
Monday 16 January 2012

Mr Andrew Hayes



Mr Graham Perrett
The Chairman
House of Representatives Standing Committee on Social Policy and Legal Affairs
Inquiry into Residential Strata Title Insurance Northern Australia
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Parliament House
CANBERRA ACT 2600
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Dear Mr Perrett

SUBMISSION: INSURANCE REVIEW RESIDENTIAL STRATA TITLE INSURANCE

1. INTRODUCTION.

This submission has been prepared by Mr Andrew Hayes of [REDACTED] Far North Queensland and is submitted to the House of Representatives Standing Committee on Social Policy and Legal Affairs (committee) which is conducting an inquiry into the affordability of Residential Strata Title Insurance particularly in Northern Australia and factors influencing this class of insurance.

2. BACKGROUND.

Residential Strata Title Insurance is a class of insurance that applies to unit/apartment complexes. It generally covers building and common contents, as well as legal liability, fidelity guarantee, personal accident and office bearer's liability. The annual premium for a unit complex is issued to a Body/Owners Corporation and is subsequently proportioned to each individual unit holder for payment.

In recent years there have been excessive increases in premiums, and limited availability of cover in relation to residential strata title insurance for the FNQ region.

Specifically with regards to the FNQ market, the lack of competition by the insurance industry as well as its anti-competitive behaviour in providing residential strata title insurance has resulted in **PRICE GOUGING** with spiraling increases in premiums for this class of insurance in this region. This situation is having a severe impact on unit owners, residents, businesses and the community.

This unfair and unsustainable situation in FNQ has become untenable for many unit owners in this sector of the housing market. It has become such a major issue in this region that it is impacting on the affordability of units and apartments in the region, rental levels, unit valuations and prices, current and future investment in this type of accommodation and ultimately jobs in building and constructing new units and apartments.

In short given the extremely difficult economic conditions of FNQ, this market **SIMPLY CAN NOT ABSORB** the soaring increases in premiums – *for the unit sector this situation is detrimental to the affordability of home ownership for units and apartments, rental prices and current and future investment in unit housing stock.*

3. ANTI-COMPETITIVE BEHAVIOUR - DRAMATIC INCREASES IN PREMIUMS.

My wife and I own a 3 bedroom unit located at [REDACTED] which is a 3 story complex consisting of 18 units. In recent years we have experienced dramatic increases in premiums for residential strata title insurance for this complex. This situation and trend is clearly demonstrated by the following table:

Year	Insurance Premium Amount \$	Amount paid per unit owner	Increase Amount \$	Percentage increase %
2005/2006	\$5433.74	\$301.87		
2006/2007	\$5541.00	\$307.83	\$107.26	1.97%
2007/2008	\$6753.34	\$375.18	\$1212.34	21.87%
2008/2009	\$8515.61	\$473.08	\$1762.27	26.09%
2009/2010	\$8864.16	\$492.45	\$348.55	4.09%
2010/2011	\$14,947.58	\$830.42	\$6,083.42	68.63%

*2011/2012	\$58,374.15	\$3,243.00	\$43,426.57	290.52%
**2011/2012	\$37,111.86	\$2,061.76	\$22,164.10	148.27%
***2011/2012	\$15,237.69	\$846.53	\$290.11	1.9%
****2012/2013	\$52,000	\$2906.47	\$36,762.31	241.25%

* [REDACTED]

** [REDACTED]

*** *Advice given about the expected premium for 2012/2013*

NB: Above amounts GST inclusive

NB: No flood cover

For this complex, in 2008/2009 the insurance premium increased from an amount of \$6753.34 to \$8525.61. This equates to a **26.09 % INCREASE**. While there was some relief in 2009/2010 with a 4.09% increase in premium. However for 2010/2011, the insurance premium for the unit complex increased from an amount of \$8864.16 to \$14,947.58. This equates to a **68 % INCREASE**.

A comparison of the premiums offered for the 2010-2011 period by the insurance companies are as follows:

Company	Quotation provided: Insurance premium amount for 2010-2011
[REDACTED]	\$14,947.58
[REDACTED]	\$17,462.61
[REDACTED]	\$20,142.68

However in 2011/2012 we were warned to expect a substantial increase in the residential strata insurance premium for the unit complex. The Body Corporate Management Company provided the committee with two quotations for residential strata title insurance. [REDACTED] provided a quote for which was for an amount of \$58,374.15, which translated to an increase of

\$43,426.57 – an increase of **290.52%**. The second quote from [REDACTED] was for an amount of \$37,111.86 or an increase of **148.27%**.

