

From: [REDACTED]
To: Committee, SPLA (REPS);
cc: [REDACTED]
Subject: Submission into Residential Strata Title Insurance
Date: Monday, 16 January 2012 9:36:26 AM
Attachments: [REDACTED]

To The Secretary of the Committee,
House of Representatives Standing Committee on Social Policy and
Legal Affairs,
Spla.reps@aph.gov.au

15th

January, 2012

Dear Sir/Madam,

Submission into Residential Strata Title Insurance.

Background

My Husband and I own the Management Rights of T [REDACTED]
[REDACTED] at [REDACTED], a suburb of Mackay in Central Queensland.
[REDACTED] comprises 36 units under a Community Title Scheme, with a
Standard Format Plan and Accommodation Module. Of the 36 units 32
are Managed by us and 4 are owner occupied. We have owned this
business for almost 7 years.

Prior to this we owned a Motel in Mount Gambier, South Australia for
almost 7 years.

Comments on Terms of Reference

*(a) The magnitude of the increases in the cost of residential strata
insurance over the past 5 years*

In 2005/06 the Body Corporate paid approx \$4,600 per annum for
insurance. They paid almost \$54,000 for the same insurance cover in
2011/12. In 2010/11 the cost was about \$23,000.

This cover doesn't include flood or storm surge as they aren't available
and is insufficient for our needs but we had no choice in taking out this
insurance. See attached document for full list of exclusions.

*(b) The ability of insurers to price risk and the availability of accurate
data to allow for this.*

What price risk do insurers have if they don't even offer insurance in
our area? None. I wonder how accurate their data was to make that
decision.

Rockhampton is the arbitrary line they draw when refusing to quote or

offer insurance to Residential Strata / Body Corporates in our region and Mackay didn't have any floods or cyclone damage in 2011 so why have they opted out of this area?

(c) The extent to which there is a failure in the insurance market for Residential Strata Properties in our location.

Six insurance companies were approached to quote on [REDACTED] [REDACTED] Body Corporate Insurance for 2011/12. Only one insurance company quoted.

Three refused to quote due to our location. ([REDACTED], [REDACTED], and [REDACTED]) One refused to quote as the sum insured was over \$5million. ([REDACTED]) and another refused to quote as [REDACTED] isn't part of a hotel/resort chain. ([REDACTED])

There is a total failure in the insurance market for our area. No competition / choice at all.

(d) Whether consumer awareness of different insurance options should be enhanced

Being aware of different insurance options would make no difference. Our hands are tied by the Body Corporate legislation in Queensland. We don't have any flexibility in the type of cover we must have.

Even if the legislation was changed, it would make no difference as insurance companies aren't offering insurance to Body Corporates in North Queensland.

(e) The extent to which the nature of Body Corporate arrangements are contributing to affordability difficulties.

The nature of Body Corporates in Queensland is contributing greatly to the affordability difficulties because of the legislation we operate under.

The Body Corporate and Community Management Act and its associated Regulations stipulate that all buildings plant and equipment must be insured to their full replacement value. If not the Body Corporate is liable for any shortfall in the cost of any reinstatement or repair.

In addition a body corporate must, at least every five years, obtain an independent valuation for the full replacement value of the buildings for insurance purposes.

There is no level playing field as far as insurance premiums are concerned. For example a colleague of ours, who owns a couple of motels in Mackay and NSW, paid approximately \$4000.00 per annum for building and contents insurance on one of his motels, which isn't part of a hotel/resort chain, and has a building/contents value of value of [REDACTED].

With a value of [REDACTED] we are paying \$54,000.00 for the same

period. Our valuation is 3 times this motel but our insurance premium is 13.5 times.

Having previously owned a motel we cannot understand why a body corporate complex should have a greater risk attached to it than a motel for insurance purposes. What is the justification for higher premiums?

We own a Residential property in Mackay with an insurance value of [REDACTED]. Our Building Insurance premium for 2011/12 was \$830.00 In comparison dividing the insurance costs across each unit at [REDACTED] gives them a value of [REDACTED] and premiums of \$1500.00 each for building insurance. Our unit in the Body Corporate complex pays 80.7% more for building insurance than a higher valued freehold title residential property. On a commercial basis one would expect a discount when insuring 36 units rather than one, not to pay significantly more.

Insurance companies charge a much lower premium for Commercial and Residential properties than they do for Body Corporates. Why? We assume it is simply the different ownership arrangements between Freehold and Strata tiles, or maybe the insurance companies are just greedy when it comes to Body Corporate properties. Without Government intervention this disparity will continue.

(f) Whether the conclusions regarding (a) to (e) provide justification for Government intervention in the Residential Strata Insurance Market.

If the cost of insurance premiums for Residential Strata /Body Corporates continues to spiral out of control the future of the Tourism Industry in Queensland will be very bleak. Queensland has far more Management Rights businesses than any other state and many of these operate under an Accommodation Module for holiday letting.

When Insurance premiums increase by 134.7% in one year Body Corporate levies have to increase to cover the additional charges which are then passed on to the end user, being the holiday maker.

These types of increases will be unsustainable as the cost of holidaying in holiday apartments in Body Corporate become far less competitive.

Large multinational groups such as Quest Apartments will continue to receive competitively priced insurance cover because of their bargaining power as part of a chain. No bargaining power exists for a Body Corporate that is an independently owned/managed complex.

Insurance companies are not playing fair and need to be pulled into line.

If the Government, both Federal and State, does nothing to remedy the inequities within the insurance industry, Body Corporates will struggle to get insurance at any cost and the tourism industry will bear the brunt of their demise. Strata insurance needs to be affordable and sustainable in the long term. This is vital if investment in the Tourism Industry is to continue in North Queensland.

Yours Sincerely

Regards,
Kerryn Beck