

12 January 2012

Mr Graham Perrett
The Chair
The Standing Committee on Social Policy and Legal Affairs
Parliament House
Canberra ACT, 2600

Email: spla.reps@aph.gov.au

Dear Mr Perrett

SUBMISSION: Inquiry into Residential Strata Title Insurance

1. INTRODUCTION.

This submission has been prepared by [REDACTED]
Far North Queensland and is submitted to the House Standing Committee on Social Policy and Legal Affairs, which is conducting an independent review into Residential Strata Title Insurance and related issues affecting Body Corporate and Unit holders insurance.

This submission mainly relates to the explosive increases in premium costs of residential strata title insurance for unit and apartment owners in Far North Queensland (FNQ). It will cover the following:

- Background to Residential Strata Title Insurance and skyrocketing residential strata title insurance premiums in regional Queensland including Far North Queensland,
- Anti-Competitive Behaviour - Dramatic increases in premiums,
- Anti-Competitive Behaviour - Lack of choice and range of policy classes of insurance,
- Lack of Competition in the provision of Residential Strata Title Insurance,
- Residential Apartment/Unit market of FNQ and regional Queensland,
- Impact and Recommendations.
- Newspaper article 2011

BACKGROUND.

Residential Strata Title Insurance is a class of insurance that applies to unit/apartment complexes. It generally covers building and common contents, as well as legal liability, fidelity guarantee, personal accident and office bearer's liability. The annual premium for a unit complex is issued to a Body/Owners Corporation and is subsequently proportioned to each individual unit holder for payment.

In recent years there have been excessive increases in premiums, and limited availability of cover in relation to residential strata title insurance for the FNQ region. In fact for [REDACTED] Apartments, a reasonably new complex located at [REDACTED], the residential strata title insurance premium increased by 567% from the period 2009-2010 to 2011-2012.

Specifically with regards to the FNQ market, the lack of competition by the insurance industry as well as its anti-competitive behaviour in providing residential strata title insurance has resulted in **PRICE GOUGING** with spiraling increases in premiums for this class of insurance in this region. This situation is having a severe impact on unit owners, residents, businesses and the community.

This unfair and unsustainable situation in FNQ has become untenable for many unit owners in this sector of the housing market. It has become such a major issue in this region that it is impacting on the affordability of units and apartments in the region, rental levels, unit valuations and prices, current and future investment in this type of accommodation and ultimately jobs in building and constructing new units and apartments and the real estate industry in general for these properties.

In short given the extremely difficult economic conditions of FNQ, this market **SIMPLY CAN NOT ABSORB** the soaring increases in premiums – *for the unit sector this situation is detrimental to the affordability of home ownership for units and apartments, rental prices plus current and future investment in unit housing stock.*

Independent retirees with fixed incomes and unable to afford to pay the Body Corporate increases are faced with the prospect of being unable to sell their units to investors because of the excessive Body Corporate fees and local government rates that in some instances represent 80-110% of annual returns. Investment in the residential sector of our region is critical for our economy, however if the current insurance crisis continues this will also fail and the “follow on” effect will be devastating to all aspects of the region.

2. ANTI-COMPETITIVE BEHAVIOUR - DRAMATIC INCREASES IN PREMIUMS.

I am an owner occupier of a 2 bedroom apartment located at [REDACTED] which is a 3 storey complex consisting of 12 units and was completed in 2007. I also own a 2 bedroom apartment at [REDACTED] that is tenanted and is a 6 storey complex of 65 apartments and was completed in 2009.

Both apartment buildings have experienced dramatic increases in premiums for residential strata title insurance for the 2011/2012 period.

