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Committee Secretary
 House of Representatives Standing Committee on
 Social Policy and Legal Affairs
 PO Box 6021
 Parliament House
 CANBERRA ACT 2600
 AUSTRALIA

By email : spla_reps@aph.gov.au

Inquiry into Residential Strata Title Insurance

Thank you for the opportunity to provide a submission to this inquiry. As the largest Strata Management firm in north Queensland Australia, BCS is uniquely positioned to provide the committee direct feedback on the challenges facing our clients in North Queensland. This submission is in conjunction to the contributions of SCA Australia.

About BCS Community Australia

BCS has been providing Strata Management Services for 40 years. BCS operates 23 branches from Port Douglas to Melbourne and currently manages over 8,500 buildings or 150,000 lots.

In the North Queensland region, BCS operates 4 branches servicing 1,000 plans and 16,000 lots. This significant market share enables BCS to provide a unique perspective on the published terms of reference for this inquiry. This submission is based on BCS's portfolio in North Queensland and does not specifically comment on other regions in Northern Australia.

Trust us for service excellence today & beyond

Corporate Lic No: 862864, (NSW) Memberships:
 National Community Titles Institute (NCTI), Institute of Strata Title Management Ltd. (NSW), Community Titles Institute QLD Ltd (CTIQ),
 Owners Corporations Victoria (VIC), Community Associations Institute (USA), Urban Development Institute of Australia (NSW)
 Branches: (NSW): Sydney, Central Coast, Forster-Tuncurry, Miranda, Mona Vale, Newcastle, Port Stephens, Tweed Heads, Willoughby, Wollongong
 (QLD): Brisbane, Cairns, Coolangatta, Gold Coast, Mackay, Noosa, Port Douglas, Townsville
 (VIC): Hawthorn, Melbourne

Part A - The magnitude of increases in the cost of residential strata insurance over the past three years, the reasons for these increases and whether these increases are likely to be sustained”.

The increases in residential strata title insurance costs have risen dramatically over the last three years.

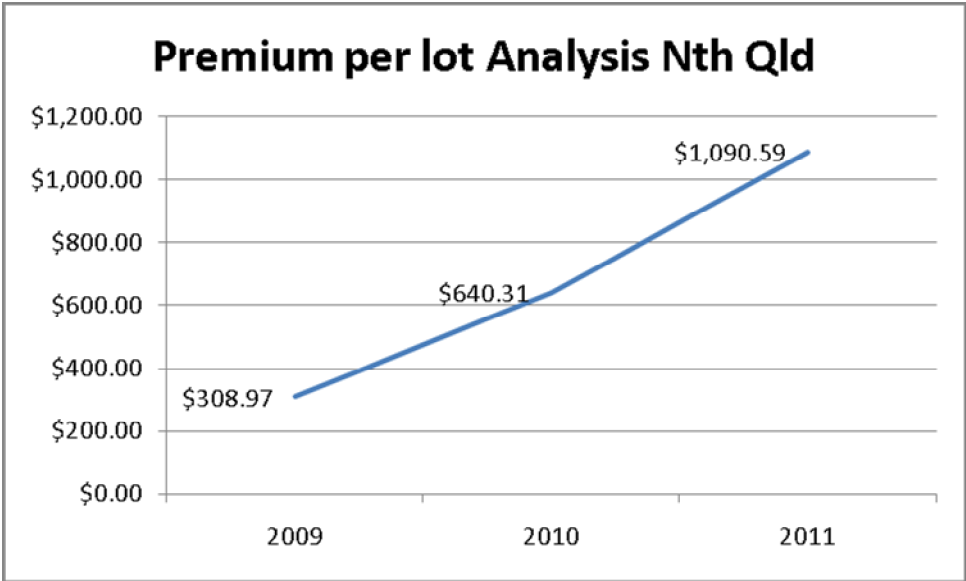


Table 1 provides a summary of the insurance premium increases for the BCS portfolio over the last three years in the North Queensland Region. This represents a 352% increase over the three year period.

