

Submission to:

**House of Representatives Standing Committee on Social Policy and Legal Affairs**  
**regarding the affordability of residential strata title insurance**

From:

Paul Michna ,  
Chair of the Body Corporate Committee

We would like to address three of your terms of reference. We live in a small, modest, inner city, strip of just five units. The building, built in 1985 is strong and well maintained and as far as the owners can remember has never made an insurance claim. We could handle incremental insurance increases but these massive instantaneous insurance increases have caused distress to our owners.

(1) 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;

Our insurance, pre to post Cyclone Yasi was to go up from \$3996 to \$17500 ie 338% if we stayed with the same insurer.

We moved to another insurer and the price went up from \$3996 to \$7500 ie by 89%

This is in one year.

There is a  $(338\% - 89\%) = 249\%$  difference between the companies!

At a meeting of Strata Tile owners and insurers at the Holiday Inn in Cairns in late 2011, a gentleman from an insurance company suggested that further increases may be expected due to re-insurance costs.

Is it not the purpose of re-insurance to spread and reduce the risk ?

The insurance company representative stated that based on long term data the average annual cyclone strength is category 1.6.

(2) The ability of insurers to price risk and the availability of accurate data to allow for this;

The insurance industry are experts at assessing long term risk.

So how did the actuaries working for two insurance companies, using good quality data primary data over nearly a century's worth of identical weather data manage to come up with such different results?

How can  $(338\% - 89\%)$  there be a 249% difference in their pricing on the same data!

If the average annual cyclone strength over nearly the past century is about 1.6, then adding the Category 4 Cyclone Yasi statistically has little effect on the long term risk.

James Cook University put out advice on possible effects of climate change on north

Queensland weather some years ago, data apparently not acted upon by insurance companies.

(3) 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;

As far as I can tell we have only two insurers to choose from here in far north Queensland.

As we must have Strata insurance, we feel we are at their mercy.

In terms of equity and competition we feel it is only fair that we have as much choice as Strata owner in south east Queensland.

As owners we are deeply concerned that the current situation will have negative effects on the local economy;

on unit resale,

on spending in the local economy

on jobs

on attracting investment into the region

Yours truly

Paul Michna

Jan 13, 2011