This situation and trend is clearly demonstrated by the following table:

INSURANCE PREMIUMS - [REDACTED]

Year	Insurance Premium \$	Stamp Duty	Increased Amount \$	Commission paid to Body Corp Manager \$	Percentage Increase on previous Amt %
2007/2008	8,134.25	567.50	First Premium	no commission	
2008/2009	4,766.58	326.41	-3,367.67	593.48	-58%
2009/2010	3,825.48	315.60	-941.10	573.82	-80%
2010/2011	5,187.15	361.90	1,361.67	NIL	135%
2011/2012	16,533.46	1,141.98	11,346.31	2,076.33	318%

NB: Above amounts GST inclusive

NB: No flood cover

INSURANCE PREMIUMS - [REDACTED]

Year	Insurance Premium \$	Stamp Duty	Increased Amount \$	Commission paid to Body Corp Manager \$	Percentage Increase On previous amt %
2009/2010	19,851.10	1,384.97	First avail policy		
2010/2011	66,399.49	1,318.18	46,548.36	nil	334%
2011/2012	112,609.66	7,183.64	105,970.17	8,602.52	169%

NB: Insurance premiums have increased by 567% from the period 2009 - 2012

NB: Above amounts GST inclusive

NB: No flood cover

HOW THIS INCREASE RELATES TO ME AS AN INDIVIDUAL UNIT OWNER
Body Corporate Premiums

Period	Amount \$	Increase	Increase %
01/10/08-31/12/08	598.32		
01/01/09-31/03/09	N/a		
01/04/09-30/06/09	N/a		
01/07/09-30/09/09	578.33		
01/10/09-31/12/09	648.74	70.41	
01/01/10-31/03/10	562.99	-85.75	
01/04/10-30/06/10	562.99	0	
01/07/10-30/09/10	668.25	105.26	
01/10/10-31/12/10	668.25	0	
01/01/11-31/03/11	560.91	107.34	
01/04/11-30/06/11	560.91	0	
01/07/11-30/09/11	677.08	116.17	
01/10/11-31/12/11	677.08	0	
01/01/12-31/03/12	1,285.74	608.66	189%

Body Corporate Premiums -

Period	Amount \$	Increase \$	Increase %
01/11/09-31/01/10	1,193.24	n/a	
01/02/10 -30/04/10	1,154.39	-38.85	
01/05/10-31/07/10	1,193.71	39.32	
01/08/10-31/10/10	1,125.38	-68.33	
01/11/10-31/01/11	1,241.03	115.65	
01/02/11-30/04/11	1,241.03	0	
01/05/11-31/07/11	1,241.03	0	
01/08/11-31/10/11	1,212.12	-28.91	
01/11/11-31/01/12	1,212.12	0	
01/02/12-30/04/12	1,926.60	714.48	158%

Explosive increases in premiums for the 2011/2012 have been experienced by many unit owners in complexes in the Cairns region. For example for another unit complex in Cairns, the unit owners have had a **427% INCREASE** in their insurance premium for 2011. For the 2012/2013 period Insurers will likely follow suit by increasing their premiums substantially in the Strata market which will apply to the FNQ region and for those unit complexes that are offered renewal in 2012.

3. ANTI-COMPETITIVE BEHAVIOUR – LACK OF CHOICE AND RANGE OF POLICY CLASSES OF INSURANCE.

The monopolistic conditions in this region with few insurance firms are driving up premiums to unreasonable and unaffordable levels, but it is also leading to a very limited range and choice of insurances products and classes. The anti competitive market, I believe, also exists because companies like [REDACTED], [REDACTED], [REDACTED] and [REDACTED] have left the market due to the very aggressive marketing by [REDACTED] when they entered the Strata Title Market in NQ seven years ago offering very competitive rates and undercutting many of the existing insurers. Other companies have remained in the area but regrettably the excessive pricing has allowed the establishment of second tier insurers who for a reduced cost, are offering only basic insurance packages with some companies refusing to insure complexes containing holiday rentals. [REDACTED] covers only up to five million dollar property value; others are imposing excesses on named cyclone events of 1% of the insured value of the complex.

In FNQ in the unit/apartment housing market, it is extremely difficult if not impossible to obtain an insurance policy which covers floods. This class of insurance is simply not offered by the few insurance companies that offer insurance for the unit/apartment complexes. As a result flooding is not covered for most of the unit/apartment complexes in this region and this is of a major concern particularly given the recent weather conditions and flooding that has occurred in Queensland.

We simply can't get flood cover.