As noted in the SCA Australia submission, “this pattern began to emerge before the two major weather events of early 2011”.

The BCS advice to clients, based on feedback from insurers is that there will be further significant increases in premium costs for the 2012 year.

Impact on Individual Body Corporate (Case Studies)

It is important to note, these increases apply to all lot owners in the region. This situation is not for a "select few" schemes in the region.

To demonstrate the severe financial hardships currently being experienced by our clients, a number of case studies of individual buildings have been prepared by one of BCS's clients.

Please refer Attachment 1.

It is obvious, the impacts of the large increases in insurance premiums are adding to an already dire situation in the region. Unless action is taken quickly to relieve this financial hardship we will see the following outcomes

- Owners Corporations will decrease Administration Fund and Sinking Fund contributions in an attempt to offset the large levy increases. This will lead to the overall deterioration of the building in the medium and long terms creating a secondary issue to be dealt with in the future.
- Increases in Levy arrears as lot owners cannot afford to pay the body corporate levy liabilities.
- Increases in lot owners being forced to sell their lots to pay outstanding levy debts to the Owners Corporation

Part B - The ability of insurers to price risk and the availability of accurate data to allow for this.

As shown in Figure 1, the increases in insurance premiums began to emerge before the two major weather events of 2011. The relevant claims history within the region for the BCS portfolio has remained consistent throughout the previous three years.

While not commenting directly on the ability on insurers to price risk, it could be stated that the dramatic increases are as a result of a more conservative approach to future risks. It must also be noted that the risks are concentrated to a limited number of underwriters operating in this region which will have a direct impact on the risk premium calculations.

Part C - The extent to which there is a failure in the insurance market for residential strata properties either generally across Northern Australia or in some regions in particularly, for example, due to a lack of competition between insurers.

The large increases in premium are directly linked to the lack of competition in Northern Queensland.

Currently, there are limited options for a Body Corporate to seek alternate (competitive) quotes for insurance, due to the lack of insurers in the market. When alternate (cheaper) quotes are sourced they typically have lower levels and quality of cover or a decrease in the sum insured for the property, therefore eroding the protection for lot owners, embodied in the relevant state or territory strata legislations.

The impact of limited competition to lot owners is a lack of viable options:

1. Accept large premium increases to maintain existing covers and protection.
2. Accept a cheaper policy with conditions or exclusions that erode the protection for individual lot owners.
3. Breach statutory requirements to insure.

Where new insurers have entered the North Queensland market, their time in the market has been very short. Quickly new entrants realise their risk position is not justified by the premium revenues. This has further destabilised the market in North Queensland as existing insurers temporarily lose market share, only to have the plans return after the withdrawal of the new entrant e.g. Ace Insurance.

The information provided in Attachment 2 clearly shows the volatile environment of the North Queensland insurance market.

Currently CGU (via SUU) holds 54% of the BCS portfolio. If CGU followed the example of many other insurers, and withdraw from the market, many of the 8,640 lots within the BCS portfolio would be in the situation of having no insurer available.

Part D - Whether Consumer Awareness of Different Insurance Options Should be Enhanced

BCS has a strong focus on educating both lot owners and executive committees to improve their understanding of the requirements of owning and/or living in a strata titled scheme. BCS is an active supporter of Strata Community Australia, on both a National and State level and was a Sponsor of the recent SCA community forums in Cairns, Townsville and Airlie Beach. BCS also has regular Client Information nights and produces a publication BCS Community magazine. Both initiatives are directed at increasing consumer awareness.

BCS would encourage and support further education programs.

Part E - The extent to which the nature of body corporate arrangements are contributing to affordability difficulties

State and Territory legislation in every jurisdiction mandates that Owners Corporations insure their schemes.

Specifically, the BCCM Act S189 and BCCM Standard Module Regulations S176 states the Body Corporate must insure, for all replacement value:

- a) The common property; and
- b) The body corporate assets

This statutory obligation is designed to protect individual lot owners from the unlimited liability of each lot owner.

