SUBMISSION NO. 77

INQUIRY INTO RESIDENTIAL STRATA TITLE INSURANCE 12TH January 2012

Submission by Martin Brooke Chairperson of the Committee of Management of [redacted]

Background.

[redacted] consists of 25 strata titled units located at [redacted]. The units consist of 2 blocks of units. The largest block contains 21 units on 4 levels and a basement car park. The second block contains 4 units on 2 levels and an underground car park.

The development commenced construction in 2006 and occupation commenced in Nov/Dec 2007. [redacted] is constructed in accordance with the current structural codes pertaining to the Townsville region. The external structure is rendered reinforced blockwork with reinforced concrete floors. The roof is kliplock steel roof sheets attached to steel purlins. The main North East facing elevations consist of full height glazed doors opening onto North East facing balconies. Refer to Attachments 3D.02D, 3D.03D, SK.14E, SK.13E

[redacted] is located directly behind [redacted] that abuts the [redacted] and faces to the North East with views directly facing [redacted]. There are a number of large mature trees between [redacted] and the beach that provide screening. Refer to Attachment SK.01C for location.

It is a requirement that in Queensland all strata titled units are insured. It is also a requirement by any Mortgage provider secured by a property that said property is insured. There is no opting out of insurance as far as the Owners of [redacted] are concerned.

There are 3 types of levies that are raised each to manage the [redacted], namely: Insurance, Administration Fund and Sinking Fund. The Body Corporate Committee has control of the expenditure of the Administration Fund; the Sinking Fund levy is in accordance with the Sinking Fund Report whilst the Insurance Levy leaves us at the mercy of the Insurance Companies.

[redacted] is insured for a replacement cost of $20,000,000.

Terms of Reference.

Particular note is given to the terms of reference of the inquiry pertaining to the following highlighted items:

(a) **The magnitude of the increases in the cost of residential strata insurance over the past 5 years.**
(b) The ability of insurers to price risk and the availability of accurate data to allow for this;
(c) **The extent to which there is a failure in the insurance market for residential strata properties either generally across Northern Australia or in some regions in particular, for example lack of competition between insurers.**
(d) Whether consumer awareness of different insurance options should be enhanced.
(e) **The extent to which the nature of the body corporate arrangements are contributing to affordability difficulties;**
(f) Whether the conclusions regarding items (a) to (e) provide for government intervention in the residential strata insurance market.

<u>Item (a) Increases of insurance premiums over the past 5 years</u>

Nov 2007 Premium **$11000.00** Insurer [redacted]. Excess of $200 for earthquakes and $100 all other claims.

Nov 2008 Premium **$15443.03** Insurer [redacted]. Excess of $300 for earthquakes and $100 all other claims. An increase of 40% from the previous year.

Nov 2009 Premium **$23800.29** Insurer [redacted]. Excess of $200 for earthquakes and $100 all other claims. An increase of 54% from the previous year.

Nov 2010 Premium **$41447.68** Insurer [redacted]. Excess of $200 for earthquakes and $200 all other claims. An increase of 74% from the previous year.

Nov 2011 Premium **$89240.00** Insurer [redacted] Excess of $20000 for named Cyclones and $500 all other claims. An increase of 115% from the previous year.

In all cases we have accepted the lowest quote obtained. The claims history of [redacted] has been as follows:

- 24 July 2008 $1135.00 Broken glass on patio.
- 04 Dec 2008 $1030.00 Water penetration damage.
- 01 May 2010 $374.00 Water Damage
- 03 Feb 2011 $7124.00 Cyclone Yasi damage. Repair timber fence on boundary. The cost attributable to [redacted] was 50% of this figure as the strata units on the shared boundary was liable for 50%, both properties had [redacted] as there insurer.

I am at a loss to understand the reasons why our insurance premium has risen in excess of 800% over the past 5 years. [redacted] is a modern development that has been constructed to withstand cyclones, it is well maintained and has long term maintenance funding that is in accordance with the sinking fund forecast. Surely this presents a relatively low risk (in my opinion) to an Insurer but we are being severely penalised by Insurance Companies taking a broad brush approach to a Geographic Region rather than considering each property on its merits.

Could there be a case that Damage Loss Assessors are also employed to review properties of a particular value to assess their Insurance Risk prior to a premium quote? This will then encourage properties to maintain a standard of repair and lessen the monetary risk to the Insurance Company.

Item (b)

No comment. Outside my knowledge of the business of insurance.

Item (c) Competition between Insurers

Renewal Nov 2008 [redacted] quoted $16490.34 Amended to $15443.03 Accepted.
[redacted] quoted $19973.31
[redacted] quoted $19978.00

Renewal Nov 2009 [redacted] quoted $23800.29 Accepted
[redacted] declined to quote due to location and sum insured.
[redacted] via [redacted] quoted $29859.45

Renewal Nov 2010 [redacted] quoted $42255.31 Amended to $41447.68 Accepted.
[redacted] quoted $48140.96
[redacted] declined to quote.
[redacted] declined to quote
[redacted] agencies declined to quote.

Renewal Nov 2011 [redacted] declined to quote.
[redacted] declined to quote.
[redacted] quoted $170304.74 Excess of $20000 for cyclones and $200 other claims.
[redacted] quoted $89240.00. Accepted.

