



NQ STRATA ACTION GROUP

30 June 2024

To: Senate Select Committee Via email: climaterisk.insurance.sen@aph.gov.au

Re: Impact of Climate Risk on Insurance Premiums & Availability

Dear Committee

Thank you for the opportunity to provide input to your investigation and report. Our input focuses on Strata Insurance in the cyclone region of Queensland and is as follows.

(a) *The unaffordability of insurance in some regions due to climate-driven disasters.*

- The cyclone region of Queensland is the area north of the 26th parallel. Insurance for strata buildings in the region, particularly buildings above \$20 000 000, is unaffordable.
- In this category and region there seems to be less insurers with the required capacity.
- Strata premiums are up to **12 times** more than properties south of the 26th parallel.
- Compare a **Gold Coast** 28 level building to a **Cyclone Region (NQ)** 11 level Building.

Gold Coast 28 level building valued at \$86M	2023 Premium	\$75 000
NQ 11 level building valued at \$53M. 15 years claims history since 2008 = \$70 000 Percentage Cyclone related = NIL Cyclone Damage = NIL	2024 Quote	\$900 000
	2023 Premium	\$512 000
	2022 Premium	\$238 000
	2019 – 2021 Premiums	Av \$150 000
	2015 – 2018 premiums	\$110 000

- This comparison illustrates how long the region has endured high strata premiums and how premiums escalated on the announcement of the cyclone reinsurance pool.
- The region includes communities rarely exposed to cyclones. The last cyclone to directly hit Mackay was over 100 years ago.

We urge the committee to question, strata cyclone quoting practices, strata cyclone claims, where damage to strata buildings occurred, the justification for unaffordable premiums and the criteria used to determine cyclone boundaries.

(b) *The unavailability of insurance for some people due to climate-driven disasters.*

- Unavailability is not an option for strata buildings as insurance is compulsory.
- “Compulsory Insurance” and “too few Insurers with insufficient capacity to offer cover” leads to questionable quoting practices where typically only one Insurer quotes.
- The outcome for strata in the cyclone region is no competition, higher premiums, unreasonable terms, duopoly behaviour, restricted trades practices and no options.

We urge the committee to investigate these outcomes and the ramifications for NQ Strata owners compelled, because insurance is compulsory, to pay up to 12 times more.

(c) The underlying causes & impacts of increases in insurance premiums.

- **Potential** for cyclone damage is the **quoted** cause for high strata premiums in NQ.
- All other risks are either less or comparable to southern properties. Refer risk table.
- The real causes are most likely a combination of *potential for cyclone damage* plus:
 - Too few insurers with the capacity to quote for strata buildings in the region.
 - No competition, and price gouging in a compulsory insurance market.
 - An internal-facing top heavy and ineffective customer service industry consumed by high overheads and financed by diminishing claims pools.
 - Escalating material costs together with material shortages, labour shortages, supplier price gouging, and greed leading to increases in the value of claims.
 - Poor claims management practices, waste and customer rorting.
 - Poor reporting and governance by consumer protection agencies.

The collective impacts of strata insurance premiums in NQ are catastrophic & include:

High Cost of Living

-
- In 2023 the strata levy insurance component for a modest **\$340000** apartment was \$9600 or 35% of the aged pension. Refer insurance & cost analysis.
- Insurance costs have caused strata fees to almost **double** creating extraordinary financial and personal stress on owners and tenants.
- Strata fees on top of ownership costs for a basic unit exceeds \$310 per week.

No Help to Housing Crisis

- Apartments, once an alternative for retirees, down sizers, working couples and those trying to gain entry to the home market are now unaffordable to live in.
- NQ owners are forced to sell at substantial loss in contrast to southern markets.
- Queues for retirement villages and affordable housing are growing.
- Renting options and security of occupancy are reduced by units being for sale and by rents increasing to absorb insurance costs.

Government initiatives negatively impacted and compromised by unaffordable strata insurance. Consider the flow on ramifications for policies involving:

- | | | |
|----------------------|-------------------|--------------|
| ○ Downsizing | ○ Regionalisation | ○ Employment |
| ○ Aged Care | ○ Cost of Living | ○ Tourism |
| ○ Region Development | ○ Aged Pension | ○ Defence |

Owner Lifestyles are compromised as family assets decline

- Body Corp committees borrow to pay premiums.
- Maintenance is deferred & buildings become less attractive & problematic.
- Rent return with permitted escalation reviews, may only recover costs.
- Capital values decline as forced sales are at deflated prices.
- Capital upgrades and improvements are being cancelled.
- Body Corps are forced to consider reduced cover options with greater risks.
- Body Corp funds are depleted by high insurance costs.

Lost Opportunity for NQ with High Rise Developments Shelved

- The Market Value of NQ Strata Units is less than 80% of replacement value!
- Insurance and strata fees sabotage the viability of future projects with apartment developments no longer feasible in NQ.
- Investors focus on better returns in other regions
- The last high-rise development in Mackay was more than 14 years ago.

