

Strata Title Insurance Submission by John Shepherd 30 December 2011

Dear Sir/Madam

Please find below the submission described against the terms of reference in blue font.

Terms of Reference

That the House of Representatives Standing Committee on Social Policy and Legal Affairs also inquire into and report on the affordability of residential strata title insurance, particularly in Northern Australia, and factors influencing this, including:

- (a) The magnitude of the increases in the cost of residential strata insurance over the past 5 years, the reasons for these increases and whether these increases are likely to be sustained;

Submission

Please find below the table of quotations initially received by the body corporate managers for your understanding of the impacts. The quotations have been provided on a 6% increase in building value that has been subsequently revised to seek insurance at the same value as 2011 as values have declined substantially not increased. Key points to note are:-

- [REDACTED] was the insurer last year with a total premium including stamp duty and GST of \$5920.45 - [REDACTED] quotation this year was \$26,995!
- The quotation by [REDACTED] has been selected based on price [what real choice was there] albeit with more limited policy coverage for a quoted \$10,724 inclusive GST & Stamp duty or 181% of last year.
- GST and State Government stamp duty rise automatically which adds to the pain
- The additional body corporate fees has diminished property values due to the perceived impact on recurring costs
- The building was built in 2009 to latest building codes

Schedule of Insurance

Class of Policy: Residential Strata	
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BUILDING DETAILS:

Year Built:	2009	External Walls:	Concrete/Brick	% of Commercial Lots:	0%
No. of Lots:	5	Floors:	Concrete	% of Holiday Let:	0%
No. of Storeys:	2	Roof:	Metal / Tile	Common Property Only	
No. of Pools:	0	No. of Lifts:	0	Other:	

ALTERNATE QUOTES SUMMARY

For the knowledge of the Body Corporate, optional quotations, based on the above information you have supplied, are detailed below and are subject to change upon receipt of a fully completed proposal form.

POLICY			
Building(Common property)	\$2,480,400	\$2,480,400	\$3,596,580
Common contents	Included in Bld Sum insured	Included in Bld Sum insured	\$24,804 over and above Bld Sum Insured
Loss of Rent / Alternative accommodation Costs	15% cover over and above BLD Sum Insured	15% cover over and above BLD Sum Insured	15% Cover Included up to Bld Sum insured
Public Liability	\$10,000,000	\$10,000,000	\$10,000,000
Office Bearers	Not Selected	Not Selected	Not Selected
Voluntary Workers	\$200,000	\$200,000	\$40,000
Fidelity Guarantee	\$100,000	\$100,000	\$50,000
Machinery Breakdown	Not Selected	Not Selected	N/A
Catastrophe	30% Cover included over and above BLD Sum Insured	30% Cover included over and above BLD Sum Insured	30% Cover Included up to Bld Sum insured
Government (Tax) Audit Costs	Included (Body Corporate Entity Liability)	\$25,000	No Cover Available
Appeal Expenses	No Cover Available	\$100,000	No Cover Available
Legal Defence Expenses	Included (Body Corporate Entity Liability)	\$50,000	No Cover Available
Lot Owners Fixtures and Fittings	No Cover Available	\$250,000	No Cover Available
Body Corporate Entity Liability (Legal Defence Costs & Taxation Audit Costs)	\$100,000		
TERRORISM	INCLUDED (For Buildings with a Building Sum Insured of Under \$50,000,000)	INCLUDED (For Buildings with a Building Sum Insured of Under \$50,000,000)	NOT INCLUDED
FUSION	Unlimited	Cover up to 5kw	Cover up to 4kw

Schedule of Insurance

Class of Policy: Residential Strata			
[REDACTED]		[REDACTED]	

Basic Excess	\$200.00	\$500.00	\$100.00
Other Excess			\$200 Water Damage Excess (caused by leaking or burst pipes); \$250 additional excess owing to claims history and \$300 earthquake excess.
Named Cyclone Excess		\$10,000.00	
ANNUAL PREMIUM	\$26,995.97	\$19,963.26	\$10,723.55

SPECIAL TERMS AND CONDITIONS

Alternate quotes are subject to any current embargo being lifted by the insurer prior to renewal date and confirmation there is no existing flood damage to the building.

ADDITIONAL COVERS

The Body Corporate do not have cover for the following contingencies:

- Machinery Breakdown – Quote – Subject to survey of Building
- Office Bearers Liability - \$1,000,000.00 (Min Recommendation)

John Gribbin Realty receive 10% of the base premium from Body Corporate Brokers as payment for placement of this policy.

