

To the Insurance Inquiry Committee:

I would like to thank you all for the time and consideration you gave us at the Inquiry in Townsville on 1st February 2012. I am optimistic you are listening to those affected and that you will find options to alleviate what is now close to a disaster. I thought the hearing went extremely well and that the Hon Graham Perrett MP handled the whole situation with compassion, perception and integrity.

My name is Margaret Shaw and I'm Treasurer of [REDACTED] in Airlie Beach. Although I was co-author of the 46 page submission already received by the Inquiry on behalf of my owners and other Whitsunday complexes, this submission is on my own behalf as an individual person. In it I hope to address some of the questions asked at the Inquiry in Townsville.

[REDACTED] consists of 25 units spread over 7 separate buildings. We are 180 feet above sea level and cannot flood. The entire ground floor consists of garages so the first level of accommodation starts at the first floor, and with the exception of 1 building (3 floors) there are only 2 floors of accommodation, which at the current time consists of 5 owner occupiers (me included), 8 long term rentals and 12 holiday let apartments. Our insurance premium has increased from \$25,000 to \$81,000 in one year, and during Yasi we didn't even lose power.

1. The role of Brokers

I can confirm that at no time has our Broker, or a representative of any insurance company, set foot in Seastar to see what type of risk we may be, and only 1 has ever asked us for detailed information - [REDACTED].

Strata complexes are not being assessed on their actual risk.

It was suggested in our joint submission that complexes be assessed for risk once every 5 years by a qualified risk assessor (preferably local) and this document be used in the calculation of the premium. It should not be allowed for the insurance companies to assign their own assessors as they won't be local and the document would have to be redone (and paid for) by every insurance company approached to quote.

2. Body Corporate Managers

My pet dislike (hate is a better word) is the 'hidden commissions' paid by the insurer to both brokers and body corporate managers, which do not appear on any tax invoice. We pay the body corporate managers to do a job for us. It is a conflict of interest for them to receive commission from some insurance companies as it is only those companies they choose to deal with. These commissions are declared by the body corporate managers in the Management Agreement, but not on the invoices. In Cannonvale (postcode 4802), [REDACTED] will not do business with our local broker, [REDACTED] (who know our risk), and only use [REDACTED] in Brisbane because (I have been told) [REDACTED] refuse to pay [REDACTED] commission for placing the insurance for the complexes [REDACTED] manage.

I understand the Inquiry will be talking to Brokers in Canberra soon, and I hope [REDACTED] will be one of the companies present.

[REDACTED] also have agreements with [REDACTED], for example:

[REDACTED], regarding some of the other points.

1. For the [REDACTED] premium [REDACTED] receive from the insurer 20% of the base premium (excl. GST, stamp duty) and pass on to [REDACTED] 15% of this amount, thus keeping 5% for themselves [REDACTED] are prepared to consider a reduction of its share of the commission. I will get back to you on this tomorrow after consulting with the broker.

So long as one is aware of just how much is being kept by the brokers and body corporate managers there is normally a deal to be done, but if you're not aware then..... When you consider the premiums for the larger complexes (replacement value >\$10M and >20 units) are now between \$77,000 - \$180,000, or more, a 20% loading (+GST and stamp duty) is a huge amount of money which is why the body corporate managers do not want it shown on the tax invoices. Perhaps [REDACTED] might like to comment about the practise?

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The one exception I have found is [REDACTED] in Townsville who are happy to charge a set 'Insurance Management' fee instead of a percentage – I have attached one of their proposals. This can reduce the premium by \$10,000+ (\$18,000 in the example attached), except it isn't actually reducing the base premium, it is just reducing the commissions hidden in the premium.

It seems clear from the [REDACTED] offer, which shows them discounting the premium by the 20% loading, that the insurance companies actually add the commission onto the base premium, and then it is split between the brokers and body corporate managers according to their own agreement. I believe this to be immoral. The insurance companies should only be concerned about the actual base premium to be charged. Broker and body corporate manager commissions should be added on separately and openly charged to the body corporate committees separately.

At the very least the interested parties should have to declare their interest in monetary forms on the tax invoice. At the very best charging body corporate committees, who are already paying managers to act on their behalf, additional fees and commissions for arranging insurance should be made illegal. If you do not use your body corporate managers to organise your commission, as we have now refused to do, you are landed with a cost of \$150 per hour + GST for any work on insurance they organise for you (such as claims). However, for us it worked out to be nearly 100 hours worth, so taking our Insurance organisation away from [REDACTED] was worthwhile.

In another example, a complex received a quote for \$129,000 via [REDACTED] and their body corporate managers (in this case [REDACTED] again) but a quote of \$115,000 from a Mackay broker. It was the same insurance company and same terms. On informing [REDACTED] they were going to use the local broker – within 2 hours [REDACTED] had called to match the price and said it was in the interest of the complex to use [REDACTED] as they wouldn't then be charged the \$150 per hour + GST for any insurance work. I believe in this particular case the complex took the insurance away from their body corporate managers on principle.