The body corporate management committee decided to opt out and sourced its own insurance. Queensland Underwriting Solutions provided a quote for which was for an amount of \$15,237.69. This quote was accepted by the management committee which translated to a modest increase of **1.9%**.

A comparison of the premiums offered for the 2011-2012 period by the insurance companies are as follows:

Company	Quotation provided: Insurance premium amount for 2011-2012
* [REDACTED]	\$58,374.15
* [REDACTED]	\$37,111.68
[REDACTED]	\$15,237.86

*NB: * Includes GST, Stamp Duty and broker fee.*

However as [REDACTED] has withdrawn from the FNQ market, the residential strata title insurance premium for this unit complex is expected to increase dramatically for the year 2011-2012 – as much as 240%.

As of 15 December 2011 for unit/apartment complexes with a building value greater than \$5 million and a complex that is not part of a national hotel chain, there is now **ONLY ONE INSURER PROVIDING RESIDENTIAL STRATA TITLE INSURANCE IN THE FAR NORTH QUEENSLAND REGION.**

4. ANTI-COMPETITIVE BEHAVIOUR – LACK OF CHOICE AND RANGE OF POLICY CLASSES OF INSURANCE.

The monopolistic conditions in this region with few insurance firms are driving up premiums to unreasonable and unaffordable levels, but it is also leading to a very limited range and choice of insurances products and classes.

In FNQ in the unit/apartment housing market, it is extremely difficult if not impossible to obtain an insurance policy which covers floods. This class of insurance is simply not offered by the few insurance companies that offer insurance for the unit/apartment complexes. As a result flooding is not covered for most of the unit/apartment complexes in this region and this is of a major concern particularly given the recent weather conditions and flooding that has occurred in Queensland.

We also simply can't get flood cover.

5. REINSURANCE

Reinsurance is an insurance company's insurance.

Insurance companies (*insurer*) purchase reinsurance from another insurance company (*reinsurer*) which is a means of risk management. The main reason for insurers to buy reinsurance is to transfer risk from the insurer to the reinsurer.

By transferring some of the risks they assume, insurers can reduce risk concentrations and diversify their risk, which should reduce volatility in their net underwriting income and leave insurers more resilient to claims arising from large-scale events such as natural catastrophes.

Around 200 companies globally offer reinsurance – these firms' annual gross reinsurance premiums written totalled around US\$200 billion in 2010, which compares to the US\$4 trillion in primary insurance gross premiums.

However the global reinsurers have substantially increased their premiums. The increase has been driven by two factors: moves by reinsurance companies to recover costs from a disastrous 2011, and the need for local insurers to now offer flood cover in all home insurance policies. These increases in

premiums are passed onto insurance companies. Global reinsurers have also chosen to impose significantly high premium costs of reinsurance for risks located in Northern Australia. For some regions of Australia the reinsurance cost is more than the current premium being paid by strata policy holders.

6. LACK OF COMPETITION IN THE PROVISION OF RESIDENTIAL STRATA TITLE INSURANCE.

In recent years the FNQ insurance market has dramatically changed especially with regards to residential strata title insurance. Strata owners in FNQ have suffered from a number of Insurers exiting from the region in a short period of time. As a consequence there are now only a few insurance companies offering this class of insurance to this region resulting in market concentration and a lack of competition. In fact there is only one firm for unit complexes with a value greater than \$5 million.

To demonstrate and highlight the dramatic changes in the current attitude of the major insurers to residential strata title insurance in FNQ, provided below is a summary of these changes in this market:

- **Suncorp Metway Insurance.**

This insurer has withdrawn from the Australian Insurance market for Residential Bodies Corporate i.e. Residential Strata Title Insurance.

- **Ace Insurance Company Limited.**

This company has withdrawn nationally from the Residential Body Corporate insurance market.

- **Zurich Australian Insurance Company Limited.**

This company has increased all its rates for Residential Body Corporate policies by 25% in September 2009 and another 35% in March 2010 and has also withdrawn all policy discounts , ranging up to 15%, in March 2010.

Zurich has again increased rates by a further 35% in September 2010. Zurich also do not underwrite any business with a sum insured or asset value over \$20,000,000 and currently has a new business moratorium for 60 days.

- **Allianz Australia Insurance Company.**

This company will no longer underwrite any risk in FNQ with a value over \$6,000,000. Any risk under this value has a 70% loading to normal rates.

