SUBMISSION NO. 68

From: [redacted]
To: Committee, SPLA (REPS);
cc: [redacted]
Subject: STRATA INSURANCE REVIEW - NTH QUEENSLAND
Date: Thursday, 12 January 2012 7:57:21 PM

TERRY BALSON
BODY CORPORATE CHAIRMAN
[redacted]

12th JANUARY 2012

TO WHOM IT MAY CONCERN,

As chairman of this small body corporate of 6 unit owners, I am charged with the responsibility to report to this review committee investigating the esculating costs of Strata Insurance. This matter has now reached a totally unacceptable position, with latest price increases putting Insurance for body corporates and individual unit owners
beyond the capacity for many to pay.
Their appears a major structural problem in the way Insurance cover for corporates is manipulated by all those vested interest parties, who put their hand out for a slice of the action. As an owner of privately owned property in North Queensland, it is clearly obvious to me and to many others, that unit owners in complexes are paying far higher Insurance premiums than owners of stand alone properties.
This can be clearly demonstrated by comparing our beachfront stand alone property holiday home in Sth Mission Beach with a current value of $900,000 to the Airlie Beach apartment in [redacted], valued at $340,000. The cost of insurance for these properties is - Mission Beach at $1, 460 yr. and Airlie Beach at $2,670 yr.
This huge disparity between the cost of insurance of these properties, is further compounded by the fact that the beach house in Mission Beach, has sustained several cyclones, with the last, Yasi, passing directly over our house. Yet the Airlie beach property remains far more expensive to Insure and has never suffered damage from any natural disaster in the life of the building.
On behalf of all our unit owners, last year we looked into alternatives to Strata Insurance for our building. Sadly it appears, there is little other option available to us. When it was suggested that the building would remain uninsured, we were advised that this is not allowed and is against the law. Yet what if Strata Insurance continues to increase, many smaller complexes such as ours, will have no choice, but to opt out ??? This terrible result, will have dire effects on real estate values and will effect most north Qld development for years to follow.

We had discussions with those quantity surveyors who calculate the replacement cost of the building for Insurance purposes, a cost used to determine the total loss value, in the event of a total loss situation. It occurs that the cost to rebuild is much higher than property value of used for used or old for old properties. This is an area that I feel should be investigated further by this review process, as a means of securing alternative/acceptable insurance costs for body corporates.

An example of this being as follows -

Our complex of 6 units has a current Insured value of approx $4.3m or $716,000 PER UNIT. The building site is valued alone at $1m. The value of each unit in todays market is conservatively $350,000 or one could purchase the entire building for $2,100,000. When we provided these figures to the Quantity Surveyors, they replied that Insurance value is for the total replacement value at todays building costs, should a natural disaster occur and the buildings were totally distroyed.
We challenged this view, stating that Insurance premiums should be adjusted to reflect the actual value of the building in the current market, accepting its ups and downs in the cost of yearly premiums.
A purchaser of a unit in [redacted] at $350,000 would expect to receive a payout, he would hope, of something like the value of his purchase. He is not entitled to a windfall of $716,000, just because of todays high building costs. Should the entire complex be distroyed and a total write off. The unit owner would receive his $350,000 back from Insurance, and would also, share as a 1/6th owner in the site value, after clearing and demolition expenses were first deducted.
Should Insurance values be based on what is the current market value and not on a calculated assembly of expensive demolition and rebuilding sums, Insurance costs could be cut in half. A flow on benefit would be that, many buildings distroyed by disaster would not be economic rebuilds. Owners would be compensated financially and could purchase a similar building at a similar price, or if they included the value of their original site, a more expensive replacement.
Other flow on benefits would be that home and unit ownership would become more affordable, less costly to own. The Real estate and building industry would receive a benefit from more people looking to own/build and to renovate. The Insurance companies would no longer be held to ransom by unscrupulous firms benefiting from rediculous replacement values, destined to increase annually by those involved in this scam. Insurance premiums, which currently esculate every year, based on increases in replacement costs, could be controlled and tied to actual values we all accept.
Insurance companies could provide different types of property cover. One for full replacement cost as currently exists and another, which provides cover at Insured value only, that value as assigned by the market, at the time the Insurance contract is written between the parties.
If you feel that any of these idea's have merit and you wish me to elaborate

further on any of the points I have raised, please email me at your convenience.

Yours Sincerely,

Terry Balson