Supplementary submission no. 387 A

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It's a pleasure to welcome you and your staff here to Cairns during the cyclone season, and to assure you that you are not in any danger. I've calculated that, on average, Cairns has a cyclone every 6.3 years so you would probably need to stay here for quite a while to experience any cyclone threat.

Cyclones are a manageable feature of our natural environment, as are the tsunamis, earthquakes, volcanoes, tornados, the rivers and streams breaking their banks because of heavy rain or melting snow, bushfires and hail storms that occur around the world. If a cyclone causes damage we rebuild — usually to a better standard than before — and get on with our lives.

It seems that the insurance industry only remembers the most recent history without properly researching the past to identify the risks.

It's notable that a cyclone caused the Brisbane River to flood in March 1890, and then there were another 5 cyclones that caused damage in Brisbane between 2 January 1892 and 17 February 1893. That's 6 cyclones in Brisbane in less than 3 years, including 5 cyclones in a period less than 14 months.

Then another cyclone crossed east of Brisbane one year later. That's 7 cyclones in Brisbane from March 1890 to February 1894 — 7 cyclones in Brisbane in less than 4 years.

Then again from January 1947 to March 1955 there were 9 cyclones in the Brisbane area (not including the one in January 1948 that passed east of Brisbane). That's 9 cyclones causing damage in southeast Queensland in less than 9 years.

And another 4 cyclones in that area between January and April 1967 — 4 cyclones (named Dinah, Barbara, Elaine and Glenda) in the Brisbane area in less than 3 months!

Then from 1971 to 1974 there were 5 cyclones causing damage in the Brisbane area (named Dora, Daisy, Wanda, Pam, and Zoe), 3 of those between January and March 1974.

This pattern of years without cyclones in Brisbane followed by a sudden high frequency of destructive cyclones is probably linked to cyclic climate change such as ocean temperatures and currents.

Will this pattern occur again in Brisbane? Certainly it will. Will the cyclones occasionally reach as far south as Sydney? They surely will. Are Brisbane and Sydney north of the 26th parallel? No.

The insurance industry has postulated that it is a simple solution of increasing our claims excess so that our premiums will be reduced.

If we were to increase our excess to something like $500 per apartment, then we would probably need to establish a separate fund to finance the excess because the budgets for our administrative fund and sinking fund do not provide for a contingency of this magnitude.

The insurance industry is arguing that unit owners should be carrying insurance costs that are equivalent to standalone houses, without making a case why this should be so. As we have to accept the burdens of shared ownership of properties — such as trying to get other owners to agree on expenditure and priorities — we should also expect some benefits of our community title over standalone title through the pooling of expenses such as insurance.

As another unit owner put it, we have three dwellings under each roof, and therefore we should each share one-third of the risk of the roof being damaged during a cyclone.

By the way, standalone houses would generally be much more susceptible to some natural perils such as bushfires and flood damage than a strata titled property. Has there been a blowout in natural perils reinsurance for dwellings in the tree-change belt as a consequence of bushfire damage over the last few years?

With the magnitude of annual increases in premiums that we are experiencing, changes to rates of GST and stamp duties on policies would only be fiddling around the margins, having a negligible impact in the medium to long term.

The Insurance Council of Australia has contended in its submission that "Unlike home insurance, where no detailed examination of property condition is undertaken, Strata insurers tend to know a significant amount of information about the facility they are being asked to insure. There is no present lack of knowledge or absence of data that is causing an increase in premiums." Our insurer has contended that there are strict licencing requirements for insurance brokers to ensure they consider the customer's needs and offer solutions appropriate to their circumstances.

Our insurance broker is located on the Gold Coast and I received an email message today from the brokers stating: "we do not do on site examinations of the property, this aspect of your risk is undertaken in accordance with Workplace Health and Safety Requirements and suitably qualified professionals are engaged in this regard." The broker did indicate however, that they are happy to meet on site and discuss the Body Corporate Insurance Program with our Body Corporate Committee.

I have been a member of the Body Corporate Committee for more than 3 years and we have recently found it extremely difficult to get advice to confirm whether or not the depth markers around our swimming pool meet the unnamed standards referred to in our current insurance policy.

We have not had any meetings with the broker during the time since I became a member of the committee.

The insurance industry is arguing passionately against government intervention in the market, on the grounds that such intervention to cushion property owners like myself from "difficult structural adjustments" such as going to live elsewhere is counter-productive. I suggest that this argument is ironic considering that less than 4 years ago the insurer AIG was the beneficiary of the largest government bailout of a private company in U.S. history.