General Advice Warning

As outlined in our Financial Services Guide, we have not taken into account your financial situation, objectives or needs and accordingly you should consider our recommendations in light of your own situation. We also recommend that you consider the Product Disclosure Statement, before making any decision.

IMPORTANT INFORMATION

Note 1.The information detailed on this invoice relates solely to the insurance requirements of the Body Corporate and no other insurance product.

Individual unit owners should make separate enquiries to protect their assets and liabilities. Please contact this office should you require any further insurance product.

Note 2.This policy **DOES NOT** provide cover for Flood.

Note 3. This insurance contract is based upon representations given to us by you. If any particulars are incorrect, have changed, or will change, please notify us immediately. The Insurer reserves the right to revise terms subsequent upon any changes and rely upon the remedies allowed to the insurer under the non-disclosure and/or misrepresentation clauses contained in the policy document.

The above information is a brief summary of the protection provided. Refer to your current Policy wording for full terms, conditions, exceptions and limits relating to the cover taken.

- (b) The ability of insurers to price risk and the availability of accurate data to allow for this;

Submission

The major impact is focussed on the latest flooding and cyclonic events. These make big headlines however the largest insurance payout to date as I understand it is a result of the Sydney storm and hail damage I think in 1999 for example. Thus I would make the following points which are not taken into account:-

- Storm and tempest risk pricing needs to include subtropical areas which are also impacted by severe storms in densely populated cities.
 - Buildings in subtropical zones have much lower building codes and are more susceptible to storm damage
 - The residents in tropical cyclone areas are bearing the full brunt of others losses
 - This situation is inequitable for cyclone zones and insurance premiums in subtropical areas are pretty much unchanged
 - The tropical cyclones can extend much farther south than many people think
- (c) The extent to which there is a failure in the insurance market for residential strata properties either generally across Northern Australia or in some regions in particular, for example due to a lack of competition between insurers;

Submission

The evidence in the table of quotations is plain to see. The approach of Insurance companies [and their subsidiaries] to pick and choose zones and insurance types is akin to collusion. The analysis of which companies and subsidiaries will insure which types of risk and zones is far too complex for an individual to make. A case in point is ██████████ which was once ██████████ will not now insure strata title.

- (d) Whether consumer awareness of different insurance options should be enhanced;

Submission

Nil comment except to say I am highly aware I am being gouged both by insurance companies and flat taxes on the premiums.

- (e) The extent to which the nature of body corporate arrangements are contributing to affordability difficulties;

Submission

There is nothing I know of in our arrangement which adds to risk and thus such exorbitant premiums.

- (f) Whether the conclusions regarding (a)-(e) provide justification for government intervention in the residential strata insurance market, noting the existing responsibilities of Commonwealth, state and local governments, for example

the Commonwealth Government has responsibility for insurance regulation under the Insurance Act and the Insurance Contracts Act and competition and consumer regulation under the Competition and Consumer Act; and

state governments (and local governments where appropriate) have responsibility for strata title legislation, building regulation, land use planning regulation and specific state government interventions in insurance markets (for example home builders warranty insurance, compulsory third party insurance).

The Inquiry should have regard to the following principles:

Individuals and businesses should be encouraged to insure themselves where practicable.

Submission

- I agree with the principle that individuals and business should insure themselves – otherwise the moral hazard and subsequent costs to the public purse are unaffordable
- The data supports the case that insurance companies picking and choosing insurance and zones is causing market failure in specific zones only – if government reinsurance is necessary it should only be paid out where individuals have attempted to insure themselves
- Government flat taxes are adding substantially to the pain of the increased premiums
- If the above proves unviable, the alternative is to create another Government Insurance Office as per the QLD SGIO.

Government intervention in private insurance markets is justifiable only where, and to the extent that there is clear failure by those private markets to offer appropriate cover.

- Residential strata (or community) titled properties have a body corporate (or owners corporation, strata company, community association or similar arrangement) holding property on behalf of individual owners. The exact legal form varies with state and territory legislation. Bodies corporate are unlimited liability entities, with individual owners having a joint and several, unlimited liability to the body corporate. These properties can take a number of forms, from duplexes to gated communities to small and large apartment buildings. Individuals own a portion of the property (a lot) and there is also common property, of which ownership is shared.

Submission Summary

The impact of the insurance premium increases is not only a very serious direct affordability impact along with other price increases in power, rates etc., it also affects land values, rental returns and development in the north – it is also a drag on general growth. It is also totally inequitable compared with risks and premiums of others.

Yours sincerely

John Shepherd

