

**Submission to House of Representatives Standing Committee on Social Policy and
Legal Affairs
re Strata Title Insurance Inquiry.**

From Margaret Ann (Meg) Trimble

[REDACTED]
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Dear Sirs/Mesdames,

Since 1982 I have been a licensed Real Estate Agent and Auctioneer and conducted business in the Cairns district. From 1986 until December 2010 I was in the business of Body Corporate Management. I have owned a strata unit in the same complex since 1985.

The current situation with the Insurance industry has in my opinion been brought about by many factors. I have identified 2 that I think were important contributors which may not be identified by most people. First was the practice of some owners and managers to make what I term 'frivolous' claims – eg insisting on going ahead with a claim when the 'excess' was about 90% of the claim. When the claim involves several thousand dollars I can perhaps understand this, but I have witnessed cases where the cost of the repairs were only a few hundred dollars. I recall several claims (admittedly many years ago) where the cost for repairs were \$120 and the excess was \$100. No Insurance firm can afford the cost of the paperwork in these situations. Then there were claims that were made which I did not believe were strictly 'insurance' claims, but rather lack of maintenance – but people seemed to think they could 'stretch the truth' in order to get a claim made. I had several owners who came to me, told me what had happened then said "How can we claim this on insurance?" or words to that effect. When I would not submit claims I lost managements to firms who I am told were happy to do it. I am sure the Insurance companies have been aware of this practice, (but sometimes the cost of the claim would be cheaper to settle than fight at the time) which has contributed greatly to the current situation. So in some ways, the Body Corporate owners have to some extent contributed to the current situation.

Secondly [REDACTED] came in to the business (of insuring bodies corporate complex) and severely undercut the premiums about 5 or 6 years ago. This caused a lot of long term 'players' eg [REDACTED] and [REDACTED] to withdraw from our market. Then after only 2 or 3 years [REDACTED] withdrew from the market again. This left many bodies corporate 'high and dry' and they had to pay much higher premiums to be taken on by one of the others that remained in the market – in a couple of cases we were forced to go 'off shore' in order to get cover provided. The few players who were left could afford to be very 'choosy' and we found that they in some cases refused to insure or re-insure some buildings simply because of the age of the building.

One such case in point was [REDACTED] situated at [REDACTED] Cairns. A complex of 54 one bedroom units, over 5 different buildings, which was built in 1982. I managed it from September 1990 to October 2010. It was built by Solander industries, and is very structurally sound. Even today there are no structural cracks or problems with this building. The Body Corporate for this building is very active and has always conducted their affairs very well, with maintenance done as and when required and long term replacements carried out on schedule as per a Sinking Fund Forecast done by a registered Valuer. Over the years, insurance claims at this complex were minimal. Some years there were none made at all, and I do not recall any for major damage after any of the cyclones that have struck our shores in the time it has been built. (All I can recall is for a few tiles moving on the roof a couple of times where the damage claim was minimal - only \$1,735 to \$2,296.) At the time they were refused insurance cover they had just had major work done at the complex including to the roof (costing about \$80,000) and still had over \$100,000 in the Sinking Fund to cover any other work that may be necessary. Both the broker and myself worked very hard, sending the claims record (a total of 19 claims totaling just over \$17,000) photo's of the complex and details of the work done over the previous few years, copies of their bank statements showing what funds they had, Minutes of meeting showing how work was planned and budgeted for. In the end we were able to get insurance cover again, but whereas, over more than 30 years it had built up to be \$10,198.25 premium, this was at \$16,047.64. Last year, the premium notice came in at \$62,374.18 yet in the intervening year they had only had a couple of small claims. By having the building revalued, and accepting a high "excess" (\$2,000 some claims up to \$5,000 on others) the premium was able to be reduced to \$42,454.13. As the valuation still came in over \$5million there was only one Insurer interested in quoting on this cover [REDACTED] so there was no opportunity for negotiation. These units each sell for under \$90,000 and rent for around \$100 to \$160 per week (depending on the condition and if furnished or not.) With Council rates over \$1,000 per half year, owners can hardly afford to be paying nearly \$786 EACH a year for Insurance cover.

