

Date : 11 January 2012

To: the House of Representatives Standing Committee on Social Policy and Legal Affairs

Re: Submission into the inquiry into residential strata title insurance

Confidentiality request :
Please do not publish personal addresses, contact details and last names.

This document was prepared and sent on behalf of the below persons who currently comprise the Body Corporate committee for [REDACTED] QLD :

Property description :

The property [REDACTED] is located at [REDACTED]. It is 5 years old – it was built in 2007 and comprises of 32 lots. The complex consists of 2 bedroom and 3 bedroom units & townhouses (some with garages and others with carports) and a small communal pool.

The complex is valued at over [REDACTED].

Insurance costs - summary :

Insurance cost Oct 2010 – Oct 2009	\$14,161.00 per annum
Insurance cost Oct 2011 - Oct 2012	\$52,564.00 per annum

This is a 370% increase from 2010 with an expected increase of another 30% when renewal is required in 2012. **This would mean an approximate increase in insurance costs of 500% within 2 years.**

DETAILS : issues with insurance renewal , costs, availability

In 2011, the Body Corporate for [REDACTED] experienced a significant and unexpected increase in their insurance renewal for the Body Corporate building insurance.

In 2010, the Body Corporate paid \$14,161.22 for their insurance premium for Body Corporate with [REDACTED]

The Body Corporate budgeted in 2010 for their 2011 renewal in the amount of \$15,454.55 as they were expecting a normal increase in their insurance premium in the following year.

However, when the renewal for the period 08.04.11 to 08.04.12 was received, [REDACTED] quoted a renewal price of \$56,867.54. An alternative quote was provided by [REDACTED] for \$49,977.14. As the Body Corporate did not have sufficient funds to pay the full 12 month premium, it accepted the quote from [REDACTED] for a six month period for \$25,172.19.

After the six month period lapsed, when the renewal for the period 08.10.11 to 08.10.12 was received, the renewal amount was \$52,564.71. This was an increase of \$37,110.16 above what was expected when the budget for insurance was approved by the Body Corporate. The broker recommended against renewing for a further six month term as this would subject the Body Corporate to further increased premiums every six months. The broker has now advised that [REDACTED] no longer offers six month renewal terms.

Consequently, as a result of the Body Corporate having insufficient funds in their bank account to pay the premium outright, the Body Corporate was required to enter into a premium funding arrangement with [REDACTED] at a rate of 8.93% to enable the Body Corporate to make monthly payments. This increased the renewal by a further \$4,695.97 to \$57,260.68. The Body Corporate owners will now be required to raise a special levy to ensure their Administrative Fund remains in debit to ensure they can continue to pay their monthly insurance premiums plus their ongoing regular expenses such as gardening, pool cleaning etc.

Pursuant to the Body Corporate and Community Management Act, Section 178 states that the Body Corporate must insure for full replacement value the common property and the Body Corporate assets. Therefore, it is a mandatory requirement that the Body Corporate remain insured, despite the financial burden this is placing on owners.

The owners are now required to pay \$1,657.50 to \$2,275.00 per annum for insurance. Previously, the owner's contributions towards the insurance were \$410.55 to \$563.50 per annum. (This being dependent upon the different interest schedule entitlements of the units).

At the time of receiving the quote for renewal of insurance, the Body Corporate broker did attempt to obtain alternative quotes. However, there are now a limited number of insurers who will insure in this region. Other insurers in the region will not insure unless certain requirements are met i.e. building sum insured falls under \$5,000,000.00. [REDACTED] and [REDACTED] declined to quote due to the location of the building. [REDACTED] declined to quote as the building sum insured for the Body Corporate property is \$9,915,621.00.

Our Body Corporate Manager approached [REDACTED] to enquire if a quote could be obtained from them. However [REDACTED] advised that they do not insure buildings of this size. Therefore, the Body Corporate had no alternative than to accept the quote from [REDACTED] to ensure that they complied with the Body Corporate legislation and insured their building to protect their asset.

Ramifications of cost increases to the owners :

As an investor : the attractiveness of owning a strata titles unit diminishes when the costs increase by such a huge percentage. Although the insurance is able to be tax deducted it still makes the property less attractive to buyers who would have to find the extra money during the tax year.

As an owner occupier : this is the group hardest hit by the increase in insurance costs as there is no way to reclaim the cost. Cost of living for owner occupiers increases by hundred of dollars a quarter and these large increases would be unexpected and unbudgeted. The effects of this financial stress would influence not only the owners but also the local businesses, trades and services that they support.

Comment on the insurance schedule :

Even though owners are paying an exorbitant increase in the premium it still does not cover flood which is very closely associated with cyclone events. There is an excess of \$10,000 for all named cyclone claims. It is unclear from the schedule whether this is an excess which is applied per claim per event in addition to our extremely high premiums and thus raises our concerns of continued financial strain (especially for owner-occupiers), equitability & ethics.

Time issues :

Insurance renewal was due 8th October 2011 and the Body Corp committee was informed of the issues being faced by the Body Corp manager in obtaining quotes on 23rd Sept 2011.

Anecdotal – a committee member was told by a broker that insurance companies do not like to provide quotes earlier than one month prior to insurance renewal dates. This adds to timing issues when the Body Corporate manager has to locate quotes, advise the committee of the results and then await the appropriate responses. Any delays in this process, such as arranging finance, could result in property being uninsured.

Most Body Corporate committee members are employed full-time and have family and lifestyle commitments. The management of Body Corporate issues can be time consuming and requires expertise in the field which is why a Body Corporate manager is usually employed. However, when large and unexpected increases in budgeted costs occur this causes additional stress to the committee members and poses time management constraints on all involved.

An often overlooked issue is the time spent by owners and committee members in order to understand complex issues in a field such as insurance where they have little or no expertise, knowledge or education.

Education/knowledge issues :

Insurance is a very complex and often confusing field and has been proven time and again to be difficult for non-experts to interpret. Being involved in a Body Corporate committee does not mean that members have the expert education and/or the relevant knowledge to be able to interpret complex legal documents with regards insurance, legal liability etc or the knowledge to ask relevant

and pertinent questions of the strata management companies and associations and rely heavily on the integrity and knowledge of strata management companies and associations for guidance.

General Comments :

- Cost of insurance is based on the replacement value of the entire property yet most new properties these days are built to comply with building codes and standards to withstand cyclones. The cost of insurance does not reflect that fact that if there is damage to a complex it is unlikely that it will require the whole complex to be rebuilt.
- There are no discounts available for complexes that are built to codes and standards.
- The cost of insuring a two-bedroom unit in a strata titled complex is more than the cost to insure a house in the same location.
- As strata insurance is required by law there is have no recourse but to pay what the only insurance company who will insure the complex is charging. There appears to be little justification for the situation strata owners now find themselves in which seems to be grounded in the lack of competition in the insurance industry combined with the industry's willingness & ability to exploit the situation.
- Selling properties is usually not an option in a depressed market, and, even if units were to be able to be sold, prospective investors would still face the same issues elsewhere in Australia, and especially in Qld, in any complex valued over \$5 million.
- Far North Queensland is not a large population yet strata owners are paying disproportionately exorbitant insurance premiums. Also, due to the size of the population, Far North Queensland is likely to be under-represented in this issue and is highly likely to be sidelined in any findings.

For, and on behalf of, the aforementioned persons :

Stephanie 