



Reinsurance Pool for Cyclones and Related Flood Damage

Strata Community Association (SCA)

Submission to the Senate Economics Committee

4 March 2022

Introduction

Strata Community Association (SCA) is the peak industry body for Body Corporate and Community Title Management (also referred to as Strata Management, Strata Title or Owners Corporations Management) in Australia and New Zealand.

Our 5,000 individual and corporate members include strata/body corporate managers, support staff, owners' representatives and suppliers of products and services to the industry. SCA proudly fulfils the dual roles of a professional institute and consumer advocate.

Direct employment in specialist strata management companies is approaching 10,000 people. More significantly, they are pivotal in an estimated \$6.7 billion in annual economic activity.

Based on the 2020 Australasian Strata Insights Report, more than 2.2 million people live in flats and apartments, the vast majority being strata titled.¹ This figure does not include other forms of strata title such as townhouses and community titled developments. Nor does it include businesses operating in strata titled commercial buildings. The estimated value of property under strata title in 2020 exceeds \$1.3 trillion.²

As the growth of apartment and strata living has intensified over the last decade, the strata management strata services industry has grown in lockstep to serve it. Strata managers navigate through a maze of Commonwealth, State and Territory legislation and regulation ranging from actual strata specific legislation, regulation, workplace, health, and safety issues and building codes as well as measures applicable to the management of body corporate funds.

A strata manager is expected to be knowledgeable on a range of issues relating to the management of a strata scheme.

If you have any questions or feedback regarding this submission, please contact Shaun Brockman, National Policy and Advocacy Manager, SCA, [REDACTED]

¹ Hazel Easthope, Sian Thompson and Alistair Sisson, *Australasian Strata Insights 2020*, City Futures Research Centre, UNSW, Accessed at <https://cityfutures.be.unsw.edu.au/research/projects/2020-australasian-strata-insights/>

² Ibid, p6

Recommendation to the Senate Economics Committee

SCA's primary recommendation to the committee is that the reinsurance pool for cyclone and flood damage start as planned on 1 July 2022 and that the Senate should pass the *Treasury Laws Amendment (Cyclone and Flood Damage Reinsurance Pool) Bill 2022* in its current form.

SCA is supportive of the Bill in its current form. The introduction of the proposed reinsurance pool into legislation has the potential to have a substantial impact on offsetting the cost of insurance at risk strata properties in Northern Australia. Although modelling is undisclosed at this stage, a reinsurance pool, if executed effectively and targeted appropriately has the potential to make cost savings for consumers in Northern Australia. Without having seen the modelling it is difficult to understand exactly how many properties will be affected and by what margins, however the Morrison Government estimating that strata properties may benefit from up to a 58 per cent discount on insurance premiums.³

It is the expectation of SCA that introducing the reinsurance pool will encourage insurance companies to re-enter the market, increasing competition and driving down insurance costs to override the existing market failure. Whilst the weather cannot be controlled, policies such as the reinsurance pool can ameliorate the cost of protecting against potentially disastrous events and improve overall consumer outcomes for hundreds of thousands of Australians.

Issues relating to the affordability and availability of strata insurance in the Northern regions of Australia have long endured, continuing to escalate in recent years. In particular, both general and strata insurance premiums in the area have grown substantially as the as lack of population density and high-risk of disaster related weather events undermine the market and deplete consumers of reasonable insurance options.

This has heavy implications for the strata industry, as bodies corporate are mandated by various pieces of state legislation to insure the full value of common properties within their schemes. Strata residents and owners are in a unique position when it comes to insurance, as holding strata insurance is a mandatory, statutory requirements, as opposed to single households who can elect not to insure. Available and affordability are therefore magnified for strata residents and owners, as they must take out a policy.

This leaves strata schemes with an impossible choice: somehow finding a way to pay rapidly escalating premiums, or simply not doing so, in the process, being legislatively non-compliant and facing the consequences of that. Those consequences would be catastrophic. Apartments in those bodies corporate would be unsellable. This is an unsustainable system in its current form, and the introduction of the reinsurance pool is a critical first step in the processing of reforming the insurance model for Northern Australia.