Therefore, the statement "the nature of body corporate arrangements are contributing to affordability difficulties" holds true. A body corporate lot owner does not have the same insurance options as an individual dwelling owner. The owner of an individual dwelling has the option to reduce cover and or choose not to insure to mitigate the large cost increases.

There is scope for providing clearer definitions and the availability of alternate insurance schemes (such as Discretionary Mutual Funds or Self Insurance Schemes) within the State and Territory legislations.

Part F - Whether the conclusions regarding (a)-(e) provide justification for Government intervention in the residential strata insurance market, noting the existing responsibilities of Commonwealth, State and Local Governments.

The current insurance situation is presenting a potential large scale socio-economic issue in Northern Australia. The North Queensland region, on the back of the resources boom and stronger tourism visitation, has experienced high levels of investment in strata title dwellings in the three years between 2007 and 2010.

There are now serious concerns from both owner occupiers and investors about the viability of owning strata units. This translates into a decrease in development activity and general economic slowdown in the region.

Without action many of the below scenarios will become reality:

- Housing affordability will become an issue for many in the region due to insurance driven, large increases in their levy contributions.
- Higher rates of default and/or bankruptcy for strata owners.
- Decrease in investor activity.
- Decrease in property values.
- Decrease in future developments due to soft market.
- General decline in maintaining strata developments as maintenance and capital work budgets are reduced to allow for increases in insurance costs.

Conclusion

While this submission in no way attempts to be a complete statement of all of the issues in this current situation, it is evident from this and other submissions, that action is required and the terms of reference for Government intervention has been met.

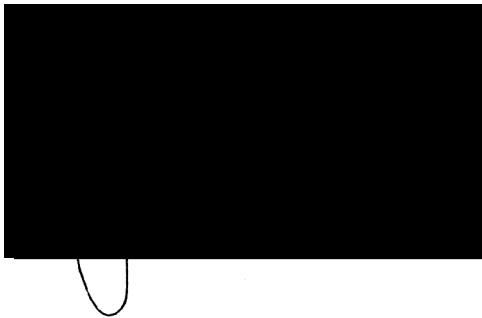
There are no short term market conditions that will allow for a normal price correction and holistic, coordinated approach is required to ensure the long term future for strata title ownership in Northern Australia.

Recommendations

1. State and Territory Governments to review the insurance provisions for Strata Title to ensure the legislation allows strata complexes to access other commercial insurance options such as the use of higher excesses and the ability to self insure up to defined levels.
2. Establishment of a National Disaster Fund similar to the Australian Reinsurance Pool Corporation and the New Zealand Government's Earth Quake Commission.
3. Review on Taxation and Stamp Duty costs levied on insurance premiums.

Yours faithfully

BODY CORPORATE SERVICES

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Jason Starr-Thomas
Group Chief Operating Officer

Attachment 2**Summary of Insurance Participation in North Queensland (Residential Strata)**

Ace Insurance Company	August 2009 withdraw from the market nationally
Suncorp Metway	December 2009 withdraw from the market nationally
Allianz	January 2010 announce only risk with asset value under \$6m will be considered
Zurich	January 2010 three rate increases during the year totalling 100% during the period
Zurich	December 2010 announce a moratorium on all new business – still in place as at 2012
Zurich	January 2011 announce a 350% increase on all existing business
RACQ	March 2011 announce only risks with asset value under \$1m will be considered
Allianz	August 2011 announce a withdrawal from North Queensland
Wesfarmers	September 2011 announce a withdrawal from North Queensland
Lumley General	September 2011 announce a withdrawal from the market
Calliden via QUS	December 2011 announce a withdrawal from the market

Added to this Chubb and CHU have never been active in the area whilst the likes of Vero and QBE only selective underwrite larger accommodation risks and are selective on a case by case basis.

Therefore only AMP, who will only underwrite risks with an asset value at \$5m and under , or SUU who only underwrite risks construct after 1982 remain in the market.

Source – Body Corporate Brokers Pty Ltd