

Notes to Fire Service Levy and 2016 Renewal negotiation presentation – David Leather (Marsh)

Fire Service Levy:

- The Fire Service is funded by levies collected on all contracts of fire insurance
- Fire Service levies can form a significant portion of the total insurance cost
- After years of dispute between the Fire Service, Clients, Insurers and Insurance Brokers, on calculating levy costs, this was finally resolved in a judgment from the Supreme Court in May 2015
- The Supreme Court judgment has determined that the levy must be paid on the indemnity value of all insured property or the fire sum insured whichever the lesser
- Owners of multiple properties will likely select a fire sum insured as not all property can be destroyed by fire from a single event. This approach is also more cost effective in calculating the fire levy payable. All insured properties must be insured under a single insurance policy in order to have a separate fire sum insured
- AIB members are in an advantageous position as AIB is formed by Canon and the legal opinion obtained by AIB confirms the church can be considered one body for the purpose of arranging a single policy of insurance. Therefore AIB is in a unique position to be able to offer this structure of insurance to your members
- AIB has a single sum insured for fire over all property, as not all property can be lost from fire through a single event, and the levy is paid on this amount. The Supreme Court judgment confirms this approach is legally compliant
- This approach save members a significant amount, reducing overall insurance costs to a low amount compared to stand alone insurance programmes
- The more Anglican organisations that join the AIB programme, the less the levy cost becomes as the levy is charged over a broader member base.
- The fire insurance limit is an annual limit. If the limit is likely to be exhausted during a policy period, the sum insured can be increased on application to the insurer
- This application of fire service levy costs does not apply to residential properties, as fire levies are determined by the EQC Act not the Fire Service Act
- The Supreme Court judgement now provides more certainty about how the levy should be charged

During the presentation a question was raised if it is ethical to minimise the payment of fire service levies. Unfortunately you cannot charge levies on the basis of ethics, as everybody can have a different interpretation or belief as to what constitutes ethical conduct. Levies can't be charged on the basis. This conflict does not arise however as the law determines the calculation of the levy and the Supreme Court decision is quite clear, you pay on the indemnity value of insured property or the fire sum insured whichever is the lesser. If a policy has a fire sum insured the insurer can only legally charge a levy on this basis. If members wish to pay more levy then they can elect to pay a levy on the indemnity value of all their property, by not having a separate fire sum insured, or make a voluntary payment to the Fire Service.

Market Movements and Renewal:

- Prices of insurance change based on the provision of global capital to the insurance industry
- Prices are cyclical, moving up or down based on the amount of capital available for the insurance industry
- After the Christchurch earthquakes, capital largely withdrew for 2 years that why prices went up

- AIB is protected to the extent it is possible from pricing cycles by diversifying its placement into international markets as well as NZ insurers. International markets like Lloyds are less reactionary to large events like earthquakes for clients who have insured with them over a long period of time.
- Premium rates will reduce by approx. 15% in 2015. Some locations might expect savings of 20%. These are cumulative on savings of approx. 15% in 2014. Therefore pricing in 2 years will reduce overall by circa 30-40% depending on location and profile of assets. Fire Service levy management of cost (as discussed above) will greatly help overall cost
- Premium rates will be available to AIB by mid-November for invoicing
- The DFP fund could be reduced with no immediate impact on premium, but any hardening of future premiums could mean the AIB has to reconstitute the fund to mitigate future premium increases
- AIB has an excellent claims record with insurers, and along with its strategic buying of insurance with AllChurches members, and international market placement strategy, AIB is very well placed to continue to provide members with broad cover at very competitive prices