³ Office of the Prime Minister of Australia, *Morrison Government to Deliver Reduced Premiums Through Reinsurance Pool*, 07 Feb 2022, Accessed at: <https://www.pm.gov.au/media/morrison-government-deliver-reduced-premiums-through-reinsurance-pool>

Background and SCA's Role

SCA has been a strong and consistent advocate for policies, funding and programs, including for a reinsurance pool, that improve affordability and availability for residents living in strata communities, and residents generally, in Northern Australia.

For years we have heard consistently from our members, most particularly in Northern Australia, about the difficulties in obtaining and affording strata insurance and we welcome the action relating to the reinsurance pool.

Although this particular submission is concerned with direct responses to the formation of a reinsurance pool in July 2022, it is important to note that there are many other measures that we are advocating for to improve affordability and availability. These include:

- stamp duty and other governmental fee and levy relief by way of reduction, abolition or specific problematic regional consideration
- understanding the critical role of the strata manager in the strata insurance lifecycle
- the importance of the strata insurance supply chain
- the correct implementation of consumer-focused disclosures and actions that bring absolute client transparency
- an enhanced regime of information and education for strata stakeholders, which focuses on reinforcing their rights and responsibilities when it comes to insurance
- other countermeasures to the issues of strata insurance availability and affordability.

Within our own industry we know that strata managers are critical to keeping the consumer informed, sourcing insurance policies, negotiating terms and conditions, processing claims, renewing policies and filing reports and updates based on defects and their rectification, building repairs and maintenance, amongst myriad other administrative functions.

What we would like to see from government, while the spotlight is on affordability and availability, is a system and reform based on evidence that recognises and promotes the value that strata managers bring in providing the consumer with detailed information and performance that guides them towards good consumer outcomes.

SCA has formed a national strata insurance taskforce, with the goal of aiding the work of the government and stakeholders in relation to strata insurance. This taskforce was involved in commissioning and the implementation of a comprehensive report into the strata insurance industry, titled [*A Data-Driven Holistic Understanding of All Aspects of Strata Insurance in Australia & New Zealand*](#). This report was independently authored by Dr. Nicole Johnston, who is a renowned strata industry expert and is with Deakin University in Melbourne, Victoria.

The report is the most comprehensive report on strata insurance assembled in Australia to date. The report has guided discussions as we represent this very important industry perspective in order that we can collectively achieve better consumer outcomes whilst underscoring the value of strata managers and the strata sector when securing strata insurance.

Any reforms undertaken by Federal, State and Territory governments and regulators that flow from the report are well-informed, evidence-based and properly take into account the vital role of the strata manager and the specific situation on the ground. Local knowledge is paramount in the strata insurance process and strata managers are best placed to service this market. In other words: the reinsurance pool cannot be the only reform in the strata sector and it would be remiss of the



Commonwealth and States to not take this opportunity to look more broadly at the needs of a sector which will increasingly be the only option for many home-owners, tenants and investors.

Data

SCA has been a strong and consistent advocate for policies, funding and programs, including for a reinsurance pool, that improve affordability and availability for residents living in strata communities, and residents generally, in Northern Australia.

The strata industry is well represented in states that encompass the reinsurance pool, with (12-21%) of Western Australian residents, (14-24%) of Queensland residents and (16-26%) of Northern Territory residents residing in strata titles as of 2020.⁴ Almost 900,000 residents may be able to benefit from this.

SCA, along with UNSW's City Futures Research Centre has collected data to contextualise strata and community title in Northern Australia:

Northern Australia

- Total number of strata schemes: 11,279
- Total number of lots in strata: 91,582
- Approximately one-third (36%) of strata and community titled properties in the area are apartments.
- The largest proportion of strata schemes in Northern Australia are 1-2 lots.
- The largest proportion of lots in strata schemes in Northern Australia are in 21-50 lot buildings.
- The largest proportion of strata schemes were registered in 1994.
- The largest proportion of lots in strata schemes were registered in 2009.

Northern Queensland

- Total number of strata schemes: 7,305
- Total number of lots in strata: 59,367
- The largest proportion of strata schemes in Northern Queensland are 1-2 lots.
- The largest proportion of lots in strata schemes in Northern Queensland are in 21-50 lot buildings.

North Northern Territory

- Total number of strata schemes: 2,895
- Total number of lots in strata: 25,103
- The largest proportion of strata schemes in North Northern Territory are 1-2 lots.
- The largest proportion of lots in strata schemes in North Northern Territory are in 6-10 lot buildings.

