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INTRODUCTION TO THE NSW EMERGENCY SERVICES LEVY (ESL)

WHAT IS ESL?

ESL (Emergency Services Levy) is a levy to fund the majority of Emergency Services in NSW through the insurance industry. The amount to be funded (the Contribution Target), is volatile year to year.

Insurers collect ESL as part of the premiums they charge by setting their own loadings (ESL rates).

They pay their ESL liability to the NSW government via Revenue NSW. ESL rates are estimates to help fund the liability. ESL levies collected by an insurer will not typically equal the amount it pays to meet its ESL liability to the NSW government.

WHO IS LIABLE TO COLLECT ESL?

"Insurers" who are liable to collect ESL may include, for example, underwriting agencies and brokers in the relevant classes of NSW business. An insurer is not limited to APRA regulated entities.
More information can be found in the Emergency Services Levy Act 2017[1].

[1] Emergency Services Levy Act 2017 No 32
https://legislation.nsw.gov.au/view/whole/html/inforce/current/act-2017-032

HISTORY #1

FUNDING EMERGENCY SERVICE THROUGH THE INSURANCE INDUSTRY

Insurance fire brigades originated in England, with companies' providing homes and businesses with “fire marks”, a plaque which consisted of the company's logo which was installed on the facade of your building. It signified that the owner had paid the insurance company to protect their home. These brigades were not formed for the benefit of the general public, rather they were created to protect the properties insured by the affiliated company.

By 1833, the private insurance brigades of London had conglomerated into a single association known as the London Fire Engine Establishment, providing London with a singular fire brigade rather than a multitude of smaller operations. Roughly 30 years later in 1865 the City of London assumed control of the fire brigade and instituted the Metropolitan Fire Brigades Act.

Extracted from https://www.museumoffire.net/single-post/insurance-brigades-1837-to-1884

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INSURER'S ESL LIABILITY

An insurers' ESL liability is based on the Contribution Target, set out annually each April in the NSW government gazette. It defines the total funding industry must provide over the coming financial year. Each insurer's liability is based on its 'market share'.

The 'market share' is each insurers share of market premium based on a specific calculation based on its share of the **Premium subject to contribution.** The Premiums subject to contribution are the total base premium and ESL multiplied by statutory percentages that vary by line of business (LOB). Each insurer lodges an annual **Return of Premiums (RoP)** form to Revenue NSW with this information. Usually by November each year, Revenue NSW advises each insurer of its final liability for the year ending on the previous 30 June. Below is an extract of a RoP form:

Return

Item	Classes of policies of insurance	Total base premiums	ESL collected	Total premiums	%	Amount Premiums subject to contribution
	PART A					
1	Any insurance of property including consequential loss but not including any insurance of a class specified elsewhere in this Schedule	$a	$b	$ a+b	80	$ (a+b) x 80%
2	Houseowners and householders, however designated (buildings or contents or both)	$c	$ d	$ c+d	50	$ (c+d) x 50%
	PART B					
3	Personal combined on personal jewellery and clothing, personal effects and works of art	$ e	$ f	$ e+f	10	$ (e+f) x 10%
4	Motor vehicle and motor cycle	$ g	$ h	$ g+h	2.5	$ (g+h) x 2.5%

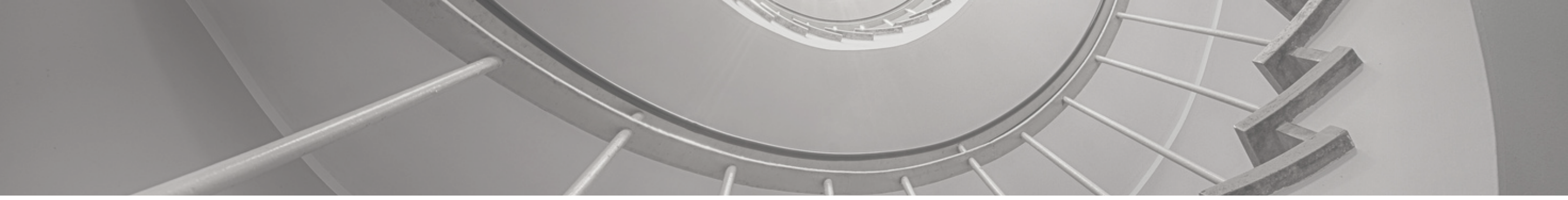
WHO SHOULD BE INVOLVED IN SETTING ESL RATES IN AN ORGANISATION?