- **QBE Insurance Ltd via CHU Underwriting Agencies.**

The company is reluctant to provide quotations for any risk in the Far North Queensland region.

- AMP General Insurance.

This company will not underwrite risks higher than \$5,000,000 and only with minimal holiday accommodation.

- CGU Insurance Ltd via Strata Unit Underwriters.

This insurer has applied Named Cyclone Excesses and increased all premiums and whilst they are willing to underwrite risks in North Queensland it is at non negotiable rates . They remain the most competitive of all "A" Rated insurers.

- RACQ insurance.

This company will only provide quotations for non holiday complexes to a maximum value of \$5,000,000.

7.0 IMPACT.

The anti-competitive behaviour by insurance companies (dramatic increases in premiums) and a lack of competition in the provision of Residential Strata Title Insurance is causing significant impacts in this region some of which include:-

- A worrying concentration of market share in the provision of Residential Strata Title Insurance in FNQ which has had a dramatic impact of the price and availability of cover for this class of insurance.
- Unit and apartment owners, residents and tenants and investors have been affected by escalating insurance premiums and, in some cases, have been unable to find cover or are now deciding not to renew their cover for this class of insurance.
- This situation is now impacting on the owners, renters and investors of the 23,772 units/apartments that currently exist in FNQ and a further 14,228 units/apartments which is the additional stock that is expected to be built in the future.
- It is reasonable to deduce that this situation is also impacting on unit and apartment owners and this sector of the housing market in other regional areas of Queensland including North Queensland (Townsville region) and Central Queensland (Mackay region).

8. RESIDENTIAL APARTMENT/UNIT MARKET OF FNQ AND REGIONAL QUEENSLAND.

In terms of the residential apartment/unit market of FNQ (Cairns region) and regional Queensland the following information is provided:

- Number of existing units/apartments - 23,772.
- Population - Number of people who live in an existing unit/apartment – 71,316 people.
- Potential units/apartments - additional stock to be built in the future -- 14,228.
- Population – additional number of people who will live in a unit/apartment to be built in the future – 42,684 people.
- Future number of units/apartments - total number of units/apartments as provided for under the local planning scheme – 38,000.
- Future total number of people living in units/apartments – 114,000 people.

North Queensland (Townsville region):-

- Number of existing units/apartments – 26,339 (approx).
- Total population 181,743 people – people in units-79,018 people (approx).

Central Queensland (Mackay region):-

- Number of existing units/apartments – 20,516 (approx).
- Total population 141,567 people – people in units- 61,550 people (approx).

9. RECOMMENDATIONS.

Given the above circumstances and the catastrophic insurance premium increases in this region which is occurring with immediate effect in 2011, I strongly appeal to you to consider the following recommendations:

1. Immediately suspend and place an embargo of all premium increases for Residential Strata Title Insurance coverage in 2012 by all insurance companies offering this insurance class in FNQ and in regional Australia.
2. Urgently investigate the provision of Residential Strata Title Insurance in this region and regional Australia more broadly including legislation such as the Body Corporate Act which requires this type of insurance coverage for unit and apartment complexes.

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3. Consider developing an entirely new insurance model which reflects insurance needs and risks but also takes into consideration all of the new building and design codes and planning and development schemes which are responding to risks especially natural disasters in regional Queensland. The current market driven insurance model is problematic which is clearly demonstrated by insurance companies having little interest in providing affordable insurance to consumers and property owners in regional Queensland.
 4. Investigate and assess the possible development and establishment of an insurance company that can cater for the needs of regional Australia and this region in particular (– where the established and larger insurance companies have vacated the market). Such a model could be based on and be similar to the business model used for community banks and building societies etc...
 5. Investigate and assess the possible development and establishment of other insurance models such as the Natural Disaster Insurance model used in in New Zealand which could be designed to cover a range of classes of insurance such as Residential Strata Title Insurance.
 6. Consider the full tax deductibility status of this insurance premium which would allow unit and apartment owners to deduct the cost of this insurance premium from their tax.
 7. Investigate and consider the Australian Government acting as the reinsurer to insurance companies offering insurance in Northern Australia.

As mentioned this is a very serious issue which is having a significant impact on this region.

I look forward to your favourable consideration of the issues raised and recommendations outlined in this submission.

I am available to discuss the contents of this document with you at a mutually convenient time.

Yours faithfully,

Andrew Hayes