Northern Western Australia

- Total number of strata schemes: 1,079
- Total number of lots in strata: 7,112
- The largest proportion of strata schemes in Northern Western Australia are 1-2 lots.
- The largest proportion of lots in strata schemes in Northern Western Australia are in 21-50 lot buildings.⁵

⁴ Hazel Easthope, Sian Thompson and Alistair Sisson, *Australasian Strata Insights 2020*, City Futures Research Centre, UNSW, June 2020, p. 14-22. Accessed at: <https://cityfutures.be.unsw.edu.au/research/projects/2020-australasian-strata-insights/>

⁵ Hazel Easthope, Reg Wade, *Northern Australia Strata & Community Title*, City Futures Research Centre, UNSW, Feb 2020, p. 5-12.

The persistent messaging from our members, stakeholders and industry professionals over the years is that the insurance situation in Northern Australia is untenable, as the growth rates of premiums continue to rise. Between 2007-08 and 2018-19, home insurance premiums rose by 178 per cent in Northern Australia, compared to a 52 per cent increase across the rest of Australia.⁶

The Deakin Strata Insurance Report 2021 found that in 2020:

- 30,037 Queensland OCs paid over \$195 million in strata insurance premiums, a 66% increase from \$117 million in 2016.
- 16,526 Western Australian OCs paid over \$65 million in strata insurance premiums, a 47% increase from \$44 million in 2016.
- 460 Northern Territory OCs paid \$3.69 million in strata insurance premiums, a 151% increase from \$1.47 million in 2016.⁷

As of 2018-2019, premiums for strata insurance in Northern Australia were on average approximately double those of owners in the rest of Australia, and in some extreme cases, like in north Western Australia, premiums may reach more than 4 times the \$3,300 Australian average.⁸

Total insurance costs for owners corporations and bodies corporate have spiralled upward over the last five years, increasing from \$619 million in 2016 to \$1.08 billion in 2020.

Quoting further from [A Data-Driven Holistic Understanding of All Aspects of Strata Insurance in Australia & New Zealand](#), which explored strata insurance in depth, below are so additional figures for context of the strata insurance market and the challenges faced, particularly for affordability and availability.⁹

- Reinsurance market costs, global climatic events, northern Australian climatic event, building defects and cladding risks are the most prevalent issues affecting affordability and availability.
- Affordability is not limited to the particularly tough market of northern Australia; it is becoming a challenge across the entire eastern seaboard.
- Some schemes find it hard to find insurance at all, especially if they have identified risks such as flammable cladding or live in an area prone to weather events such as those in the Pilbara, North Queensland, and some regions in NZ.
- Quick insurance stats (p24):
 - In 2020, 165,554 Australian strata communities paid over \$1bn in strata insurance costs.
 - Owners Corporations / Bodies Corporate paid nearly \$230 million in duties, levies and taxes (2020)
 - Owners Corporations / Bodies Corporate claimed over \$390 million (based on 32,574 claims) (2020)
 - Overall, the total cost of insurance payable by these OCs was approximately \$1.08 billion.

⁶ACCC, *Northern Australia Insurance Inquiry*, 30 November 2020, p.51. Accessed at:

<https://www.accc.gov.au/system/files/Northern%20Australia%20Insurance%20Inquiry%20-%20Final%20Report%20-%2030%20November%202020.pdf>

⁷ Dr Nicole Johnston, *A Data-Driven Holistic Understanding of All Aspects of Strata Insurance in Australia & New Zealand*. Deakin University, June 2021, p.43-76. Accessed at:

https://www.strata.community/files/ugd/de87c4_9714a2c320804ecbb270af78ee492826.pdf

⁸ Ibid, p51.