- Finance team: it is commonly viewed as an indirect tax matter.
- People from the relevant line(s) of business depending on the portfolio mix. ESL is a pricing issue, and the business needs to be involved. Many organisations may involve one of their actuarial team.
- Someone with detailed knowledge on the premium data reported in the RoP.

As with any material business issue, it is important to have a designated person who 'owns' ESL.

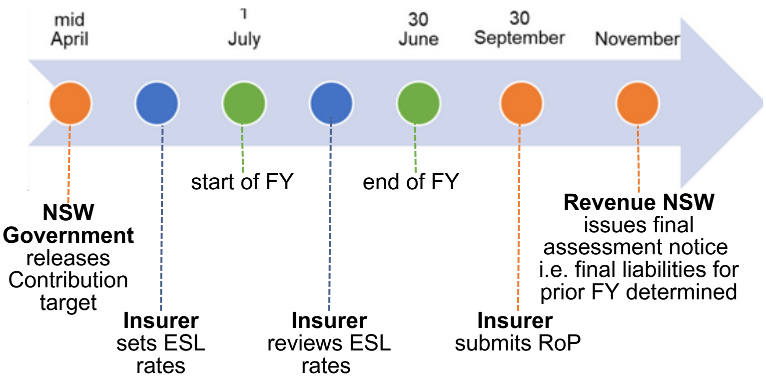
REGULATORY ENVIRONMENT: WHAT WILL HAPPEN IF AN INSURER COLLECTS MORE THAN IT IS LIABLE FOR?

The difference between the final liability and the ESL amount collected results in an under- or over-collection. Legislation refers to an over-collection as a "**price discrepancy**". The Treasurer may (and has done) seek an explanation from the insurer and may make public details of that price discrepancy, if not satisfied with an insurer's explanation of the price discrepancy.



CONCLUSION

Key event timing is summarised in the following chart:



As the chart illustrates, knowing the final liability only occurs AFTER the EOFY. This shows how challenging it is for insurers to set and review ESL rates each year.

To accurately set the ESL rates, an insurer would need to know what its own business results will be over the coming financial year, what the total market size will be over that year and what the mix of business will be over the year, for both itself and the market. This is materially complicated by the use of different statutory factors applying to different LOBs.

PFS Consulting proactively took a solution to the Insurance Council to help insurers materially improve their ability to set and review ESL rates during the course of a year. This significantly reduced the risks to market participants.

HISTORY #2

NSW'S ATTEMPT TO REFORM ESL

Like other States, NSW attempted to reform ESL by moving from an insurance-based levy to a property-based levy.

In December 2015, the NSW Government announced its intension to remove the levy on insurance and replaced it with a property-based levy. The new property-based levy was to commence on 1 July 2017.

On 30 May 2017, only one month before the commencement date, the NSW Government pulled out of the plan. Many insurers had already removed the levy from their premium calculations and were forced to reinstate it.

ABOUT PFS

PFS Consulting has a long history with ESL for over a twenty-year period. PFS Consulting has a strong relationship with the Insurance Council of Australia (ICA). We help individual insurers manage the risk of under/over collecting and provide current market information monthly to allow regular decision making on ESL rates to occur. The ESL project includes Participants who represent a majority of the market e.g. almost 90% of the Premiums subject to contribution. Please contact Martin or Jessie if you want to discuss any of the ideas presented in this article.

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