

I wish to make a submission to the **House Standing Committee on Social Policy and Legal Affairs** on the **Inquiry into residential strata title insurance**.

I have been an onsite manager for a residential unit complex for the last 5½ years. During that time I have seen the body corporate insurance increase yearly. These increases have been greatly in excess of the CPI and the increases for the strata title insurance has surpassed that to the increases to normal house insurance for those people residing in the same area.

These increases have had a dramatic effect on the body corporate levies, as these costs have to be passed on to all owners. It is a legislative require that all strata complexes carry sufficient insurance to cover the complete cost of replacing the existing buildings and common property.

All unit and home owners who have a mortgage on their property are required to have their dwelling insured for the replacement cost. With the prohibitive increase in FNQ for insurance, how many people are in breach of their mortgage conditions because they cannot afford the insurance cost! This also results in less insurance policies, with uninsured people relying on the generosity of others and the government when disaster falls.

During the time I have been manager I have seen the body corporate levies rise from \$600/ quarter to \$2000 / quarter, with the cost of insurance being the contributing factor.

(a) The insurance for one of the body corporate I manage was \$3700 in 2006 and this year it is \$42765. I know that this is not all building insurance, but this is the amount that has to be paid. The body corporate have opted to pay this monthly which has resulted in them paying an extra 8%. I notice that with the insurance quotes taken out since then that the body corporate have to select one of 2 options. Option 1 being to pay the first \$10000 for any claimed from a named cyclone and option 2 being to pay the first \$200000 for any claim from a named cyclone. So as well as increasing the insurance there is effectively a \$10000 or \$20000 excess on claims. What % of increase in strata insurance is a result from claims from cyclones and what % is a result from bad building practices. Bad building has cost the [REDACTED] just under \$200000 and that was just from one problem with fire compliance. This was not claimed on insurance so should have no impact on the insurance cost. How many water leaks and other minor claims is made on strata and how much is this contributing towards to total cost of insurance.

(b) Where are the insurers getting their information from when they place a risk assessment on the strata insurance! A cyclone goes through Innisfail and Mission Beach and yet the insurance for all areas to the north is increased. How does the insurance price risk between different complexes? They do not actually visit the complexes and see if they are built to cyclone standard and are kept in good repair, and that they might be in a protected pocket. All strata buildings in risk areas should have a risk assessment and their insurance cost should be related to that amount of risk. Not the blanket treatment that seems to apply.

(c) The last 3 years have seen many insurance companies refuse to quote for FNQ. This happened after Cyclone Larry and before Cyclone Yasi. Why are they not quoting? Was it due to the nature of the claims – mostly resulting from over-claiming by owners and claiming for damage resulting from bad building practices? I think the excess should be increased to wean out all of the small claims. I think the builders should be more accountable for their work and that building insurance should extend for a longer period. This could be staggered to match the life expectancy of various parts of the building. We need to discourage shonky building practices. People pay good money in good faith for a unit and then have to pay again later to fix building defects. There is definitely a lack of competition in strata insurance – with [REDACTED] (who once under cut all

other insurers) now charging an incredible amount and [REDACTED] – [REDACTED] who is not far behind- as it is a legislative requirement that all strata buildings by insured for replacement cost.

(d) If there are different insurance options I have not heard of them. If there are options all body corporate managers should be made to inform all owners. I know that the body corporate managers receive a referral fee for each insurance policy – does this affect information the body corporate receives on insurance options?

(e) The legislative requirements that all strata insurance be to the full replacement value means that all of the common property be insured. Is the value correct for the insurable amount for the buildings and that for the common property? Or are the insurance companies getting 2 bites of the cherry. Also the owners have to insure the fixtures inside the unit and well as other contents. Maybe the insurance for strata should be looked at and changed. What does it cost to administer when one insurance policy covers the fixtures and contents and half way through the wall and the strata insurance covers the external part of the building and half way through the wall etc.

(f) I recommend that due to the above issues the government should look at how risk is assessed and applied in the insurance industry especially in FNQ. They need to look at encouraging more competition in the insurance available for strata buildings. Maybe insurance needs to be made mandatory, including insurance of all government owned building, so that in the case of any significant event, all buildings are insured and the government and private donations should go to fixing up the roads and providing food and shelter for those made homeless, not provide cash for those who saved money for not being insured.

The residential strata industry should be consistent throughout Australia. It should be governed by the one body and not be regulated by all levels of government. The residential strata industry is expected to grow quite extensively over the years, to provide housing for the growing population. This is a government initiative to increase the amount of high density housing. This will make the industry large enough to be managed under 1 umbrella instead of each level of government having it own input.

The dramatic increase in levies due to the massive increase in insurance has been responsible for the devaluation of units, owners unable to sell for what they purchased the property for. It has also had a dramatic effect of the value of the management rights business. None of this is good for business confidence. If all investor owners sell due to the negative cash flow on their property portfolio, who is going to provide the affordable housing to those ordinary people who need to rent?

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