The insurers' argument that we should not receive any support in the face of economic pain reminds me of the recession that we had to have, only this time it's real estate market turmoil that insurers reckon we need to have, with all of its consequences for our economy.

Insurance is fundamentally a measure where we choose to intervene and pay for protection from financial calamities, instead of merely accepting the dire consequences when adverse events occur. The insurance industry could not function without government intervention in the market including tight regulation to give us certainty that future claims will be honoured.

Insurers who argue against intervention in the market are denying the fundamental principles which are the foundation of their industry.

It seems we are at the mercy of a market for reinsuring against natural perils — and that this is an international market with its key features being rising prices and limited capacity — and that this market is having a catastrophic effect on our economy here at home. Perhaps we need a national natural perils reinsurance scheme.

It would be interesting to know how the natural perils reinsurance market functions, considering that annual policies become due for renewal on random days throughout the year. How reactive are the prices in this market? Are the international prices for natural perils reinsurance as transparent as the international price for oil, for example?

Insurers are arguing that the rapid rises we have recently seen in our premiums is due to blowouts in the price of reinsurance for natural perils, with the component for reinsurance and catastrophe costs now as high as 28% of a premium. Their contentions would have more credibility if they were able to be supported by data from three years ago showing that this component was only about 2% back then. The insurers have chosen not to present much historical data that would surely have enlightened the committee and made the insurers' case more convincing.

If the market for residential strata insurance is not flawed then we would not be able to find glaring inefficiencies in the market, because active competition between insurers would surely favour the efficient suppliers, and insurers with inefficient practices would be eliminated from the market. An insurer that was not taking adequate measures to contain costs would be inefficient.

An efficient insurer would not offer an exorbitant increase in commissions to a broker when such increases cannot be justified. But our insurer is offering to increase payments to the brokers at the same rate as natural peril reinsurance because the brokers are being offered a commission being 20% of the total premium. Has the broker incurred an increase in costs that would justify an exorbitant increase in fees? No.

An efficient insurer would be working with their lawyers to find ways to encourage competition among brokers to contain their distribution costs and commissions, for example, couldn't they (the insurers) insert conditions in their terms so that they would remain open to offer the same terms to other brokers, and allow the brokers to compete on the basis of the fees they would charge?

In late 2010 we mistakenly believed that if we obtained a quote directly from the insurer then we would get a much cheaper quote because there would be no commission payable to the broker. What the insurer did though, was to add the 20% commission (about $12,579 + GST) onto our premium — with no option to discount it — on the basis that the insurer needed the extra 20% to do everything that the broker would have done. Meanwhile the broker elected to take a flat fee of $10,000 + GST instead of the 20% commission.

This action by the broker somehow resulted in a reduction of more than $1,000 in stamp duty. So the broker was able to take a $10,000 + GST fee and still offer us the same policy from the same insurer that was $3,875 cheaper overall than what the insurer offered directly to us.

In 2011 the insurer offered a 20% commission to the broker, however the broker opted to accept a 10% commission, which resulted in a saving to the body corporate of just over $10,000 per year.

The broker has informed me that the commission paid to our body corporate manager for the placement of the renewal was an amount approximately equal to 45% of the commission received by the broker.

Appraising risk involves a combination of both the likelihood of an adverse event occurring, and the consequences if it occurs. Insurers have highlighted the need to review building codes to improve building durability to counter the high consequences of water ingress during periods of sustained wind and rain that occur with a cyclone — but what is the likelihood of water ingress, especially when no potential glass-breaking missiles have been left outdoors at our property? If the likelihood is low then the overall risk of water ingress at our property would be low or perhaps moderate, depending on the suitability of our door and window seals.

As the emergency services recommend that we leave one window open to equalise the air pressure inside and out during a cyclone, I'm wondering what benefit would be achieved by changing building codes to prevent water ingress when water is most likely to enter through the open window. I left our bathroom window partially open during Cyclone Yasi because it was the bathroom that was least likely to be damaged by water ingress.

It's fairly common precautionary practice for building occupants to apply masking tape on their windows and glass doors when there is a threat of a cyclone, so that if a missile does break the glass, the tape will bind the glass together to avoid shattering that would leave an opening.

Taping up glass doors and windows is not mandatory, and neither is it a condition of our insurance policy, even though the insurer's submission is contending that water ingress through broken glass windows and doors is a high threat. The tape adhesive tends to leave ugly stains on the windows if it is not removed immediately after the cyclone has passed, and I would welcome a type of taping product that is more suitable for temporarily binding glass (say, for a period of 4 or 5 days), and which can be easily removed without leaving any adhesive stains.