⁹ Ibid

- 27.45% of premiums were paid to state, territory and federal governments (national average 2020)
- In 2016 OCs paid \$134 million in taxes, levies and duties, which rose to \$228 million in 2020. (p24)
- In 2016 total cost of insurance was \$619 million and rose to \$1.08 billion in 2020.
- Storm damage (\$438 million), water damage (\$362 million) and fire damage (\$248 million) were the top three claims cost by loss for the period 2016-2020. (p29)
- NSW paid the highest taxes as a percentage of premiums (39.56%). The ACT paid the lowest (10.24%). *See state and territory specific breakdowns for applicable government/media messaging by state/territory on pages 33 – 82 of the report).*

Other Strata Insurance Issues for Consideration

SCA is particularly enthused to see the intent to apply pricing principles which specifically incentivise risk reduction and mitigation works. As of 2019, only 3 per cent of natural disaster funding was spent on mitigation, and instead 97 per cent is spent on post-disaster recovery. Mitigation is a key component of the long-term success of the reinsurance pool, and a significant contributing factor to ensure insurance is more available and more affordable to strata residents and businesses.

Modelling

At time of writing, the Federal Government has not released the underlying modelling that resulted in some of the statistics and figures released at the official launch of the reinsurance pool earlier this year. **SCA, along with other industry bodies, members and all consumers in Northern Australia would be greatly aided by the timely release of the Treasury modelling for the reinsurance pool** so we can explain better to our members and strata communities the potential impacts of the pool and give them more certainty moving forward. The strata sector is characterised by the detail and minutiae of its regulatory framework. Everything which happens in strata is generally accompanied by highly prescriptive legislation about how it is meant to happen. Those living in and working with strata therefore are used to and will need to see the detail, in order to understand the impacts on them.

Mitigation

Further mitigation funding by government has the potential to reduce premiums and somewhat address the affordability issue. Currently 97 per cent of money spent over the cycle of a disaster is spent on recovery with only 3 per cent on mitigation.¹⁰

The \$40 million Strata Title Resilience Program is an encouraging move by the federal government, but further investment has the potential to deliver long-term premium reductions and lower claim levels for each weather event.

Legislation provides for the regular maintenance responsibilities of a strata scheme. Caselaw has confirmed that these responsibilities cannot be avoided. Despite these responsibilities, every maintenance task requires a decision, whether that decision is by the strata committee or by all owners, and those who are part of that decision making can (and do) elect to vote 'no'. That vote is often based on cost concerns. The availability of a mitigation program would assist in combatting that 'no' vote and assisting strata schemes in carrying out mandated maintenance.

The role of the strata manager in relation to insurance

Strata managers are engaged by the body corporate to carry out contracted duties. While it is not compulsory to engage a strata manager, the vast majority of schemes do so because the range of tasks faced by a body corporate are often too vast for individual owners to carry out. The strata manager carries out such essential roles as managing finances and sending out meeting notices. Another key role of a strata manager is in relation to insurance. To add context to the activities that strata managers undertake with regards to strata insurance, here are a few bullet points summarising strata manager activities and where they provide value:

¹⁰ ICA, *Statement on climate change, insurance affordability and accessibility*, 23 October 2019, p.2.

- Strata managers provide value to the owners corporations and bodies corporate they represent by applying specialist knowledge in a complex legislative and regulatory environment.
- Strata insurance is complex and owners corporations and bodies corporate owners need a trusted person to navigate them to their best outcome
- Strata managers understand, interact with and add value to a complex strata insurance supply chain and work closely with brokers, insurers and underwriters

Summarising strata manager value, the report identified three major values (or value pillars) that strata managers provide:

1. They are the legislated **agents of the OC** and are bound to act in their best interests
2. They are the **custodians** of records
3. They are a **knowledge bank of the scheme** and related laws.

Stamp duties, taxes and levies in relation to strata insurance affordability and availability
Stamp duties, taxes and levies represent the single greatest cost to consumers as they take out strata insurance policies, representing between 20 and 40 per cent of the total insurance cost.

Taxes and levies comprised up to almost 40% of premiums in some jurisdictions, and as premiums increase, so does the amount of taxes and stamp duties, creating an unfair spiral for consumers where there is unaffordability already.

Summary

SCA's primary goal is to see the reinsurance pool for cyclone and flood damage start as planned on 1 July 2022 and as a result is making the primary recommendation in this submission that the Senate should pass the *Treasury Laws Amendment (Cyclone and Flood Damage Reinsurance Pool) Bill 2022* in its current form.

Please consider the additional background, data and other considerations to provide context to our primary recommendation.

Thank you for the invitation to submit and we look forward to presenting more details to the committee when it meets.

If you have any questions or feedback regarding this submission, please contact Shaun Brockman, National Policy and Advocacy Manager, SCA, [REDACTED]



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