

**SUBMISSION INTO INQUIRY INTO RESIDENTIAL STRATA TITLE
INSURANCE**

1. I own a unit in a small block located in the [REDACTED] area of Cairns in Queensland.
2. I am also very aware of strata unit arrangements in other parts of Australia.
3. I serve on a number of body corporate committees.
4. The body corporate of the unit block in which I own a unit in the Cairns area recently instructed the strata manager for the unit complex to seek 3 quotes for insurance.
5. 3 quotes were obtained by a Brisbane based “insurance broker” allegedly acting for the body corporate.
6. The increases, when the quotes came in, ranged from double the previous year to over triple the previous year – with the new highest premium of approx. \$27,000.
7. What horrified the body corporate committee, when the paper providing the 3 quotes came in from the broker, was that the first page was an invoice seeking payment for the HIGHEST premium – with details of the lower 2 quotes in small print in subsequent pages.
8. And to make matters worse, the strata manager referred the paper work as received from the broker, without comment, to the committee “for instructions” about what to do about insurance renewal.
9. Because of general apathy in most body corporate committees, I have little doubt that many committees would have told the strata manager, if anything and if asked , to “renew the insurance as recommend by the broker”.
10. The premise underlying this sort of response would be because members of the committee of the body corporate will have thought that “our” insurance broker is working for us and accordingly will be advising us on the best thing to do.
11. I have clear evidence that in this case, and I suspect many others, the situation is that the insurance broker and the strata manager are NOT acting in the best interests of the body corporate.
12. This is because a similar situation operates as to what was found to be operating in the so called financial advice industry. That is where financial advisers were advising their clients to buy products or invest in areas where the returns to the adviser were the highest – and NOT in products or areas that were in the best interests of their clients.
13. In this case, the broker was recommending the taking out of an insurance policy to the committee of the body corporate that provided the highest return to the broker – but provided the worse financial result for the body corporate – who is supposed to be client.

14. It is also known that there is a significant “kickback” (commissions) to the strata manager from the broker and or the insurance company IF the insurance policy recommended is taken out by the body corporate.
15. In short, there are incentives and business practices in the insurance industry that work against the competitive pressures expected to operate – and against the interests of the body corporates.
16. Whilst I was not able to obtain sufficient evidence, I have a lot of circumstantial evidence that an insurance broker was recommending the highest premium insurer to the body corporate – then taking out insurance with the lowest premium insurer – and pocketing the difference in the insurance premium.

Recommendations to deal with the above deficiencies

17. Given the above situation, 4 proposals are made.
18. The first is to give the ACCC or an insurance regulator some form of power to review premiums – much the same as the health insurance premiums can be reviewed by the government. This is proposed because the threat of investigation can provide a good deterrent to inappropriate behaviour and rent seeking by brokers and insurance companies
19. The second is to create a statutory obligation for insurance brokers to act in the best interests of their clients – not the insurance companies – with a substantial penalty if caught out. This is for exactly the same reason as this change to the law was initiated for financial advisers - and apparently things are working much better than they used to with this change to the law.
20. The third is to require insurance brokers to declare in the invoice and in quotations, the dollar amount of commission that would be paid to the broker if the policy was purchased. As they say, disclosure aids competition and brings transparency.
21. The fourth is to require strata managers to declare the extent of monetary “commissions” etc on the insurance product invoice – and NOT just in some fine print in the original engagement letter that is hardly ever reviewed or read or understood.

Peter Brownscombe

2 January 2012

