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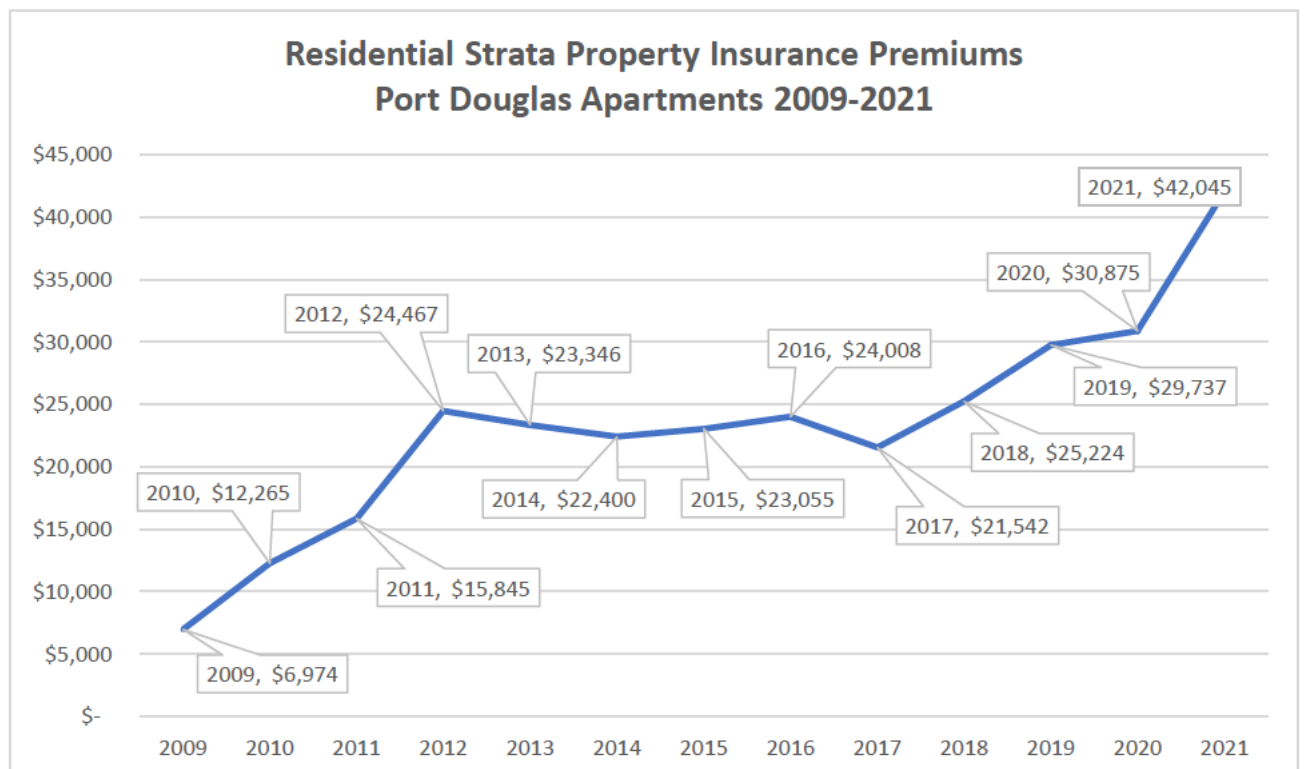
Thank you for the opportunity to make a submission to the Senate Economics Legislation Committee Inquiry into Treasury Laws Amendment (Cyclone and Flood Management Reinsurance Pool) Bill 2022 (The Bill).

I am writing on behalf of the Port Douglas Apartments (PDA) Committee, situated on the main street of Port Douglas, a small, strata residential complex of 18 self-contained, one-bedroom apartments offering short stay accommodation for visitors to Far North Queensland (FNQ). PDA unit owners are all small Mum and Dad investors (average-income earning Australians) or retirees.

