

Fire Service Levies Anglican Insurance Board

The government is transforming the existing Fire Service into a new organisation, Fire Emergency New Zealand (FENZ). The new organisation is an amalgamation of urban and rural fire services. The cost of the amalgamation exceeds \$300m and the cost of this is to be funded by levy payers, in addition to the ongoing operational costs.

Currently the fire service levy is applied to the indemnity value of insured property at a rate of \$0.076c for every \$100 of fire sum insured.

From **1 July 2017** this rate will increase to \$10.6c per \$100 or a 40% increase.

From **1 January 2019** the levy will be applied on renewal to the full sum insured of your assets as opposed to the indemnity value at present.

It is possible that we could reduce your existing and future levy cost significantly (in some cases by up to by 80%) using the Anglican Church group cover via the Anglican Insurance Board.

Originally the government was going to charge the higher rate on the first anniversary of the new Act from 1 July 2018, but they have just announced that this will extend until 1 January 2019 to allow clients/ brokers and insurers to adjust to the new regime.

The size of these increases will have significant impact on your insurance cost.

An example of cost of the levy increase could look like this:

Current.

- **Building replacement value \$100,000,000. Indemnity value for fire insurance \$70,000,000. Levy at 0.076 per \$100 on indemnity = \$53,200**
- **For renewal in 2017 higher levy rate applies to the indemnity value \$70,000,000 x 0.106 = \$74,200**

Future

- **Building replacement value \$100,000,000. Levy at \$0.1060 per \$100 on full replacement sum insured = \$106,000**

You can pro rata these figures to gauge the impact on your buildings.

As you can see based on above the levy will increase by 40% this year, and will double in cost by 2019 when the higher levy rate is applied to the total sum insured as opposed to the indemnity value of property. It is quite likely that the levy will end up being a similar cost to your actual insurance premium.

However, it will be possible to mitigate this cost by selecting a lower policy sum insured and paying a levy on

this amount. This is provided for as an option in the new legislation.

Unfortunately this is not really a practical step that individual owners of property can take with single sites as the sum insured also represents your disaster risk exposure such as earthquake and for this reason most insureds will have to maintain full insurance.

However those organisations with multiple sites with geographic spread could insure on a first loss basis recognising that all sites cannot be lost through one event.

As a member of the Anglican church you are able to join the Anglican Insurance Board programme that insures over a billion dollars in assets throughout New Zealand. This programme will be able to have a first loss sum insured and therefore mitigate insurance and levy costs for members.

The Anglican Insurance Board has a legal opinion on the current legislation that so long as the Anglican Church has an insurable interest in the property it can be insured within the AIB portfolio. Insurable interest has legal recognition meaning a person or organisation has insurable interest so long as they benefit by the subject matters existence or be prejudiced by its loss. It is likely that your organisation will meet this test either through direct ownership or through insurable interest.

AIB will update our legal opinion once the bill before parliament is enacted. At that point I suggest we enter meaningful dialogue so that you can be sure of your eligibility and allow time to obtain your own legal opinion should this be needed.

AIB is not a broker, so we have no competitive conflict with brokers. Some clients choose to deal directly with us based on the quality and pricing of our product and others continue to use the services of a broker. We believe it's the client's choice.

Please note the Anglican Insurance Board programme renews 31 December annually.

In the meantime we are closely monitoring the FENZ bill and will update you once it has been enacted on 1 July. But we suggest the time to re-engineer your programme will be for this renewal.

If you have any questions please do not hesitate to email or phone me.

Dave Peters
Executive Director
Ph 027733-4191, 09 521-3490
dave@aib.org.nz
1 June 2017