(d) The extent to which increased climate risk is being priced into insurance products not exposed to climate-driven risks.

- The cyclone reinsurance pool was introduced to offset the cyclone risk for insurers!
- On its introduction strata premiums escalated, and its uptake was slow.
- NQ strata premiums remain elevated despite new insurers joining the pool.
- Quoting remains unpredictable and inconsistent. Lloyds of London Insurers provide alternative options but retain funds offshore and profit from a “basket case” market.
- Strata Buildings above \$20 million are unable to obtain parity to southern properties.
- There are examples of reduced premiums but equally there are examples of highly inflated proposals as well as questionable practices.
- Unrealistic sub limits & excesses apply to already inflated premiums.
- For some it is a double whammy with unrealistic excess terms, e.g. \$25,000 water damage, and \$100,000 plus cyclone damage excess plus sub limits on total damage.
- It’s **“Pseudo Insurance!”**

Pricing above parity, in a market protected by \$1Billion of government funds via a cyclone reinsurance pool, established to offset the cyclone risk to insurers, suggests rising and unaffordable strata premiums are not climate driven, but gouging.

(e) The distributional impact of increases in insurance premiums across communities, demographics & regions.

- This response addresses the impact on strata communities above the 26th parallel.
- Major distributional impacts are high rent, housing shortages, the cost of up to 12 times more for percentage-based Stamp Duty and GST and lost opportunity.
- Other cyclone region communities, homeowners, businesses, coal and sugar producers, exporters, ports, marinas, and tourism operators are also being affected by the high cost of Insurance with many denied access to the cyclone reinsurance pool.
- Combined with strata insurance the implications for North Queensland are **dire**.
- We are aware of the insurance risks associated with southern fires, floods, hail, and east coast lows together with the global toll on Insurers from recent events. But
- NQ strata properties have borne the brunt of disproportional insurance costs for over a decade with premiums significantly more than southern properties. This has been the situation since well before climate change became a concern. We question why!

A more equable and cost-effective way of achieving resilience is needed Australia wide.

(f) the role of governments to implement climate adaptation & resilience measures to reduce risks & the cost of insurance.

- The role of governments is to establish, implement and refine the framework for a caring, efficient, robust, and competitive society and to map a path to prosperity.
- Governments have in place resilience measures like town planning, building codes, flood planning, tidal surge zones, flight paths, clearance zones, insurance risk statics, warning systems, noncompliance penalties, emergency service authorities, and more.
- Whether in a changing environment these measures are effective, appropriate and or consistent and adequately reduce risk should be easily determinable, measurable and able to be refined.
- Governments also have considerable scientific based departmental resources and various “watch dog” agencies at their disposal for advice and policing.

- But responsibility for resilience measures traverses all levels of government.
- Bureaucrats focused on avoiding liability, versus doing anything, may have provided an environment for an ineffective insurance industry to thrive for decades.
- Plus, extensive insurance industry lobbying of government and government agencies may have compromised Australia's resilience and prosperity.
- The Insurance Council of Australia's stated objective is "a resilient Australia through affordable insurance" another is "asset protection" through affordable insurance.
- Your enquiry is in place because the insurance industry has failed to deliver these outcomes over a long period of time.
- Australia, particularly North Queensland can no longer sustain the impost of unaffordable insurance and different resilience measures are needed. This conclusion almost certainly applies to other regions, communities & insurance categories.
- Governments must act when an industry breakdown combined with a changing environment threatens the wellbeing of its society.
- **A radical restructure must occur of the wider insurance industry together with government agencies who have been unable to recommend solutions or protect the interests of Australia and Australian consumers.**
- Past Governments have previously established and successfully managed cooperative insurance enterprises that protected the interests of its communities.
- Subsequent governments have profited from the sale of these enterprises.
- Together with restructuring, the re-establishment of government owned insurance cooperatives is a feasible & practical way to create competition & to provide resilience.

Consistency, public trust, confidence and resilience has evaporated over time and must be repaired through immediate Government intervention.

(g) how the pricing of risk from climate-driven disasters can be better redistributed across the economy.

Please consider:

- Naturally occurring disasters combined with a growing and more affluent population with higher valued assets will result in larger claims.
- High valued claims will result in diminishing claims reserves and rising premiums.
- Consumers will elect to be uninsured. As this category increases claim's pool reserves will further diminish resulting in premiums becoming even more unaffordable.
- There are various categories of insurance that are compulsory.
- This should be the case for property insurance across all property types.
- Compulsory property insurance will make for better funded natural disaster claims pools and better protect whole communities.

We recommend:

1. A revamped customer focused, and steam lined efficient industry with low overheads complimented by Government enterprisers with a regulated percentage of premiums retained in claims pools together with government backed reinsurance pools.
2. Uniform insurance rates Australia wide for each property type based on their value and adjusted by risk resilience matrix/s.
3. A steam lined low-cost approach to premium billing to minimise cost and maximise the accumulation of pool funds. Consider using local government rate collection systems.
4. A lower cost central Australia zone to encourage development away from the coast.

