STRATA TITLE INSURANCE

Information for Standing Committee on Social Policy. Jan 30th,2012

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PREAMBLE

This submission will not go into the now well known issues of exorbitant rising insurance premiums.I believe there is enough anecdotal evidence on the subject to speak of here .
I would rather offer some positive comments on the possible causes & perhaps some solutions.There are some solutions also for the reasons insurance is becoming unaffordable.
For insurers to blame rising premiums in Nth Qld on Brisbane floods & cyclone Yasi is drawing a very long bow.Our premiums actually doubled BEFORE cyclone Larry & again increased the following year,well before the recent events.

CAUSES

For many years this subject wasn't an issue.There were a number of insurance companies competing for business in the market.Gradually.One by one they left as the risk versus profit diminished. One or two companies cut the cost of premiums to a point whereby their competitors could not compete. Eventually the completion ended & now there is only one player who has now a monopoly & can charge whatever they like, as they know that strata titled property owners had no choice but to accept the premium by law.
The only current insurer is now charging premiums that reflect the true risk cost.

SOLUTION ??

Reduce the risk. More players will re enter the market & competition increases.
Reduce risk by
**Amend the current insurance legislation as a priority.*

**Property owners body corporate should develop a property management plan to minimise potential losses in the event of catastrophe.This plan to be submitted to the insurer so they can assess their risk.Good plan,low risk,lower premium.This notion already applies in non strata if your property has sound construction, well maintained, has a burglar alarm & security functions.*

**Allow Insured values to be negotiated with the insurer.*
**Make insurers publish the most at risk areas (not post codes) they should also divulge the history of claims for any particular area. It has been many, many years since Port Douglas has endured a natural disaster.*

REASONS

The reason the risk was so great was the QLD Government legislation that requires all strata title properties to be insured for FULL REPLACEMENT VALUE.
Other than 3rd party motor vehicle insurance, there is to my knowledge, no other mandatory insurance under QLD legislation (except maybe in financial contracts)
If any entity wish's to insure anything of value, they are not legally enforced to do so.
They can select their own opinion of insurable value & negotiate with their insurer a mutually satisfactory premium. Or they can elect not to insure at all.

The current legislation is actually discrimitory; it has created an anti competitive market. It is a one size fits all law which is clearly wrong when you look at a basket of the various types of properties, their built form & local geographic location. None are the same. Just using a post code to determine strata risk is unfair.
A refrigerator costs the same to insure in Sydney as it does in Nth QLD.No post code question

The insurable value is determined by a licensed valuer.They use a standard valuation process that is generally inaccurate & inflationary. They want to cover themselves. In almost every valuation they don't even visit the property as they are based in southern states.
The insurable value needs to be determined by local standards.
How can a FULL REPLACEMENT VALUE valuation be amended to reduce the risk & premium cost. The attached is the valuation for a local property with my suggestions.
The reasons I have discounted the values is....

1. *The risk of a cyclone decimating ALL 26 units built to cyclonic conditions is unrealistic.*
2. *Same for swimming pools.*
3. *A cyclone is not going to rip up all the concrete drives.*
4. *The property is not prone to flooding*
5. *A fire could be contained to just one unit.*

This is why the FULL REPLACEMENT VALUE legislation is erred & must be amended.

In doing so consideration needs to be given to....

1. *Allowing body corporate managers to enlist replacement valuations to be provided by local accredited builders or assessors based on local rates & conditions. This will provide an accurate & uninflated result. On a fee for service basis, this will provide much needed employment & cash flow for a struggling building sector.*
2. *Allow insurable value to be discounted on a sliding scale to say 35% to 50% Based on various criteria such as age, construction, current condition, location etc.*
3. *Change the property location criteria of a post code to the actual street address. The local council can provide knowledge of flood & wind risk to the insurer.*

It's been suggested that a Federal Govt could establish a future fund for insurers to turn to rather than seeking reinsurance from overseas. Probably a good idea, however the available funds will no doubt come from the tax payer at some stage.
Perhaps just some simple adjustments to the current system will work as well but at a cost to the user pays notion.

Thanks for the opportunity to present my submission.

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