I recommend that you consider the feasibility of residential strata properties engaging professionals to prepare cyclone management plans that primarily focus on limiting damage by listing the action that occupants and onsite managers should take to support the durability of the buildings immediately before, during and after a cyclone.

There may be a positive reaction from reinsurers if adherence by occupants to those cyclone management plans were incorporated into the by-laws, and reinforced by emergency services personnel being legally empowered to take action as they see fit to implement the plan if a cyclone is imminent.

Insurers have argued against intervention in the market, believing instead that more competition will solve the problem, but they have not offered any strategies to get more insurers into our market. How can they be believed when the trend is going the other way, with most insurers having withdrawn from the market?

A major factor affecting the natural perils component of our premiums is the cost of settling claims. The insurance industry has provided little information about what strategies are being implemented to contain the costs of repair and restoration works. Are they implementing plans to ensure that contractors don't profiteer when there has been a natural disaster?

I have met people in the building industry who are convinced that insurance fraud is the major reason for increasing premiums in far north Queensland, as a consequence of claimants receiving a cash settlement for damage after one cyclone, and then reclaiming for the same damage after the next cyclone.

Our property has 8 residential buildings (each of 3 storeys) containing a total of 96 good quality strata titled residential units. Our property was constructed as stage 1 being one-half of the overall Trinity Links complex, and we don't have any commercial activities on our property. The majority of the apartments are rented, with some holiday lett and the remainder owner-occupied.

Two of the buildings house 18 dwellings each, another 4 buildings each house 12 dwellings while there are 6 dwellings in each of 2 more buildings. On-site amenities include carport and garage spaces, a large lagoon-style swimming pool, a spa pool, tennis court, barbecue, and putting green. This density would not significantly magnify the costs of temporary accommodation to tenants in the event a building is temporarily uninhabitable.

Our property is at White Rock which is not a cluster area for residential strata buildings, therefore we have avoided exacerbating the concentration of risk. When our proximity next to the golf course is taken into account, there would be a low concentration of risk for insurers.

Our complex is zoned Residential 3 with a density not exceeding 300 persons per hectare. There are a couple of large vacant blocks nearby, as well as some blocks of land with buildings, all of these allotments are zoned either Residential 2 (not exceeding 100 persons per hectare) or Residential 1 (not exceeding 70 persons per hectare).

We are not near any ocean frontage, we are actually located about 8 kilometres by road from here, heading east then south, and we are not on a hillside that would expose us to severe cyclonic winds.

As far as I am aware, we don't have high-value plant and equipment used for the provision of services (water, electricity, air conditioning etc) in any central locations that would significantly add to the cost of repairs, and our policy does not provide cover for flood.

We have on-site managers who have received cyclone planning training organised by emergency services personnel, and preparations including removing all outdoor items that might become wind-borne missiles are implemented whenever our city is in the forecasted path of a cyclone.

I suspect that our insurer has, for its convenience, grouped our property in with other properties that have much higher risk characteristics, and that our premiums are not a true reflection of our actual risk profile.

We carefully consider our excess, the cost of repairs, and the possible impact on future premiums before lodging an insurance claim. After Cyclone Yasi we had trees and large branches strewn across much of our carpark but no claim was lodged.

The risk exposure for the insurer is summed up in our claims history, which quantifies the cost of every past claim including cyclonic damage.

As I have noted already, we get a cyclone on average once every 6.3 years, and as our claims history spans a period slightly more than 13 years, it would encapsulate much of the accumulated risk. The claims history provided by the broker shows that there are no outstanding claims, and we have had only 19 claims over the past 13 years, the total amount paid for all claims is $70,415. The latest claim was lodged in March 2009.

As the chart reveals, there was a spike in the amount paid to settle the claims — this settlement of $46,389 was actually a public liability claim from a member of the public who fell down some stairs, and the exposure to this risk is no higher in our region than it is in Brisbane, Sydney, Melbourne or Perth.

Why then are we paying in the order of $96,000 per year for our insurance, especially after our broker has given us a discount of more than $10,000 on their commission? 96.4% of the premium relates to buildings only.

We have a market with guaranteed demand but only one supplier. This is a flawed market because there is no competition determining price on the supply side.

We need a scheme similar to the Territory Insurance Office to help us obtain insurance at a reasonable price.

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