

Masthead Outlook Body Corporate Committee  
Community Title Scheme 27988

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MACKAY QLD 4740

12 January 2012

Committee Secretary  
House of Representatives Standing Committee on  
Social Policy and Legal Affairs  
PO Box 6021  
Parliament House  
CANBERRA ACT 2600  
AUSTRALIA

Dear Chairperson and Committee Members

### **Re: Inquiry into residential strata title insurance**

The Masthead Outlook Body Corporate welcomes the establishment of this inquiry and the opportunity to contribute a submission.

Masthead Outlook is a 5 storey building of 20 apartments overlooking the Mackay Marina. The construction of the building was completed in late 2000. Our building is one of 7 multi storey apartment complexes within the Mackay Marina precinct.

In March 2010 our building and others within the precinct experienced damage as a consequence of Cyclone Ului. Damage to our building was relatively minor. It included replacement of guttering and several stormwater downpipes and internal repairs to several 1<sup>st</sup> floor apartments as a result of water ingress. The total quote for repairs was approximately \$70,000. Prior to this event there had not been any significant insurance claims made on the Body Corporates insurance.

#### **Insurance premiums**

The table below provides a summary of the insurance cover provided and associated premiums since 2007. Prior to 2007 the premium had been relatively constant at approximately \$10,000 per annum.

<b>Date</b>	<b>Provider</b>	<b>Type of Cover</b>	<b>Premium Paid</b>
2007/08	██████████	██████████ building cover ██████████ Public Liability ██████████ Office Bearer Liability cover	\$10,131.85
2008/09	██████████	██████████ m Building Cover ██████████ Public Liability ██████████ Officer Bearer Liability cover	\$12,479.95

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2009/10	[REDACTED]	[REDACTED]m Building Cover [REDACTED] Legal Liability [REDACTED] Fidelity Guarantee Voluntary Workers [REDACTED] \$1m Officer Bearer Liability cover	\$13,550.19
2010/11	[REDACTED]	[REDACTED] Building Cover [REDACTED] Legal Liability [REDACTED] Fidelity Guarantee Voluntary Workers \$ [REDACTED] [REDACTED] Officer Bearer Liability cover	\$25,157.81
2011/12	[REDACTED] Ltd	[REDACTED] Building Cover [REDACTED] Legal Liability [REDACTED] Fidelity Guarantee Voluntary Workers [REDACTED] [REDACTED] Officer Bearer Liability cover	\$102,554.06 (adjusted down to \$97,628.42 due to another provider entering the market in late 2011.

The above table so shows that in four (4) short years we have experienced a 10 fold increase in our insurance costs. With the change in premiums between 2010/11 and 2011/12 equating to an increase of approximately 400% year on year. Fortunately our Body Corporate Manager [REDACTED] was able to negotiate 2 six monthly payments otherwise the Body Corporate Committee would not have been in a position to meet this expenditure at that time.

In late 2011 another insurance provider entered the market. Through this new provided [REDACTED] we have managed to obtain a slight reduction in the annual premium (see table above).

The cost of insurance for a unit complex appears to be inordinately high when compared with a stand-alone dwelling. In our complex there are 20 apartments and insurance is now around 5,000 per apartment. When compared with an 'average stand- alone house' premium of \$2,000 the figures do not stack up. Most high-rise complexes, by their nature are constructed of very robust materials and generally suffer less exposure or damage from extreme weather events than the standard house. Why then is there such a disparity between the cost of insuring each type of dwelling.

In the Body Corporates opinion the rate of change and magnitude of the change in premiums is unsustainable. Disproportionate increases to the holding cost of apartments such as ours relative to stand alone dwellings in the region can only have a negative impact on the resale value of apartments such as those in Masthead Outlook.

The significant increases in body corporate levies that have been required to cover the insurance premium have translated into increases in rents. This detracts from the regions appeal to investors and can only serve to make issues such as accommodation shortages worse. With governments actively seeking to encourage people to move to regional areas to address skills shortages there needs to be incentives for further multistorey development in regional areas not disincentives.

## **Insurance deregulation**

The absence of insurance providers in this region means that market forces cannot operate. With only one provider there is a 'take it or leave it attitude' to the provision of insurance. As per our recent experience.

The deregulation of insurance industry means that the profit motive in insurance provision is now the driving force behind decision making. Providers are consciously identifying areas that they deem to have a 'high risk' and choosing either to withdraw from that market altogether or offer insurance cover at an exorbitant premium. This appears to be the approach currently being applied by insurance providers in north Queensland.

Re regulation of insurance premiums in regions like northern Australia is likely to be necessary. How this is best achieved is beyond the expertise of our Body Corporate. Indexing of premium increases may also provide a mechanism to keep premiums on a level playing field across markets and across the whole of Australia.

## **Insurance quoting**

Masthead Body Corporate Committee has sought to obtain additional insurance quotes through various Insurance Broker organisations. This has proven extremely difficult to achieve. There appears to be business rules governing broker activity that makes obtaining alternative quotes extremely difficult. Brokers we have contacted would not provide a quote unless our committee was prepared to sign over all its business to that Broker. . Our Committee was not prepared to give a commitment to transfer our business to a new provider in the absence of a better quote. You can see the stupidity of this situation and we as a committee can't believe that this is how the system is meant to operate under competition policy.

## **Disparity in premiums between regions**

We have been able to obtain some very preliminary information regarding the variability in premiums between regions. However, even this preliminary information gives our Body Corporate Committee reason to believe that the disparity in premiums between regions is an issue warranting further investigation by your Committee.

### Example 1

Multi storey complex comprised of two, 23-story towers and 190+ units on the Gold Coast with the following facilities:

- two full sized pools,
- three spas,
- two saunas,
- two steam rooms,
- a tennis court,
- 24 hour security;

- jogging track ,and
- six lifts between two towers

Insurance budget for 2012 is \$95,000.

Our complex is no where near the scale of this development, has 1 pool and none of the other facilities mentioned above.

### Example 2

A second example is a 10-story apartment at Buddina (near Mooloolooba, Sunshine Coast, Maroochy Shire), insurance budget 2012 = \$16,000.

These examples clearly illustrate that the current system is not working and is definitely not equitable.

### **Business insurance / Stand-alone residential buildings**

Owners of stand-alone residential buildings in Mackay have also been hit by excessive increases in insurance premiums. For example the premium on a 4 bedroom split level property in North Mackay has increased by 100% year on year – without any claims having been made.

Local Mackay businesses have not been spared the increases in premiums. Members of our Committee are business owners within the region and they have also experienced significant increases in premiums for their businesses over the past 12 months. In one instance the premium increased by more than 100%. The justification for the increase can only be due to location because no claims have been lodged to warrant an assessment of increased risk.

The Committee understands that business and stand-alone residential buildings are not part of your terms of reference but we want to make mention of this matter in our submission as we believe it is yet another factor that is having a negative impact on our local economy and community.

### **Video Conference**

We understand that your Committee will be visiting northern Australia in late January early February 2012 and that there may be an opportunity to contribute to your Committee's discussions by way of a video link. We would welcome an opportunity to discuss any issues raised in this submission with members of your Committee at that time.

Yours sincerely

Neville Duncan  
CHAIRMAN  
MASTHEAD OUTLOOK BODY CORPORATE