The unit I own at [REDACTED], I bought new in 1985. I also did the Body Corporate management of it for about 15 years, but not recently. I have been the Secretary and/or Treasurer of the body Corporate all of the years it has been in existence and attended all but one of the meetings held in the years it has operated. Despite being only one block from the beachfront and having many tall trees on the site, it has never sustained anything but very minor (or superficial) storm or cyclone damage in the years it has been erected. By 2008 the premium had crept up to be was \$3,697, in 2009 it jumped to \$6,648, then in 2010 it jumped again to \$9,185 and in 2011 they wanted \$36,000 for the premium. Luckily we were able to find a different insurer, at \$12,470, which, though a vast improvement on \$36,000 is still nearly 400% increase in 3 years despite us accepting an increased "excess". In the meantime the Council rates are now over \$1,200 a half year and the rental return has steadily dropped (despite renovation and refurbishment) from \$280 per week before 1988 to \$190 currently. So I am left with a situation where the income barely covers the costs – so is hardly able to be called an "investment", yet my chances of selling are minimal.

As the Queensland Government have legislated to ensure the bodies corporate have insurance, and what it should entail, I think the least they can do is ensure **their** Insurance company, [REDACTED], once it had entered the market, stayed in it to offer competitive rates.

I also think that when calculating premiums, Insurance companies should take into consideration the record of the complex as far as maintenance, repairs, past claims, how much they have in their Sinking Fund, and what maintenance program they have in place (if any.)

I do NOT think the postcode where they are situated should come into it at all, as there are too many areas in the north that share the same postcode, but have totally different geography, topography and storm surge and flooding records. Eg how can you compare the hills at Smithfield, with the foreshore of Machans Beach or the Knob area of Yorkeys Knob with the foreshore or beachfront. Edge Hill and Whitfield have the same postcode as Woree, Manoora, Parramatta and the Cairns City yet the risks are totally different in each of these areas.

I have been told privately by the State manager of one Insurance company, and local managers of 2 others operating in Queensland that if we have another cyclone, flood or “major incident” this year that North Queensland ie areas north of the Tropic of Capricorn will be uninsurable. In my opinion, if they want to insure anything in Australia, they should NOT be allowed to “pick and choose” the areas they choose to operate in. While North Queensland has cyclones every year, most years they are pretty small and harmless and do not always make landfall. Southern areas have wild storms every year and it seems from Press reports, the damage from them is always high. I have lived in Cairns most of my life. (I traveled away a lot between 1965 and 1975) and my family have owned property here since before 1900. I am not aware of any of the family ever having a major claim as a result of any of the weather related incidents in this time. A family owned house burnt down as a result of an electrical fault of the tenants television set in 2008 and then as a result of YASI I claimed 2 electrical appliances. THAT is the sum total of ALL the Insurance claims I have had in my 64 years yet I have everything insured. I do not see why I should be made to pay and “held to ransom” by the, in my opinion criminal - at the least fraudulent - actions of others, and irresponsible attitudes of Insurance companies.

Please note. I will bring documents supporting the figures quoted above when I appear before you in Port Douglas.

As a Real Estate agent, I find I am advising customers to stay away from investing in Strata Units until the issue of the Insurance is sorted out. I feel sorry for many owner occupiers on a fixed income – pension or superannuation – who have had to borrow money in order to pay their share of the insurance this year because it has increased in some cases by several thousand percent. I know of many who want to sell, but with the vacancy factor for units in Cairns still relatively high, there is no incentive for investors to buy except at a ‘bargain basement’ price. Some people will be forced to accept these

prices as they can not continue to afford to live in their unit. Many will then become clients for Social welfare housing – of which we don't have enough anyway. It will also force the market price down so low, some people will find it easier to let the mortgagee take possession, than to sell at less than what they owe on it. Units can no longer be considered a viable option for investors until the issue of the high cost of Insurance is addressed. People are better off leaving their money in a bank because even that small interest rate currently being offered is a better 'investment' than what is currently available through unit ownership.

Already some banks/financiers are reluctant to finance units that are near the foreshore, unless the client has other real estate that can be mortgaged to cover it. They do not easily finance units in old or run down complex or ones that have a floor area of less than 50m². If the issue of exorbitant insurance premiums is not resolved, and quickly, banks etc may decide to not finance any unit sales at all. THAT will cause untold problems for everyone in the tourist, real estate, investment, building and allied industries.

I see it as a complex issue that is having ramifications for us all now, with the potential for more damage in the future, unless it is addressed quickly. I thank you for your time.

Yours sincerely

Margaret A. (Meg) Trimble