Rising Insurance Costs

As the Committee will be aware strata insurance premiums have become increasingly unaffordable in northern Australia. The chart below showing PDA's insurance premiums over time, clearly illustrates the progressively tightening private strata insurance market in Northern Queensland, particularly in years 2017 to 2021. For example, two years ago the PDA Committee could only find three insurers willing to quote for strata insurance, the next year we could only source two quotes, and in 2021 three of the four insurers approached refused to quote leaving a single insurer that offered cover. The 2021 premium of \$42,045 represented an \$11,170 increase on our 2020 premium or an annual increase of 36%.

We are currently seeking quotes for 2022 strata insurance. The first insurer quoted \$58,858, a 40% increase over our 2021 insurance, and a second \$46,370, an increase of 10%. The 2022 quotes mean that over the past two years PDA insurance will have increased by 90.6% or 46% respectively.



Exclusion of Short-term Accommodation Strata Insurance?

The PDA Committee supports the intent of The Bill which once implemented, will provide significant insurance premium reductions for insurance contracts eligible to enter the scheme. However, the Committee, and many other small accommodation providers in Port Douglas, are concerned that short-term, accommodation residential strata building insurance contracts will be excluded from the reinsurance pool.

The Committee's concerns arise from anecdotal evidence of Treasury discussions with accommodation sector representatives. According to those in the sector who attended the stakeholder meetings, Treasury's intention was to exclude buildings primarily used for short-term accommodation from the reinsurance pool. These intentions were not embodied in the exposure draft, nor the draft Bill.

The Bill indicates that "*building and contents cover for strata title and community title developments are eligible for cover by the reinsurance pool where at least 50 per cent of floor space of units in the development is used wholly or mainly for residential purposes and the insured is the body corporate*". The Committee understands this clause to mean that PDA's building insurance contract would be eligible to enter the reinsurance pool as the building's certificate of occupancy is categorised residential (class 2 and 7) and our current insurance policy is classified as "Residential Strata". Additionally, for GST purposes, the ATO has deemed the letting out residential units are input taxed (not commercial).

Clarification Required

Eligibility to enter the reinsurance pool needs to be clarified in the legislation (enshrined in the law) rather than the regulations (which the Executive may change) to ensure short term accommodation strata insurance contracts have permanent, equitable access to insurance.

As more than 500,000 residential, strata and small business property insurance policies in Northern Australia are expected to be eligible to be covered by the reinsurance pool, those excluded from participation, will be subject to even steeper increases in insurance premiums (steeper than the chart shown above), as eligible residential strata insurance holders migrate to the reinsurance pool.

As the Committee will also be aware, Queensland bodies corporates are legally required to hold insurance under the *Body Corporate and Community Management Act*. If short term accommodation strata insurance contracts are excluded from the reinsurance pool, many FNQ bodies corporates will be at risk of non-compliance with the Act. A market failure of this magnitude will result in assets not being adequately protected and the exposure of owners to unlimited liability. This will ultimately negatively affect the economy and drive small investors out of Northern Queensland.

Tourism at Risk

Port Douglas is a town that depends on the tourism industry for its economic survival. The majority of tourist accommodation in Port Douglas comprise small, short-term, strata buildings. It seems counter intuitive to exclude a group of property owners who provide the accommodation backbone to the tourism industry in northern Queensland from the reinsurance pool. Small investors, like the owners of PDA units will exit northern Australia if insurance relief is not equitably accessible.

Equitable Access to the Reinsurance Pool

PDA Insurance premiums have increased significantly over the past two years. If PDA is excluded from the Reinsurance Pool our insurance premiums will increase to a level beyond the owners' capacity to pay as eligible residential strata insurance holders migrate to the reinsurance pool. We urge the Senate Committee to recommend amending The Bill to explicitly include small, short-term accommodation strata building insurance contracts in the reinsurance pool.

Kind Regards

Louise Hargreaves



Chair, Port Douglas Apartments Committee

Port Douglas
Apartments