4. LACK OF COMPETITION BETWEEN INSURERS OF RESIDENTIAL STRATA TITLE INSURANCE.

In recent years the FNQ insurance market has dramatically changed especially with regards to Body Corporate insurance. Strata owners in FNQ have suffered from a number of Insurers exiting from the region in a short period of time. As a consequence there are now only a few insurance companies offering this class of insurance to this region resulting in market concentration and a lack of competition.

To demonstrate and highlight the dramatic changes in the current attitude of the major insurers to Residential Body Corporate Insurance in FNQ provided below is a summary of these changes in this market:

■ [REDACTED].

This insurer has withdrawn from the Australian Insurance market for Residential Bodies Corporate i.e. Residential Strata Title Insurance.

■ [REDACTED]ted.

This company has withdrawn nationally from the Residential Body Corporate insurance market.

■ [REDACTED].

This company has increased all its rates for Residential Body Corporate policies by 25% in September 2009 and another 35% in March 2010 and has also withdrawn all policy discounts , ranging up to 15%, in March 2010.

[REDACTED] has again increased rates by a further 35% in September 2010. [REDACTED] also do not underwrite any business with a sum insured or asset value over \$20,000,000 and currently has a new business moratorium for 60 days.

■ [REDACTED].

This company will no longer underwrite any risk in FNQ with a value over \$6,000,000. Any risk under this value has a 70% loading to normal rates.

■ [REDACTED].

The company is reluctant to provide quotations for any risk in the Far North Queensland region.

■ [REDACTED].

This company will not underwrite risks higher than \$5,000,000 and only with minimal holiday accommodation.

■ [REDACTED].

This insurer has applied Named Cyclone Excesses and increased all premiums and whilst they are willing to underwrite risks in North Queensland it is at non negotiable rates . They remain the most competitive of all "A" Rated insurers.

■ [REDACTED].

This company will only provide quotations for non holiday complexes to a maximum value of \$5,000,000.

5. INSURANCE COMMISSIONS PAID TO BODY CORPORATE MANAGERS – CONFLICT OF INTEREST

The fact that insurance policies are commissionable to Body Corporate Management companies who receive considerable percentage commission payments from insurers for written business, is an area that should be investigated as this is undoubtedly a conflict with the role of the Body Corporate Manager, who should be working in the best interest of the Body Corporate client and not recommending or “selling out” to the company who will pay the highest commission. If commission is received, this should be credited to the policy holders Body Corporate account not the Body Corporate managers consolidated revenue account to assist in countering premium increases.

6. IMPACT

The anti-competitive behaviour by insurance companies (dramatic increases in premiums) and a lack of competition in the provision of Residential Strata Title Insurance is causing significant impacts in this region some of which include:-

- A worrying concentration of market share in the provision of Residential Strata Title Insurance in FNQ which has had a dramatic impact of the price and availability of cover for this class of insurance.
- Unit and apartment owners, residents and tenants and investors have been affected by escalating insurance premiums and, in some cases, have been unable to find cover or are now deciding not to renew their cover for this class of insurance.
- This situation is now impacting on the owners, renters and investors of the 23,772 units/apartments that currently exist in FNQ and a further 14,228 units/apartments which is the additional stock that is expected to be built in the future.
- It is reasonable to deduce that this situation is also impacting on unit and apartment owners and this sector of the housing market in other regional areas of Queensland including North Queensland (Townsville region) and Central Queensland (Mackay region).
- To further highlight to you the severity of this situation please find attached a copy of recent article that featured in the Cairns Post on Wednesday 26 January 2011.

7. FNQ AND REGIONAL QUEENSLAND RESIDENTIAL APARTMENT/UNIT MARKET

In terms of the residential apartment/unit market of FNQ (Cairns region) and regional Queensland the following information is provided:

- Number of existing units/apartments - 23,772.
- Population - Number of people who live in an existing unit/apartment – 71,316 people.
- Potential units/apartments - additional stock to be built in the future – 14,228.
- Population – additional number of people who will live in a unit/apartment to be built in the future – 42,684 people.
- Future number of units/apartments - total number of units/apartments as provided for under the local planning scheme – 38,000.
- Future total number of people living in units/apartments – 114,000 people.

North Queensland (Townsville region):-

- Number of existing units/apartments – 26,339 (approx).
- Total population 181,743 people – people in units-79,018 people (approx).