There are hundreds of cases like this. I know in our joint submission document there is a case where the 'agent' (body corporate manager) reduced his commission from \$18,000 to \$9,000. I don't know about you but I think \$9,000 for organising a broker to arrange insurance is astronomical!!!

This practice should be stopped immediately.

It would be nice if you could stop the rake offs for organising other things, such as asbestos reports, at the same time. Putting all the business through one company may produce a reasonable price to the complexes, but the managers forget to mention how much they are getting for each report done – but I know this is out of your jurisdiction.

3. Valuation

I contacted the person who valued our property in 2009 and asked him whether, since we are 7 separate buildings, he knew how much the replacement value was for each building so I could try to get them separately insured as mining companies do with buildings on 1 title (probably around 50% less in premium as I could use AMP). He said:

[REDACTED]

Hi Margaret

I understand your predicament.

I don't think the mine analogy works as this would be one owner who can decide whether to insure or not, not a body corporate situation with multiple owners where the body corporate have to insure in accordance with the Act.

Submission No. 404

As I said I can provide the breakdown you require but I would suggest you talk to the insurers first to see if they will accept this approach, which I doubt. I think it is unlikely for instance that you can not have office bearers insurance and liability on some buildings.

One thing I have noticed though is that the valuation I did in 2009 was for \$12.5m and your current insured amount is for \$13.5m. Essentially there has been minimal increase in construction costs over this period so there should be minimal increase. I would suggest you consider having an update done of the replacement cost estimate. I would do this for a fee of \$500 + GST and it would seem this could save you \$5-6,000 off your premium.

Regards [REDACTED]

It would seem replacement value increases are applied annually without the increase actually being justified. Therefore, a number of complexes are over valued.

4. Shortness of notice of premiums

Our joint submission mentioned this, but the point may have been lost.

If a committee is given 2 weeks, or 5 business days, or 36 hours in the case of [REDACTED] and [REDACTED], then there is no time to arrange an EGM or raise a special levy. This means when you have a premium of \$81,000 to find as in the case of Seastar and you're expecting \$25,000 - \$30,000 the only way around it is to pay monthly, and wear the loading, or raise a loan. Either way the insurance companies are getting an unexpected windfall in interest. [REDACTED] loan set up costs and interest came to nearly \$6,000 on top of our \$81,000 premium (the document is attached).

Insurance companies should allow premiums to be paid monthly with no extra loading for doing so – they still get their money. If this was implemented immediately then bodies corporate only have to raise enough money for 3 months at a time in their levies, and no extra amounts for interest, which alleviates some of the pressure.

5. Alternative accommodation

As I write this submission we are packing up our home.

Since the Townsville Inquiry we have been asked by people already renting a 2 bedroom unit in our complex whether they can rent our 3 bedroom unit instead as they have another baby on the way and need more space. It is an opportunity we could not turn down as the money will come in useful. The rent over 6 months will not pay our rates, body corporate fees and our insurance, but it will make it manageable. It's depressing, somewhat akin to putting your mother out onto the streets, but it has to be done. We've got a slide on camper which we use for about 3 months each year, so this year we'll be using it for 6 months and maybe more depending on the circumstances.

I have had to tell my 20 year old son who is at University that he has to spend semester holidays in Sydney with his father as I'm packing up his home. He is not overjoyed about it.

My husband who is 72 has also cashed in his Allocated Pension this week to give us more of a buffer.

6. Premiums to remain the same

I thought I heard Dr. Stone mention premiums may go up again, or what would happen if they stayed the same.

People who have already lost their homes will not be affected. Those who are already suffering and unable to pay their bills will be in the position of deterioration. If you couldn't pay your bills last year, you won't be able to pay them this year if they stay the same or increase. Those who are just managing to keep their heads above water will start to sink, and those who are, so far, managing will be: eating into their savings; increasing their mortgages; borrowing.

Premiums remaining the same or increasing is not an option for the majority of owners.

7. Correspondence

I have collected together samples of the correspondence received by us from ACCC, ASIC, State Government, Ombudsman – not all of it naturally. I have emailed the Secretariat for a postal address as the pdf file is too large to send via email.

I thank you for listening to me yet again, and hope that a sensible solution is found soon as this discrimination against strata complexes, and the larger ones in particular, has to cease.

Australian Human Rights Commission Act Article 26

All persons are equal before the law and are entitled without any discrimination to the equal protection of the law. In this respect, the law shall prohibit any discrimination and guarantee to all persons equal and effective protection against discrimination on any ground such as race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status

Best Regards



Margaret Shaw

Treasurer 