

Submission for Inquiry into residential strata title insurance

Terms of Reference addressed:

- a. The magnitude of the increases in the cost of residential strata insurance over the past 5 years, the reasons for these increases and whether these increases are likely to be sustained;
- b. The extent to which there is a failure in the insurance market for residential strata properties either generally across Northern Australia or in some regions in particular, for example due to a lack of competition between insurers;
- c. The extent to which there is a failure in the insurance market for residential strata properties either generally across Northern Australia or in some regions in particular, for example due to a lack of competition between insurers;
- e. Whether consumer awareness of different insurance options should be enhanced.
- f. The extent to which the nature of body corporate arrangements are contributing to affordability difficulties

Our building has 35 Units, over 6 floors and a basement car park and was constructed in 1997.

Our current Body Corporate insurance policy has exclusions for many of the most likely events, including flood damage to such things as lifts motors etc which are positioned in the basement. In our unit complex there are three (3) lift rooms located in the basement. All electrical meters for the entire complex are located in the basement also. This leaves unit owners totally exposed to potentially hundreds of thousands of dollars replacement expenses should a flood occur. Where is the peace of mind for the unit owners?

The complexity of the Body Corporate regulations especially in regard to insurance needs simplification.

For example;

- Tiles on the floor are covered by Body Corporate insurance however the carpet on the floor is covered by the unit owner's insurance contents!!
- A hotplate in the unit kitchen is covered by Body Corporate insurance however a dish washer in a unit is covered by the unit owner's insurance!!

There seems to be a lack of affordable and consistent flood insurance which is needed particularly in a natural disaster.

For example:

- Intense rain or storms continuing over a certain period of time contributing to further flooding from another source such as a river or canal. For peace of mind flood insurance should cover all water events no matter how or where the water comes from or over what period of time. As yet there does not seem to be such insurance available for Strata title. When we have enquired from our Strata manager about flood insurance we were informed it is not available for this unit complex or many other

units on the Sunshine Coast and that the cost if it could be attained would be astronomical and out of the reach of most unit owners.

Report from the complex Body Corporate treasurer:

a) Premium increases over the last 5 years have been substantial; in some cases better than 4 times the general inflation rate. The increases have been applicable to both personal strata title owner contents insurance and to body corporate building insurance. These increases are almost certainly to be sustained = there will be no premium rate reduction in the future.

The reasons for the premium increases are probably three-fold:-

i) The low level of investment returns by some insurance companies and a desire to 'make-up' via premium increases.

ii) The extent of claims due (in part) to catastrophic weather events in various parts of the world.

iii) Desire by some insurers to increase net profit.

There's no doubt the premium increases have caused financial stress to strata property owners. A good many strata title owners are on fixed incomes and can ill-afford the substantial increases. This has resulted in owners ceasing to insure; others have lowered the sum insured. Still others have recognised they can no longer afford to own/live in strata title property and have moved to other accommodation.

Where people cease insuring, or reduce the sums insured, any insurable event is going to result in further financial hardship. This must result in heavier draw on the 'public purse'.

As publicly discussed over the last 12 months, many insurance companies do not offer flood insurance. Individuals and body corporates are often not aware of the lack of cover for flood and, in the event of an incident, are further financially burdened by an uninsured loss. With many strata title buildings, the lift motors and instrumentation are at the lowest point of the building and thus prone to flood damage. This is certainly the case with "ON THE RIVER". Current "ON THE RIVER" insurances provide cover for fusion and machinery breakdown for the lift motors and instrumentation, but there's no cover for flood damage. Any flood damage is the full responsibility of the body corporate = the current owners of the units. Clearly, insurance companies must offer this cover - at a reasonable premium - and it may well require government intervention to ensure this happens.

b) Consumer awareness of insurance generally is considered to be at a low level. Individuals see insurance as being either -

-- "too hard" and do not insure at all or mistakenly insure for a sum less than replacement value of contents.

-- difficult to understand and accept whatever is suggested by insurers without checking or asking about available options.

A concerted education programme would help to increase consumer awareness; such a campaign should be undertaken by Federal and/or state governments with financial input from insurance companies.

c) It's unlikely the nature of body corporate agreements are contributing to the affordability difficulties.....at least, not in Queensland. All funds for a body corporate come from owners of the building units. In the case of "ON THE RIVER", the building insurance is arranged by the Body Corporate Manager and is subject to approval by the owners at a general meeting. At least two premium quotations are obtained each year. The Manager does obtain (and retain) a commission which is used to fund his operations. Without the commission, the charges to the body corporate would increase.

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19/01/2012