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Transitional Levy Consultation  
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## **Proposed increase to the Fire and Emergency transitional levy for the 2024/25 and 2025/26 financial years**

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In this brief submission IAG provides feedback on “Consultation on a proposed increase to the Fire and Emergency transitional levy for the 2024/25 and 2025/26 financial years”, which was released by Fire and Emergency New Zealand (FENZ) on 5 April 2023.

IAG is New Zealand’s leading general insurer. IAG employs over 3,500 people, insures more than 1.8 million New Zealanders and protect over \$715 billion of commercial and domestic assets across New Zealand. We received around 461,000 claims in the last financial year and paid \$1.7 billion to our customers in settling them, helping them get back on their feet following natural disasters, accidents, fires and other mishaps. IAG is a member of the Insurance Council of New Zealand - Te Kāhui Inihua o Aotearoa.

We welcome the ability to participate in this consultation but note the current consultation is limited in its duration, and in the extent of analysis that was able to be undertaken and the options presented. We support FENZ being appropriately funded but given these factors we don’t consider we are in a position to provide a view on whether the proposed levy rate increase of 12.8% is the most appropriate approach for achieving this. To enable this sort of consideration future levy consultations will need to contain more information and analysis and provide multiple viable options, as well as sufficient time for stakeholders to consider the information and provide feedback.

Based on the information provided in this consultation we note that the increased levy rate will add to the costs of insurance for relevant New Zealand policyholders an estimated \$85 million per annum for the two years the revised rate will be in effect. We also note that implementing the levy rate change itself will require resources and attention from insurers, that will impose additional compliance costs and carry opportunity costs in terms of planned improvements or changes that may have to be deferred.

The consultation makes clear that in the absence of an increase in the Government’s small financial contribution or significant costs savings by FENZ, a levy rate increase of some kind will be required, and this is proposed to take effect from 1 July 2024. As New Zealand’s largest insurer and therefore the conveyer from our customers of a substantial portion of FENZ’s funding, we are mindful of the need for us to implement whatever levy rate change is determined by Cabinet following this consultation and from the date it is to take effect.

Based on previous FENZ levy rate changes and other previous regulatory changes we understand that 12 months will be required from when the new levy rate and implementation date are confirmed in order to implement the rate change successfully. This recognises the various elements that a rate change involves

(e.g., system changes, changes to documentation, training and customer communication etc.), the need to test changes thoroughly, and the fact that the changes need to be complete 3 months before the implementation as that is lead time for intermediated insurance renewals (meaning insurers have only 9 months to actually do the change work within the 12-month period).

We are mindful that system changes can only be planned for and then progressed once insurers know what the new rates will be and when they will take effect from. Furthermore, we had not been planning for this levy rate change from July 2024 given it had not been signalled, instead we had been expecting the next rate changes to occur with the adoption of the Part 3 levy around 2026. Finally, we note that while we have undertaken FENZ rate changes in relatively recent times, ongoing evolution of our systems, processes and products and changing regulatory expectations means that this levy change implementation will not simply be a repeat of previous ones.

Given the above, if the levy changes are planned to come into effect from 1 July 2024, then IAG and the other insurers need certainty as to the new levy rates and commencement date by the end of June this year (i.e. regulations made to change the levy rate). Should that not occur then we consider the commencement date should be changed to provide insurers with at least 12 months to implement it.

We note that in the absence of certainty by 30 June 2023, insurers would be expected to commit people and resources to embark on a regulatory implementation without knowing the details of it, in order to try and give enough time for the potential changes to be carefully worked through, thereby having to run the risk that the details might change or that it does not occur. This would be unreasonable given that insurers are not responsible for the timing of this consultation or its adjacency to the proposed levy change, were not aware until just before it began that an interim levy rate change would occur and are the parties responsible for getting levy collection right and subject to penalties and other consequences should they not collect the levy correctly from their customers.

Having compressed the consultation period due to the need to move quickly, we equally anticipate the Government will make timely decisions so as to give insurers a sufficient period to implement the rate changes determined. FENZ and government officials will therefore need to engage closely with insurers over the next few months on the timing of the decision-making process and implementation of the levy rate changes to be determined by Cabinet.

Yours sincerely

**Andrew Saunders**  
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