

House of Representatives Standing Committee on Social Policy and Legal Affairs

Inquiry into Residential Strata Title Insurance

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- (a) The magnitude of the increases in the cost of residential strata title insurance has been up to 800% in the last 2 years. The insurance premium on my complex of 16 units has increased from \$5,311.24 a couple of years ago to \$14,019.08 as of January this year. This is a comparatively 'modest' increase. The premium increase has been nowhere near as much with stand-alone houses. It is not possible that the risk is greater on strata titled units than it is for stand-alone properties.

It seems that the origin of this problem was when [REDACTED] entered the strata title market in North Queensland several years ago, aggressively undercutting its competitors with very competitive premiums. As a result of this, most of its competitors have left the market, leaving the way open for the few remaining AAA rated insurance companies to charge excessive rates of insurance.

This has resulted in an oligopolistic situation in the far northern strata title insurance market, with excessive premiums the result. Without adequate competition or the introduction of a pooled re-insurance scheme, these increases are likely to be sustained.

It is significant that in Darwin, where there is a government-owned insurance office, premiums are nowhere near as excessive as here in North Queensland.

- (b) The ability of insurers to price risk accurately I believe, is questionable. Firstly, this is because much improved building standards introduced Queensland-wide since 1982 has resulted in a 66% drop in annual average cyclone-related losses, according to a JCU report.

The insurers argue that rising premiums are due to an increase in cyclonic events which have driven up their cost of re-insurance from global insurers. This argument was debunked in a recent report by *Crompton and McAneney*, which was commissioned by a number of Australian insurance companies.

The report found that between 1967 and 2008 moderate natural disaster events actually declined and there was no significant trend in severe weather events, including cyclones within the same timeframe.

Secondly, insurance companies insist on including the New Zealand and Turkish earthquakes and the Japanese tsunami as part of the risk in northern Australia. This reasoning is fundamentally flawed.

Third, the insurance companies seem to be using postcodes north of Rockhampton as a chief determinant of risk, instead of individualizing the risk by charging more for those who have incurred the most damage (mostly those who own pre-1982 dwellings).

It is significant that the flood stricken areas of the southeast corner of the state as well as the areas hit by the tragic bush fires in the southern states such as Victoria and the ACT, have not been hit with huge increases in insurance, despite the multi-billion dollar rebuilding costs.

Most insurance companies don't seem to visit properties to ascertain whether they have been built to cyclone standards. Those built since 1982 have, including mine.

- (c) There appears to be a growing failure in the residential strata title market, specifically in Queensland north of Rockhampton. Whereas 5 years ago, there were many companies in the market, we are now down to just a few AAA rated companies (three at last count). That is, we have gone from healthy competition among many to an oligopoly.
- (d) Consumer awareness of different insurance options should definitely be enhanced. For instance, we should be given the option of insuring with insurance brokers who often don't charge as much as the AAA rated companies. Some body corporate managers like to dissuade unit owners from insuring with non-AAA rated companies because they aren't backed by the re-insurers. Fair enough. But it is also the case that properties built since 1982 carry minimal risk of substantial damage in the event of a cyclone.

Also, strata title insurance should not be compulsory – we should not be held captive to the whims of insurance companies. If a majority of unit owners vote against having strata title insurance at their Annual General Meeting, it should then become their right not to have it.

It should also be noted that body corporate managers receive commissions from the insurance companies, so they won't be recommending the brokers, who generally charge less, because their commissions will be less. The fact that post-1982 properties are at minimal risk in a cyclone doesn't seem to enter their thinking, because of the conflict of interest.

- (e) The nature of body corporate arrangements are definitely contributing to affordability difficulties. This is due not only to the compulsory nature of this insurance, which results in a captured market ripe for exploitation, but also to, as mentioned above, the conflict of interest between body corporate managers and their clients, i.e. the residential unit and townhouse owners.

Other things that impact on insurance costs include government taxes such as stamp duties on renewals and a law that requires strata titled properties to be insured for the replacement value of the entire complex, rather than just individual residential dwellings. Also, with buildings greater than 2 storeys in height, the premiums are significantly higher.

- (f) I strongly believe that in regard to (a) – (e), we definitely need some form of government intervention because without it, there is not enough competition in the existing market to remedy this problem.

Also, if all insurers withdrew from the market, we would have total market failure and no insurance, despite the current legislative requirement to have it. At the current rate of attrition with insurers, this could easily happen.

The rate at which body corporate premiums are increasing is also unsustainable from an affordability viewpoint - this situation is making the selling of units very difficult because few are willing to buy.

I conclude by quoting a recent letter to *The Cairns Post*: ‘The insurance industry is undoubtedly more than fairly offsetting its losses by slugging those captured under the compulsory insurance required under the *Body Corporate and Community Management Act*, that is, residential unit owners.

But I write about the Government’s legal and political responsibility: what is the responsibility of government once it creates a statutory closed market that is open to abuse and where there is demonstrable abuse?’