

Committee on Social Policy and Legal Affairs
House of Representatives
PO Box 6021
Parliament House
Canberra, ACT, 2600

26 January 2011

RE: Affordability of Residential Strata Title Insurance

To Whom it May Concern,

Please accept the following as a submission to your inquiry into the affordability of residential strata title insurance.

In 2008 I purchased a townhouse located on [REDACTED], Townsville, QLD. As a single person a full sized house was not affordable given the state of the market at that time, and even then the mortgage consumed a very significant portion of my income. To a lesser extent it still does, though I had to move away for work and I now rent out the property.

At the time of purchase I did some careful research into the likely natural hazards that may have affected the townhouse given its subtropical, coastal location, and my selection of building to purchase was in part decided by its resilient construction methods and location outside areas with a history of storm surge inundation. I also did some background checks on the Body Corporate arrangements and costs, and the breakdown of those costs.

In 2007/2008 Body Corporate charges were in the order of \$1100 to \$1150 for a six monthly period. By 20010/11 these had increased about 15% to roughly \$1300 per six months. Initially I believed an increase of about 5% a year was a little expensive, though council rates increased by a similar magnitude so there was some justification for this.

In the 2011/2012 financial year Body corporate charges suddenly jumped to over \$2100 per six months. I was unimpressed by the increase and demanded a justification from my Body Corporate managers [REDACTED] and they provided AGM financials which showed that insurance costs have increased 100% this financial year. The [REDACTED] representative claimed the insurance cost increases were a result of Cyclone Yasi.

Unfortunately the actual outcomes of Cyclone Yasi do not justify a premium increase. None of the townhouses in my complex suffered any damage from cyclone Yasi. The buildings are built of cement blocks with cement floors and have wide eaves with security screens that protect the windows. There are no large trees on the property that might fall over. The floor RL was 6m above the highest point in the storm surge. The location and construction of the buildings is clearly intended to reduce the risk of damage from tropical storms and the outcome from Cyclone Yasi demonstrated that these design features were effective. So why is an insurance company increasing their premiums by 100% on a property that is clearly not at risk of damage and that doesn't have a history of making claims?

I requested that [REDACTED] provide me with evidence that they have considered changing insurance providers, because the current provider is clearly ripping us off. Their response was that they had already changed from [REDACTED] to [REDACTED] last year after [REDACTED] threatened a 600% increase in premium.

Unfortunately as a property owner there doesn't seem to be much I can do about the body corporate costs I am required to pay. I am legally obliged to be part of the body corporate; it's very expensive and getting significantly more expensive – primarily due to insurance costs - without any real justification, and the only way out is to sell up. Selling isn't particularly attractive because the market has dropped about 10% in the last few years, so I'd be making a loss on the property and given the current bubble in the Australian residential property market this situation is unlikely to change in the near future. There doesn't seem to be any real competition in the insurance market, or for that matter in the body corporate market. Additionally, the system as it currently stands acts as a disincentive to sustainable building design, punishing those that choose to purchase buildings designed for local environmental conditions by failing to price in their reduced risk of claim. In the long term the only people winning from such a situation are the shareholders of insurance companies.

Regards,

James Horan

Current resident of:

[REDACTED]

Former resident and owner of:

[REDACTED]