Central Queensland (Mackay region):-

- Number of existing units/apartments – 20,516 (approx).
- Total population 141,567 people – people in units- 61,550 people (approx).

8. RECOMMENDATIONS.

Given the above circumstances and the catastrophic insurance premium increases in this region which occurred with immediate effect in 2011, I strongly appeal to you to consider the following recommendations:

1. Immediately suspend and place an embargo of all premium increases for Residential Strata Title Insurance coverage in 2012 by all insurance companies offering this insurance class in FNQ and in regional Australia.

2. Urgently investigate the provision of Residential Strata Title Insurance in this region and regional Australia more broadly including legislation such as the Body Corporate Act which requires this type of insurance coverage for unit and apartment complexes.
3. Consider developing an entirely new insurance model which reflects insurance needs and risks but also takes into consideration all of the new building and design codes and planning and development schemes which are responding to risks especially natural disasters in regional Queensland. The current market driven insurance model is problematic which is clearly demonstrated by insurance companies having little interest in providing affordable insurance to consumers and property owners in regional Queensland.
4. Investigate and assess the possible development and establishment of an insurance company that can cater for the needs of regional Australia and this region in particular (where the established and larger insurance companies have vacated the market). Such a model could be based on and be similar to the business model used for community banks and building societies etc...
5. Investigate and assess the possible development and establishment of other insurance models such as the Natural Disaster Insurance model used in in New Zealand which could be designed to cover a range of classes of insurance such as Residential Strata Title Insurance.
6. Undertake a review of the provisions of the *Competition and Consumer Act 2010*, to determine uncompetitive conduct of insurance companies and any protection available to apartment and unit owners.
7. Consider the tax deductibility status of this insurance premium which would allow unit and apartment owners to deduct the cost of this insurance premium from their tax.
8. The consideration by State Government to reduce the stamp duty costs associated with Strata Building Insurance policy premiums or use these funds as credits for applied government taxes or charges to Body Corporates or alternatively returned as a grant/incentive when the provision of regulatory changes to any facilities within complex or a part of the building are required by law.
ie. pool fencing

This is a very serious issue which is having a major impact on numerous aspects of these communities in the Far NQ region and if these exorbitant Strata Insurance costs continue in this current uncontrolled manner, the future both economic and lifestyle, of thousands of residents is at further risk and the consequences will be devastating.

I look forward to your favourable consideration of the issues raised and recommendations outlined in this submission.

I am available to discuss the contents of this document with you at a mutually convenient time.

Yours faithfully.

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NASSER HIDES DEFEAT BUT THE WORD SPREADS

ATHENS: President Nasser has largely succeeded in hiding from the Egyptian people the magnitude of Egypt's military defeat. But slowly the word is spreading.

Troops have returned from the Sinal battlefield with tales of rout and horror. More and more families are being notified that their sons will never come back.

Cairo radio and the government press maintain a steady drumfire of propaganda, telling Egyptians it is only a matter of time before the lost territories are recovered.

There have been calls for a "people's war" and suggestions for arming the civilian population against Israel.

DRY-CLEANING AGENT DANGEROUS

FOLLOWING two recent deaths in Brisbane, the State Health Department has published a pamphlet warning of the high danger of using a common dry-cleaning agent, carbon tetrachloride.

Inhaled fumes are enough to cause a complete breakdown of the kidney and liver, causing death.

The toxic effects of the chemical are accentuated by the consumption of alcohol, before or after exposure.

The health education council director (Mr J. E. Holliday) said a man who had been drinking alcohol and began cleaning a suit he was wearing with the chemical, collapsed and died two days later. This was in Brisbane less than a fortnight ago.

say the least, he was interrogated as if he were the criminal.

The robber with the gun was found guilty and sentenced to eight years' hard labour as it was

The impact on so many lives does not seem to be acknowledged or reflected in the sentences of the criminals.

Thelma Allen, Wakerley

ations for society. If we chose Abbott's method of making a decision, it would be like having a committee of about 14 million.

R.F. Darling, Parrearra

ment. Well, we did get a stable government but the stable is full of donkeys, not thoroughbreds.