The outcome sought is strata parity, cost reduction, resilience, efficiency, the removal of uncompetitive practices and the reversal of lost opportunities.

(h) any other related matters.

1. The future of Northern Australia, how it will develop, and its role in Australia's economy will ultimately depend on restoring ongoing resilience through affordable insurance.
2. Affordable insurance means an insurance cost within the means of **every** property owner and in balance with all other household budgetary items. Affordable compulsory insurance will enable all property owners to contribute to resilience fund pools.
3. The inability to attract skilled workers to the region is another compelling consequence of the insurance debacle. Unchecked, lost opportunities and declining resilience will compromise the regions GDP contribution and the community's prosperity.
4. The NQ Strata Action Group has had discussions with insurance industry representatives who have been unable to justify unaffordable strata premiums.
5. The cyclone reinsurance pool excludes cover for many strata communities, businesses, and industries and must be expanded.
6. The insurance industry has abandoned efforts to provide cyclone resilience to the region through affordable insurance and a new way of operating must be found.
7. Some studies conclude cyclone activity may reduce but intensify in force.
8. Building codes for North Queensland strata high rise buildings are more stringent than southern properties and designed to reduce the risk from cyclone damage. All other insurable risks are either less or comparable with southern properties. High rise strata buildings are the preferred place to be in a cyclone.
9. North Queensland strata premiums remain elevated and considerably above parity despite government efforts to introduce the cyclone reinsurance pool as a way of lowering the risk to Insurers. Considering the introduction of the cyclone reinsurance pool, NQ Strata Insurance should be at parity with southern properties.
10. There is no justification for North Queensland Strata insurance to cost substantially more than traditional housing insurance within the region or up to 12 times more than southern strata buildings.
11. Some retailers have been slandered for their role in Australia's cost of living crisis. In contrast the impact on the cost of living resulting from high insurance premiums across multiple categories seems to have escaped scrutiny.

Strata insurance in the cyclone region remains unaffordable, a deterrent to development in North Queensland and a cost impost for owners, despite multiple past insurance reviews, reports and investigations.

It is now urgent that a new way of operating in the interests of Australia and Australia's resilience be implemented.

Yours Sincerely

Ian Vary – Contact Person NQ Strata Action Group –

Explanation Appendix

1. Risk comparison – North Queensland v Southern Properties.
2. Insurance Analysis for Owners and Investors.

EXPLANATION APPENDIX

1. Strata Risk Comparison north and south of 26th parallel

Risk	North	South	Comments
Cyclone and or cyclone water damage	Greater	Happens	Reinsurance Pool offsets Risk
Flooding – Busted Hoses – run off etc	Same	Same	More buildings in south
Fire	Same	Same	More buildings in south
Storm & tempest	Same	Same	More buildings in south
Hail, Lighting, East Coast Lows	Less	Greater	More buildings in south

2. Insurance and Cost of Living Analysis for Owners and Investors

PENSIONER		2023	
Lives in a High Rise in lieu of an aged home	Building Value		\$43 000 000
Insured Value	\$43 000 000	Premium	\$420 000
Multiple above southern properties			8 times
Pensioner Unit - Modest 2-bedroom apartment	Market Value		\$340,000
INCOME		FORTNIGHT WEEKLY	
Aged Pension Single Person		\$1,064.00	\$532.00
EXPENDITURE			
COST ITEM	ANNUAL COST	WEEKLY COST	% of INCOME
Strata Insurance	\$9 600.00	\$184.61	35%
Other Body Corp	\$7,000.00	\$134.62	25%
Contents Insurance	\$1,000.00	\$19.23	4%
Rates	\$4,000.00	\$76.92	14%
Car Registration	\$800.00	\$15.38	3%
Car Insurance	\$1,000.00	\$19.23	4%
Water Rates & Hot Water	\$500.00	\$9.62	2%
Electricity	\$1,500.00	\$28.85	5%
Health Insurance	\$3,300.00	\$63.46	12%
Maintenance			NIL
TOTAL MANDATORY COSTS	\$28,700.00	\$551.92	104%
SHORTFALL BEFORE EATING		-\$19.92	
TOTAL INSURANCE COSTS	\$14,900.00	\$286.54	54%

INVESTOR		UNIT VALUE	
Two-bedroom Apartment			\$340,000.00
COST/INCOME ITEM	ANNUAL	WEEKLY	
Strata Insurance	\$9 600.00	\$184.61	
Other Body Corp	\$7 000.00	\$134.62	
Contents Insurance	\$1 200.00	\$23.08	
Rates	\$4 000.00	\$76.92	
Maintenance	\$5 000.00	\$96.15	
Commission 5%	\$1 581.00	\$30.40	
TOTAL	\$28 381.00	\$545.78	
RENT @ 95% Occupancy \$640	\$31,616.00	\$608.00	
Gain	\$3,235.00		
Return on Investment	0.95% - Excludes Income protection and finance costs		

Conclusion - There is no incentive to invest in North Queensland Strata Buildings