance Board formed through Canon is part of Anglican Church Aotearoa New Zealand
- Through AIB all singular members of the church can insure on a group basis with multiple properties
- Fire Service Levies can form a significant cost on top of premium. In some cases 100% of premium
- AIB currently pay fire service levies on \$40,000,000 on total insured

Total insured	Levy paid	Assets	Cost per million
\$40,000,000	\$30,400	\$965,815,866	Approx \$31.50

- This saving is not achievable insuring alone

## Is Levy Minimisation legal?



- Yes minimising tax liability is legal – evasion is not!
- In a recent ruling NZ Fire Service v NZ Ports Collective, Court rules levy payable on:
  - Indemnity value of all property or
  - Fire sum insured
- Levy payable on a sum insured basis is only effective where multiple properties are insured
- Needs a parent organisation AIB / Anglican Church Body to accumulate assets under a single policy

## Limitations

- Fire loss fire cover must be within single policy.
- NZ Port Collective were not a single entity, but multiple unrelated businesses so levy decision went against them. Each had to pay a levy, not share the cost.
- Residential dwellings / contents have a different levy application as defined by EQC Act not Fire Service Act. House \$76, Contents \$15.20.
- The Fire loss limit must be an annual limit
- Fire is from howsoever caused
- Policy must be drafted correctly to comply. Otherwise penalties and interest apply
- AIB policy conforms, referred to legal advice and NZ Fire Service to confirm compliance.

## Future Fire Service Levies

- Fire limit to be increased for higher value target risks
- Based on maximum probable or maximum foreseeable loss analysis

## Summary

- AIB structure saves members hundreds of thousands in levies each year to members
- Can only be achieved by buying together
- Policy legally structured
- Court case has provided certainty not uncertainty around this insurance structure



## Insurance Market Movements

- Cyclical by nature
  - Global capital for reinsurance (insurer's insurance)
  - Investment insurance versus equities versus interest
  - Catastrophic events impact price and capacity to provide cover

- Currently 'soft' (competitive conditions)

soft      →      hard      →      soft

- Premium rates reduced by 15% overall in 2014, can expect similar level in 2015

## Market conditions

- Some regions reducing more than others
- Risk management to secure lower prices long term
- AIB retention fund (DFP) \$500,000 no claims to insurers since 2011
- Insurers like asset diversification, low and high values, large spread of assets
- Overall AIB extremely well placed:
  - Premium reflects buying power
  - Low fire service levies
  - Excellent track record with insurers

## Deductible Funding Pool (DFP)

- Currently \$500,000 capped to \$75,000 any one claim. Insurers pay losses above \$75,000.
- Has provided no losses to insurers creating lower premiums, 'valued client' status.
- Soft market means AIB could reduce without affecting premium however:
  - Fund just topped up by claims (est \$100,000)
  - Refund one time gain only
  - May need to be increased when market hardens
- London markets like clients with DFPs
  - London good for competitive tension
  - Risk diversification of markets

