

Supplementary submission 354 a



Committee Secretary
House of Representatives Standing Committee on
Social Policy and Legal Affairs
PO Box 6021
Parliament House
CANBERRA ACT 2600
AUSTRALIA

By email: spla.reps@aph.gov.au

Inquiry into residential strata title insurance - supplementary submission

Again, thank you for the opportunity to contribute to this inquiry. This submission deals with specific issues raised at the recent public hearings and does not seek to revisit matters already dealt with in earlier submissions.

Territory Insurance Office pricing

Committee members and some witnesses queried whether comparable prices for strata insurance are available from the Northern Territory. As noted in our earlier submission, there is some commercial sensitivity regarding prices obtained by strata managers which makes quantitative data difficult to obtain. One Darwin member company has provided the following table as a representative sample of recent premiums obtained for two small, two medium and two large buildings. The age distribution is also relevant: the trend in the Darwin market is towards larger buildings, as it has in the rest of Australia. As the evidence before the Committee suggests, older buildings are generally regarded as less resilient to wind events.

Note that premiums are inclusive of commissions, GST and 11% stamp duty (vs 7.5% in Queensland)

Building		2009		2010		2011	
Suburb	Year	S/Ins (\$m)	Prem \$	S/Ins (\$m)	Prem \$	S/Ins (\$m)	Prem \$
Leanyer	1985	1.5	1,876	1.5	2,345	2.0	3,060
Nightcliff	1988	1.98	3,416	2.35	3,561	2.35	4,302
Palmerston	1996	4.3	5,227	4.6	5,554	5.0	7,059
Darwin	2006	5.0	5,990	7.0	8,168	8.0	10,688
Darwin	2004	16.0	17,301	16.0	18,351	20.0	23,902
Cullen Bay	1999	21.0	34,769	21.0	34,865	21.0	35,999

Head Office / NSW/ ACT/ SA/ NT
PO Box 347
North Sydney NSW 2059
T: (02) 8904 0450
F: (02) 8904 0490

QLD
PO Box 1280
Spring Hill, QLD, 4004
T: (07) 3839 3011
F: (07) 3832 4680

VIC / TAS
Suite 106,
134-136 Cambridge Street,
Collingwood VIC 3066
T:(03) 9416 4688
F:(03) 9416 4788

WA
PO Box 968
Victoria Park WA 6979
T: (08) 9361 0411
F: (08) 9361 0433

Web
www.stratacommunity.org.au

Email
info@stratacommunity.org.au

ACN
151 156 357

Supplementary submission 354 a

Advice from the Darwin market is that strata premiums have been rising, but mainly for smaller, older complexes and relatively slowly compared to North Queensland. As with North Queensland, Strata Unit Underwriters, AMP and Zurich all offer strata cover in the NT. But they are rarely competitive in price and TIO has a dominant market share.

On 30 January 2012 TIO advised intermediaries of strata product price changes, effective from 1 February for new business and from 5 March for renewals, as follows:

Sums Insured	Approx rise
Up to \$2M	105%
\$2M - \$4M	85%
\$4M - \$6M	50%
\$6M - \$10M	30%
Above \$10M	20%

Prior to these increases, the samples suggest strata insurance rates in Darwin were moving up within a relatively narrow 12-18c (per \$100 sum insured) range. Increases have mainly affected smaller, older buildings while premiums for larger, newer buildings have been lower and more stable. With these latest increases, it appears rates for smaller buildings will move to the 20-35c range while larger buildings will generally remain below 20c.

Equivalent rates for the samples provided in our main submission showed Cairns moving from a 12-25c range in 2010 to 35c-50c in 2011, Townsville from 10-25c to 20-70c and Airlie Beach from 20-25c to 50-75c. Further increases are anticipated in 2012. Also note that the examples provided for those markets were based on reduced or waived commissions (see below) whereas the NT market continues to charge, typically, 20 per cent broker commissions.

TIO has informed SCA that its strata product is priced on a commercial basis, that they are required to operate under a prudential regime that "closely mirrors relevant Australian Prudential Regulation Authority (APRA) prudential standards"ⁱ and that their most recent Annual Reportⁱⁱ showed a Minimum Capital Ratio (MCR) of 182.2%, comparable to most private insurers and well above the APRA requirements.

SCA has encouraged TIO to make its own submission to the Committee.

Commissions

A number of submissions have made reference to insurance commissions being paid to body corporate managers. As we acknowledged in our main submission, this is a long-standing feature of the market nationally and not directly relevant to the causes of the price increases now before the Committee. Advice from members is that in North Queensland these commissions are generally being reduced on request, either to a flat fee or, in many cases, waived altogether to help cushion the cost of rising base premiums. Unlike the insurance market, body corporate management in North Queensland remains highly competitive and our members work hard to maintain positive client relationships.

That said, we also acknowledge general community perceptions about the potential for conflicts of interest in a number of different remuneration models for all financial intermediaries. These commissions are subject to the provisions of the Financial Services Reform Act, including full disclosure. The issue of incentives and duties