Darby Ashton, Kallangur

Stamp out these truly taxing times

I AM aghast at how much the changes to stamp duty in Queensland will increase the cost of buying a house.

If you buy a house today for \$350,000, you will pay \$3500 stamp duty if you live in it. After August 1, you will pay \$10,735.

We should all be upset about this. The housing market is sluggish, with prices falling across the board, and this increase will make matters worse.

The State Government is trying to sell this by introducing a \$10,000 building boost grant for six months. Note, after six months the stamp duty increase will still be there but not the \$10,000 grant. Won't that be a boost for state coffers. New Zealand has no stamp duty. Why are we paying 3 per cent or 4 per cent?

Natasha Albert, Bundaberg

Ashgrove needs more than stunts

THE LNP and ALP appear to have no answers but shower us with motherhood statements, plans and evasive answers. Now, Kate Jones resigns as a minister and Campbell Newman pulls a media stunt at a pensioner's home to show the people of Ashgrove what a great representative and premier he will be (C-M, June 22).

The electors of Ashgrove are not mugs. They are intelligent and want answers to the problems that Ashgrove and society, in general, are facing on a daily basis - not just before an election but now, so they can be debated rationally. Otherwise neither party nor candidate deserves being elected.



AIRLIE BEACH: Accommodation likely to become more costly.

Resorts battle premium rise

WE recently received our insurance renewal quotation for Waters Edge Resort, a complex of 50, 4½-star apartments in Airlie Beach. Despite no claims over the past eight years, and weathering three cyclones with no damage over the past two years, the premium has been raised by 300 per cent, or more than \$100,000 for the next year. This means an additional burden on each owner of at least \$2000.

To make matters worse, there is only one insurer that will even quote on any similar strata title property north of Rockhampton.

Once upon a time, the government had an insurer, but not any more. If our experience is repeated in other accommodation blocks, prices will have to rise, tourists will be less interested in coming, businesses and individual

investors will go broke and leave the market and everything that relies upon the presence of tourists, in apartments and hotels, will die a slow, but certain, death.

We have appealed to the Insurance Ombudsman and the State Government but, with a commercial monopoly of one, we hold little hope.

Airlie Beach is a battling town but we need some help to fight the negative effects of nature and the commercial fallout of a shy and nervous insurance sector which is starting to pick and choose who is worth the risk.

Make no mistake, this is the biggest threat to employment and lifestyle in Queensland at the present moment.

Chris Roff, body corporate chairman, Waters Edge Resort, Airlie Beach

● **HEALTH** Minister Nicola Roxon says the community needs to realise there is no money tree to pay for drugs going on to the Pharmaceutical Benefits Scheme. Maybe Roxon and the Federal Government need to realise we (the community) do not have money trees growing in our back yards either when they hit us with yet another tax.
Marcia Maloney, Fig Tree Pocket

● **THE** Ashgrove electorate is now the centre of the universe. It's amazing what media coverage, free publicity and real competition can do. Voters in Ashgrove can just click their fingers for the next nine months and sitting member Kate Jones and contender Campbell Newman will come running. They have a good head start on the rest of us.
Anne Lindsay, Stanthorpe

Thought for today

If you give, you will receive. Your gift will return to you in full measure, pressed down, shaken together to make room for more, and running over.
Luke 6 verse 38
Selected by the Bible Society from the New Living Translation

For the record

Correction: An article yesterday said more than 1000 people had made allegations of sexual and other abuse within the Australian Defence Force Academy. The allegations/complaints were not all made within the academy but relate to all of Defence, including the Australian Defence Force, the

LETTERS TO EDITOR

FOR ALL THE PLEASANT SOUNDS OF MUSIC

Pensioners miss out with \$1 wage rise

As a result of the decision in the Federal wages case, many employees will receive an extra \$1 a week in his or her pay envelope.

to have an anti-narcotics campaign in Australia which is based on all possible knowledge of the drug traffic from its sources to final distribution and on the latest and most efficient methods of detection.

The manager owns the premises. Major and his partner Mr. Chris Bennett for the time being.

can get much in the way of financial assistance from the Government.