

## **In the Wake of Disasters**

### Volume Two: inquiry into the affordability of residential strata title insurance

#### **Report Summary**

On Wednesday 21 March 2012, the Social Policy and Legal Affairs Committee tabled its report on the inquiry into the affordability of residential strata title insurance.

During the course of the inquiry, the Committee received submissions from 431 individuals and organisations. The Committee travelled to north Queensland and held public hearings in Port Douglas, Cairns and Townsville. In addition the Committee held a videoconference with residents in Mackay and a further public hearing in Canberra.

The report considers the issues that were raised in the submissions to the inquiry and in evidence received at public hearings. This summary provides a brief outline of the report and the recommendations of the Committee. The full report is available at [www.apf.gov.au/spla](http://www.apf.gov.au/spla).

#### Regulating, Pricing and Taxing Risk

Chapter Two sets out the legislative and regulatory framework for residential strata title insurance, examines the magnitude of premium increases and the associated impacts and community concerns, and discusses the additional cost impost of Stamp Duty and Goods and Services Tax (GST).

The Committee found that Body Corporates are regulated by a range of Australian Government, state, territory and local government laws and regulations, which can be confusing to consumers. The Committee also found that Strata insurance costs were increasing at unsustainable levels and were having severe

financial, psychological and social impacts on many people.

#### Decreasing Risk and Increasing Market Competition

Chapter Three examines the evidence the Committee received in relation to the reasons for recent strata insurance price increases. The Committee found that a range of factors that were suggested as contributing to premium increases, including: the rising cost of reinsurance, an elevated pricing of risk, characteristics of residential strata title schemes that make them more costly to insure, and a lack of competition in the residential strata title insurance market in north Queensland.

The Committee heard contradictory evidence from insurers on the pricing of risk, and had serious concerns about the capacity of the industry to accurately and adequately price risk.

#### Improving Transparency, Flexibility and Choice

Chapter Four examines additional community concerns that were expressed to the Committee during the inquiry, and found scope for improvement in the operation of intermediaries (including strata managers and brokers) in the negotiation of insurance contracts and the commissions they charge, the nature and role of property valuations and claims history in assessments of risk, and flexibility in negotiating insurance arrangements, including excess levels, insured value and choice in what is insured.

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#### **Recommendations**

The report makes 9 recommendations, which call on the Government to strengthen the regulatory frameworks for Body Corporates, examine the methodologies for the assessment and pricing of risk, increase transparency in all strata insurance cost components, and raise consumer awareness of their rights and responsibilities.

The recommendations call on the Australian Government to:

- work with the Queensland government to initiate a moratorium on stamp duties paid on strata insurance premiums north of the Tropic of Capricorn for the 2012-13 financial year, to be reviewed and extended if necessary,
- investigate the risk assessment methodologies used by insurance companies to price risk for strata insurance coverage,
- investigate the reasons for the lack of competition in the strata title insurance industry in north Queensland, and take appropriate action if required,
- investigate whether there is evidence of improper or anticompetitive behaviour taking place in the negotiation of strata insurance via managers and brokers, and take appropriate action if required,
- improve resources available to consumers to better equip them in the management of strata title affairs, and
- conduct a comprehensive review of strata title laws and regulations to increase flexibility in the choice of insurance arrangements for consumers and increase transparency in the disclosure of commissions and fees.

The Committee has urged the Government to respond to its recommendations by announcing a plan of the necessary reforms it will undertake by 1 December 2012.

***The full recommendations are available in the report at [www.aph.gov.au/strata](http://www.aph.gov.au/strata).***