HOUSE STANDING COMMITTEE ON SOCIAL POLICY AND LEGAL AFFAIRS

INQUIRY INTO RESIDENTIAL STRATA TITLE INSURANCE

Submission relating to Strata Title Residential Insurance Increases

I wish to bring to the Committees attention the following:

1) The increase in insurance premiums of up to 400% in the North Queensland market which have no relation to claims from Strata Title Properties
2) The lack of available data from Insurers detailing % of claims from Strata Title Properties to support these increases
3) That there is a clear failure by the Insurance market to provide appropriate and affordable cover due to lack of competition.
4) That current legislation limits the ability of Body Corporates to participate in other insurance options.
5) That Body Corporate arrangements contribute to the unaffordability of Insurance -including forced unrealistic Insurance valuations.

I believe my submission will display the need for both State and Commonwealth government intervention in the Strata Title insurance market.

I am a Body Corporate Committee member of 2 Body Corporates in Port Douglas, Far North Queensland, and we are currently in the process of sourcing renewal quotations for our Strata Title Insurance.

These Strata Title properties are [redacted] on [redacted] and [redacted].

1) We have received one quotation for [redacted] and the increase in premium over last year's premium is 390% from approximately $39,000.00 in 2011 to $179,000.00 for 2012.

We are currently seeking quotations for [redacted] and the indications are to expect similar increases.

Below details the increase in premiums over the last 4 years for [redacted] with minimal claims history, showing that premiums have increased by 215% since 2008:

2008	$13,800.83
2009	$13,095.67
2010	$27,417.16
2011	$43,353.86- (reflects an increase of 215% over the 2008 premium)
2012	not yet quoted

As I have not received the quotation for [redacted] I will limit my discussions and comments to [redacted].

Due to a number of factors influencing the market, the increases in Strata Title Insurance premiums have exploded and have left both residential owners and investors in Far North Queensland disillusioned by the exorbitant costs and the increase in levies.

The reduction in tourism, both domestic and international, due to adverse publicity during the floods in Southern Queensland and Cyclone Yasi in the north, which portrayed the whole state as a disaster zone, and the strong Australian Dollar, has resulted in a significant reduction in travellers and reduced income for investors in the North Queensland market. Many investors are now facing the fact that the costs associated with owning investment property outweigh the income, and this will further result in owners defaulting on levies and mortgages. There is no opportunity for investors to sell these properties given the downturn in the real estate market and the low returns on the original purchase price.

Residential Owners are likewise placed in a difficult position, having bought a property several years ago with affordable levies and costs, now find themselves having to dip into retirement and superannuation funds, to pay excessive levies and ever increasing utility and insurance costs. This is in addition to the introduction of legislation in April 2011 repealing a fair and equitable lot entitlement re-distribution, negotiated in 2004, that has seen many owners forced into paying a disproportionate share of levies and insurance costs.

2) The insurance companies claim the increases relate to the huge payouts for claims resulting from the floods and, more particularly in the North with Cyclone Yasi, but have failed to identify the payout figures related to strata title properties in the North, which are now bearing the brunt of enforced increases of up to 400%.

The majority of payouts would relate to older, privately owned properties, located in high-risk regions, the evidence of which is clearly demonstrated in the Tully, Hull Heads and Tully Heads areas, where there is very limited exposure for Strata Title complexes, but a high representation of much older single dwelling homes with direct beach exposure.

The Insurance industry are unable to pass on significant cost increase to private housing and home owners, as the market for private residential properties is still subject to market forces and competition. Whilst this market has seen increases, the burden of increased premiums has been squarely focused on Strata Title properties.

The practice by the insurers of lumping all Strata Title properties under a “one size fits all” policy with no regard for construction techniques, building standards, maintenance of individual properties and claims history, shows that the current increase are effectively price gouging by the insurers, a practice that the current Queensland Government declared would not happen on their watch.

3) The Insurance market has failed to provide adequate or affordable cover to Strata Title properties.

All insurance agents have highlighted the difficulty of sourcing additional quotations due to the limited number of insurers who will offer cover in the North Queensland market, in fact one agent suggested that a premium of around 0.25% – 0.30% on replacement value was within the current market conditions, and declined to quote. This is evidence more of collusion than of market conditions.

The number of Insurers offering cover in the North Queensland market is limited to one who has now found themselves in the enviable position of selecting who they insure and the excessive premiums charged. The Insurance industry has deliberately targeted the Strata Title Insurance market, as they are aware that Body Corporates are forced under legislation to insure.

These same insurance companies have enforced excesses to policies that include, in the case of [redacted], increasing the cyclone deductable to $200,000.00 with a provision this can be bought down to $50,000.00. Also the exclusion of "effects of the sea" to restrict storm surge liability, further limits the possibility of making a claim.

The increases in deductibles and excesses have made making minor claims unaffordable and have therefore further reduced the effectiveness of taking insurance, whilst once again limiting the exposure of the Insurer.

4) That the Body Corporate and Community Management Act and the legislation therein require that a Body Corporate insure for the full insurable value of the property as determined by a Valuer.

This 100% insurable value policy enforced by the legislation, stipulates that the valuation includes the demolition of all structures, removal of debris , rebuilding pools, architects fees, planning and permit fees, along with delay in construction costs. In fact, all costs associated as if the property was torn down and re built from scratch.

The valuation from a registered Valuer listed the replacement building cost then increased this by another 37% for the following items and contingencies -Cost Escalations, Fees & Charges and Removal of Debris. The final paragraph from the Valuer's report states that "following the occurrence of possible catastrophic circumstances the sum insured for should further be increased" and the recommendation was a staggering 79% increase in the "Replacement Building Cost"

Given that the majority of Strata Title properties in the North are required to be, and have been built to Cyclone Category 5, and that most in danger of water ingress or flooding have submersible or basement pumps, the likelihood of total devastation is unrealistic. If a cyclone the likes of Yasi was to make land fall in Port Douglas, the damage sustained would not be total, as these properties are designed and constructed to withstand the effects of same.

These valuations have no relation to actual market conditions or to the selling prices of apartments within the complex and there would need to be a 270% increase in real estate prices to qualify the current valuation given.

5) The Body Corporate is further restricted in that it is unable to lessen its Insurance premium by self-insuring or by carrying a substantial portion of the risk in house.

- The additional cost of stamp duty and GST, further impacts on the costs for owners.

- Strata Title Manager commissions, where a fee or rebate of between 10% and 20% is built into the premium as an incentive for a Body Corporate Manager to recommend a particular insurer to a Body Corporate, and the occurrence and proliferation of the likes of BCB and others to the market, in an attempt to further extract funds from Body Corporates is reprehensible. These companies are off shoots of the Strata Title Manager companies and derive financial benefit from recommending their insurer's services.

Many Strata Title Owners and Body Corporates, inexperienced in Strata Title matters, rely on the advice of their Strata Title manager. These same managers are usually responsible for sourcing insurance quotations, which in the past always came from the same 1 or 2 insurers including their own in house insurer, which usually provided a slightly lesser quote once other quotes were submitted.

I believe that the above clearly details that Government intervention is necessary on both State and Commonwealth levels to alleviate the current and future issues facing Owners and Investors in North Queensland.

Thank you for accepting my submission.

Regards

Warren Pitt
[redacted]