

Insurance Inquiry Submission – January 2012.

The points I wish to make in this submission are as follows:

1. The question of building valuations.
2. The relative structural strengths of various types of buildings.
3. The lack of competitive insurers in the North Queensland area.

Regarding valuations, it seems the insurance industry has taken advantage of the fact that it is a legal requirement for body corporates to insure for full replacement value against natural disasters. The industry also uses the "scare" factor that we are in a cyclone prone area to justify steeply rising premiums.

I have lived on the Cairns Esplanade for over 30 years, firstly in a small motel that I owned for 6 years, then in a very old Queenslander for a further 17 years and the rest in a 10-storey apartment complex. I've thus experienced a few cyclones.

Despite this range of building types I have never had to make a claim for cyclone damage during this time. Yet in southern Queensland, practically every year, there is massive storm damage involving insurance claims over a wide area.

With regard to building strengths, I write as a retired civil engineer, specialising in structural design and construction.

As such, there is no doubt in my mind that insurance companies conveniently adopt an extremely "lazy" attitude to this aspect of their operations. To the best of my knowledge they make no "on-site" structural inspections by qualified engineers, or anyone else for that matter. Much of their work seems to be done in remote offices preparing maps and charts to justify their rising premiums.

For example, I attended a recent meeting in Cairns on 14th November organised by Strata Community Australia regarding strata insurance matters. One of the speakers was a representative from Strata Unit Underwriters, the only company prepared to do business here. This gentleman distributed a 2-page document used to justify the massive increases in premiums on strata units here (from \$22184 in 2009 to \$71424 in our case). The document contained a couple of "scary" maps, as well as information on reinsurance, rising costs of materials and labour etc. all of which he addressed in his speech.

However he also, in his Powerpoint presentation, showed an image of a single dwelling claimed to be built to current cyclone standards. This showed the damage done by the failure of a full-height glazed outer wall, the only

The claims made by the insurance industry to justify massive increases in our premiums are very disingenuous. The fact is that very little damage was done to buildings constructed to current cyclone standards. Although the "Map of claims attributed to Cyclone Yasi" shown in Attachment 1 purports to show the widespread area of insurance claims, the fact is that practically all those in rural areas would come into the category of being sub-standard.

Although our building is about 20 years old, it appears to have been built to higher standards than some more recent similar structures, in this respect, at least.

In my opinion, our building would not have suffered much structural damage even if Cyclone Yasi had struck Cairns directly. As far as the many previous cyclones are concerned the only claims for damage here, that I'm aware of, have been for those to the garden areas.

The matter of there being only one insurer willing to provide cover in North Queensland is, I suggest, something that the industry would not even contemplate elsewhere. As noted above, in spite of the considerable annual storm and flood damage that occurs in South-East Queensland, I am unaware of any similar flight of insurers from that area.

It is hard to escape the conclusion that the insurance industry has concluded that it can "get away" with a situation here that would not be tolerated elsewhere in the State.

Summary

1. Valuations should take into account the various categories of buildings.
Whilst smaller buildings such as dwellings may be completely destroyed by a cyclone the possibility of the complete destruction of a modern structure is negligible. In other words it should not be necessary for such buildings to be insured for their full replacement value.
2. All major buildings should be inspected for structural integrity and given a rating for insurance that would determine the proportion of the valuation required to calculate the premium.
3. The desertion of the body corporate insurance industry from here suggests that a look at the situation that exists in the Northern Territory, which has a similar exposure to cyclones, might be worthwhile. The Government Insurance Office there provides cover, that includes storm surge damage, for body corporates. Refer to Attachment 2 (Pg. 8).