On the face of the quotes received for renewal in Nov 2011 our current insurer [redacted] felt obliged to submit a token quote of $170304.74 which I suggest was only submitted on the basis that we had insured with [redacted] from day 1.This quote was approximately double what was accepted. I would prefer that they had declined to quote rather than arrogantly treat with contempt.

It took considerable effort to gain a “reasonable” quote with [redacted] through insurance brokers [redacted]. It was only due to personal contacts that this quote was obtained.

I also understand that most Insurance Companies are not taking new clients in the Strata Insurance market and retreating from taking new business North of Rockhampton. This could go some way to explaining the astronomical renewal quotation by [redacted] our (then) insurer who assumed that it was a case of us having no option but to accept their renewal quote. A blatant example of price gouging of the worst kind and is akin to using standover tactics.

It is also very disappointing that the renewal notice is only received a month prior to renewal. This gives very little opportunity to go to the market to find an alternative quotation. I am advised that this is the normal policy with insurance Companies. Leaving the renewal so late in the process gives you very little opportunity to seek alternaives and handcuffs you to your current insurer.

Item (d)

No comment. Without knowing what other insurance options are available it is not possible to comment as to whether or not consumer awareness should be enhanced.

Item (e) The extent to which the nature of body corporate arrangements are contributing to affordability difficulties.

I am aware that a number of units in the [redacted] complex are for sale. The reasons for sale vary but a common theme from the Owners who purchased for an investment is that the cost of outgoings versus the return on investment is negative. The usual reason given is that the rent does not keep up with the outgoings. The Owners who purchased a unit as their retirement home also complain that the increase in the cost of the levies is creating affordability issues for those whose income is from a pension. The Owners who are resident are also unhappy at the continued increase in the affordability of living in [redacted].

Total outgoings related to the Body Corporate of [redacted] are as noted below for the years 2007 to 2011 inclusive:

2007	Insurance $11000.00	Sinking Fund Levy $35817	Admin Levy $ 58816.36*	Total $105633.36*
2008	Insurance $15443.03	Sinking Fund Levy $37770	Admin Levy $119956.55	Total $173169.58
2009	Insurance $23800.29	Sinking Fund Levy $40041	Admin Levy $122068.18	Total $185909.47
2010	Insurance $41447.68	Sinking Fund Levy $42759	Admin Levy $109774.08	Total $193980.76
2011	Insurance $89240.00	Sinking Fund Levy $46280	Admin Levy $112264.99	Total $247784.99
Rise from 2007	811.3%	129%	93.6% *	143.1%*

*Excludes year 2007

Insurance as % of total levies			Av cost of total levy per unit	
	2007	10.4%	$4225	$81 per week
	2008	8.9%	$6926	$133 per week
	2009	12.8%	$7436	$143 per week
	2010	21.4%	$7759	$149 per week
	2011	36.0%	$9911	$190 per week

In addition to the Body Corporate levies there is an average Council Rate of $45 per week. When this $45 is added to the average Body Corporate Levy of $190 per week the total outgoing is $235 per week.

From 2008 to 2011 the additional average cost of total levies paid per unit has risen from $133 to $190 per week (excluding Council Rates) an increase of **$57/43%** per week.
During this same period the Strata Insurance for [redacted] has risen from $15443 per annum (Av $11.88 per unit per week) to $89240 per annum (Av $68.65 per unit per week) an increase of **$56.77** per week.

It is quite clear that the sole reason for the continuing rising cost of living at [redacted] is totally attributable to the $56.77 per week increase of insurance premiums and the remaining $0.23 was attributed to the increase in Admin levies.

By prudent management the Body Corporate Management Committee has kept the Administration levy steady over the last 4 years that we had control of the budget. The first year was set by the Developer and it is fair to say that it is common that Developers tend to keep the Admin and Sinking fund fees to an unrealistic low to encourage purchasers. At Number 98 there was not a Sinking Fund forecast in place when most Owners purchased their unit.

Unfortunately Insurance is totally out of our control and as noted in response to items (b) and (e) our premiums have increased by over 800% in our time at [redacted]. This increase has contributed to difficulties in reselling the Units. Since Owners have taken purchased their units in [redacted] there has not been one resale despite some Owners relocating interstate. These Owners in turn place their Unit on the rental market and are unable to attract the rent that would be expected from a premium unit in a dress circle location....again this can be attributed to the cost of the levies and rates.... but the vast majority of the increase in fixed costs is attributed to the rise in insurance. We also have a approximately 30% Owner/Occupiers whose income is from a pension and they in particular are faced with these terrific increases whilst already being buffeted by diminishing pensions brought about by the ongoing GFC.

There is not a single Owner in [redacted] who is not feeling some sort of financial pain and the sky rocketing insurance premiums only adds to that pain.

It is appreciated that this is a difficult and complex problem where most certainly one size doesn't fit all. However the more I contemplate the solution I am in favour of a system that is akin to motor insurance whereby consideration is given to a number of contributing factors such as:

- The geographic location of the building.
- The age of the building.
- Maintenance record of the building and regular service contracts
- Sinking fund schedule and funding.
- Occupant mix i.e. rental, owner occupier etc

A premium can then be reduced for those properties that tick the boxes and increased for those that do not tick the boxes. In this way maybe there is some encouragement to maintain properties and reduce insurance payouts...... now that's a novel way to reduce premiums!!!

I hope that you find this submission to be useful whilst you are considering the effects and consequences of the uncontrolled spiralling of costs associated with strata title insurance.

Prepared by:

Martin Brooke
[redacted]