



**Australian Government**  
**Department of Veterans' Affairs**  
DEPUTY SECRETARY

EC19-001126

Mr Jason Lange  
Executive Director  
Office of Best Practice Regulation  
Department of the Prime Minister and Cabinet  
1 National Circuit  
BARTON ACT 2600

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Dear Mr Lange

### **Regulation Impact Statement – final assessment**

Thank you for your letter dated 26 August 2019 which provides advice resulting from the first-pass assessment of the Regulation Impact Statement (RIS) that has been developed in response to the Coalition Government's Election Commitment to expand eligibility for the Defence Service Homes Insurance Scheme (the Scheme) – OBPR Reference 25278.

The Department of Veterans' Affairs (DVA) has amended the RIS to address the concerns raised in your letter. In particular, DVA has:

- provided further information to explain the policy problem and demonstrate the need for Government action
- examined the status quo to establish a baseline and facilitate greater understanding of the current arrangements under the Scheme for ADF members and veterans including those who are eligible and ineligible for the Scheme
- examined further the impacts of expanding eligibility for the Scheme including the benefits to ADF members and veterans and the expected effect on cost of living pressures, and
- provided information on competitive neutrality issues including how the Scheme will compete with other insurers.

The Appendix to this letter details how the RIS has been amended to address the specific issues raised.

I am satisfied that the amended RIS now complies with the *Australian Government Guide to Regulation*.

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I submit the RIS to the Office of Best Practice Regulation for formal assessment.

Yours sincerely

A handwritten signature in black ink, consisting of a series of fluid, connected strokes that form the name 'Mark Cormack'.

**Mark Cormack**  
Deputy Secretary

24 August 2019

## **Appendix: DVA's responses to items raised by the OBPR on the First Pass Assessment of the Defence Services Home Insurance Scheme Regulation Impact Statement (RIS)**

### **Policy problem and why Government action is needed**

Section 1.1 of the RIS notes that the Scheme was established as part of repatriation activities for soldiers returning from the Great War 100 years ago in recognition of their service to our nation. Since its inception, the Scheme has offered concessional home building insurance to those that are eligible for the Scheme in recognition of their service and sacrifice to our nation. This has reduced cost of living pressures for those who are eligible to access the Scheme.

Sections 1.5 and 2 of the RIS refers to concerns raised by a small number of ADF members and veterans about:

- the eligibility requirements of the Scheme which do not recognise all those who have served our nation and is based on an individual's type and length of service
- the availability of home building insurance policies, particularly in northern Australia
- the level of choice in the market, and
- ongoing increases in insurance premiums, which in some instances, cause ADF members and veterans to not insure their home because of cost of living pressures.

The above concerns are supported by the findings from the Australian Competition and Consumer Commission's (ACCC) inquiry into the supply of home building, contents and strata insurance products to consumers in northern Australia. In particular, the ACCC found that premiums had increased by 130 percent over the past decade in northern Australia compared to 50 percent in southern Australia. The ACCC also reported that:

- many insurers choose not to offer policies in northern Australia due to the higher risks associated with storms and cyclones
- those insurers who do offer policies generally offer them at a significantly higher premium to discourage growth of their portfolio in that area, and
- consumers in northern Australia are concerned about the availability of insurance, level of choice and ongoing increases in insurance premiums, causing many to not be insured because they cannot afford the premium.

Section 2 of the RIS details that under the Scheme's current arrangements, more than 300,000 veterans and current serving members are not able to access the Scheme because the type and length of their service does not meet the Scheme's eligibility requirements. Section 2 also sets out that DVA has estimated that there is almost 7,000 ADF personnel based in northern Australia who are faced with high insurance premiums due to their posted location.

Section 3 of the RIS identifies that the Coalition's election commitment to extend eligibility to the Scheme will address the disparity in current eligibility criteria, ensure the Scheme supports all ADF members and veterans, and provide greater peace of mind for ADF members, veterans and their families. In addition, the concessional insurance available through the Scheme will reduce costs of living for ADF members and veterans, especially for those located in regional and northern Australia.

### **Expected impacts of not expanding the Scheme's eligibility requirements (maintaining the status quo)**

Section 5.1 of the RIS provides details of the current arrangements under the Scheme and analyses the status quo option. The includes details of:

- the number of ADF members and veterans who are currently eligible (284,024) and ineligible (347,776) for the Scheme – refer see Table 1, and
- the benefits (i.e. savings) received by policyholders under the current arrangements, estimated at almost \$42 million - refer Table 2.

Section 5.1 highlights that maintaining the status quo will mean that:

- more than 300,000 ADF members and veterans will continue to be excluded from the Scheme and unable to benefit from the Scheme's concessional insurance, and
- the Scheme's policy base will continue to decline as a result of its ageing profile, which will thereby have a negative impact on the commercial viability of the Scheme.

Compared to the option of expanding the Scheme's eligibility requirements, maintaining the status quo could benefit commercial insurers as they would not lose any of their market share.

### **Expected impacts of expanding the Scheme's eligibility requirements for ADF members and veterans and other insurers**

Section 5.2 of the RIS identifies that an additional 347,776 ADF members and veterans would be able to access the scheme should the Scheme's eligibility requirements be expanded, and projects that as a result of this:

- the Scheme's market share would grow by 0.2 percent over the next five years - refer Table 4, and
- new policyholders who take out home building insurance as a result of becoming eligible for the Scheme would save around \$11 million per year due to the Scheme's premiums being, on average, 35 percent lower than that provided by other insurers - refer Table 5.

Savings achieved by new policyholders would ease cost of living pressures for these individuals by the same amount.

Section 5.2 of the RIS also discusses the impact of expanding the Scheme's eligibility requirements on insurers and policyholders and identifies that the loss of premium revenue by other insurers is estimated to be around \$30 million per year (0.34 percent of the householders general insurance industry gross written premium per year) – refer Table 6.

### **Competitive Neutrality Issues**

Section 5.2 of the RIS details the Scheme's Competitive Neutrality exemption.

The Scheme's concessional home building insurance is a long-standing feature of the Australian repatriation system. Its Competitive Neutrality exemption results in average premium savings to policyholders of around \$150 per year because the Scheme does not pay certain taxes.

Restrictions on the types of investments that the Scheme can make and limitations on the Scheme's ability to diversify its portfolio partially offset any competitive advantage the Scheme may have. The actual impact of these restrictions and the extent that they mitigate competitive neutrality issues is, however, unable to be quantified and is therefore not factored into the estimated savings to policyholders.