

Date: Monday 16 January 2012

Mr Graham Perrett

The Chairman

House of Representatives Standing Committee on Social Policy and Legal Affairs

Inquiry into Residential Strata Title Insurance Northern Australia

PO Box 6021

Parliament House

CANBERRA ACT 2600

Email: spla.reps@aph.gov.au

Dear Mr Perrett

SUBMISSION: INSURANCE REVIEW RESIDENTIAL STRATA TITLE INSURANCE

1.0 INTRODUCTION

The Unit of Owners Association of Queensland (UOAQ) welcomes the opportunity to make a submission to the inquiry into the affordability of residential strata title insurance, in Northern Australia and factors influencing this class of insurance.

UOAQ is totally committed to and strongly supportive of the Standing Committee's inquiry. The Association looks forward to working with the Committee on this extremely important issue.

Over the last 5 years, many UOAQ members and in general unit and apartment owners in North Queensland have suffered significantly from skyrocketing residential strata title insurance premiums, which has resulted in unaffordable insurance for many unit owners.

2.0 UNIT OF OWNERS ASSOCIATION OF QUEENSLAND (UOAQ)

The UOAQ is an independent volunteer industry association whose main purpose is to advance the interests of Unit and Apartment Owners within the community. It represents and articulates the interests of its members to Government, industry and other stakeholder bodies, about issues that have an impact on the unit and apartment housing sector and to have a positive influence on public-policy outcomes.

The organisation was formed in 1978 in response to the growing need for Unit and Apartment Owners to be heard and represented on issues that have an impact on this housing sector. Its primary role is to promote the viewpoints and interests of Unit and Apartment Owners and to provide advice and assistance to members relating to body corporate administration, functions of strata title manager, committees, onsite building managers and other legislative requirements.

The UOAQ has approximately 1000 financial members who own units throughout Queensland. The Association is constantly growing its membership base so it can become the truly independent voice for unit and apartment owners in Queensland.

3.0 INQUIRY – THE AFFORDABILITY OF RESIDENTIAL STRATA TITLE INSURANCE

On 24 November 2011 the Assistant Treasurer and Minister for Financial Services and Superannuation, The Hon Bill Shorten MP, asked the House of Representatives Standing Committee on Social Policy and Legal Affairs (committee) to conduct an inquiry into and report on the affordability of Residential Strata Title Insurance particularly in Northern Australia and factors influencing this class of insurance. The terms of reference of the Inquiry is to investigate and report on:

- 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 ability of insurers to price risk and the availability of accurate data to allow for this;
- 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;
- d. whether consumer awareness of different insurance options should be enhanced;
- e. the extent to which the nature of body corporate arrangements are contributing to affordability difficulties and;
- f. whether the conclusions regarding (a)-(e) provide justification for government intervention in the residential strata insurance market, noting the existing responsibilities of Commonwealth, state and local governments.

4.0 RESIDENTIAL STRATA TITLE INSURANCE

Under the Body Corporate and Community Management Act 1997, Residential Strata Title Insurance is a compulsory class of insurance that must be taken out by unit and apartment owners.

More specifically in Section 189, contained in Part 9 Insurance—Act, of the Body Corporate and Community Management (Standard Module) Regulation 2008, of the Body Corporate and Community Management Act 1997 details the need for residential strata title insurance for schemes (unit and apartment complexes) that are used predominantly as for permanent residents (1).

Further, in Section 189 in Part 9 Insurance—Act of the Body Corporate and Community Management (Accommodation Module) Regulation 2008, of the Body Corporate and Community Management 1997, details the need for residential strata title insurance for schemes (unit and apartment complexes) that are used predominantly as holiday letting or serviced apartment operations (2).

Residential Strata Title Insurance is a class of insurance that applies to unit/apartment complexes. It generally covers building and common contents, as well as legal liability, fidelity guarantee, personal accident and office bearer's liability. The annual premium for a unit complex is issued to a Body/Owners Corporation and is subsequently proportioned in relation to the lot interests schedule in the community management statement – That means; in essence it is proportioned to each individual unit holder for payment.

5.0 MARKET SIZE - RESIDENTIAL APARTMENT/UNIT MARKET OF NORTHERN QUEENSLAND

The unit and apartment market is now a major residential housing type for a significant number of households in Australia and Queensland.

Like the rest of Australia, Queensland is undergoing a discernible shift towards higher density living in units and apartments. Government policy encourages higher density living as a means of curtailing infrastructure costs. It's not merely a shift to living in or living closer to the centre of an urban area.

1. *Body Corporate and Community Management (Standard Module) Regulation 2008 Subordinate Legislation 2008 No. 273 made under the Body Corporate and Community Management Act 1997.*

2. *Body Corporate and Community Management (Accommodation Module) Regulation 2008 Explanatory Notes made under the Body Corporate and Community Management Act 1997.*

But it's also a shift toward higher density living, from detached housing to units or apartments. There is strong evidence which supports that this trend is only going to continue.

The numbers are very clear on the trend towards higher density residences and a shift away from single detached dwellings. Units and apartments are well on course to overtaking detached houses as the most popular new homes especially in Australia's big cities. This trend however is also occurring in regional urban centres of North Queensland such as Mackay, Townsville and Cairns.

To highlight the growth of apartment and unit living, it is important to consider the following:

- According to the Australian Bureau of Statistics ('ABS'), in the 1990s, there was 1 apartment approved for every 3 houses (3).
- As of April 2011, there were only 1.6 house approved for every apartment. This is the lowest ratio in Australia's history (3).
- The ABS June 2011 figures show that home building for detached houses continues to dwindle, while apartment building levels grew by 36 per cent in the year to June 2011 (3).

Broad demographic shifts, including smaller households and families with no children, are some of the underlying push factors that have brought higher density living, especially unit and apartment living, to the forefront of housing options and choices.

There are now approximately 328,000 unit owners in the State of Queensland.

The North Queensland residential unit and apartment housing market, which is an area covering Mackay, Townsville and Cairns is a considerable unit and apartment housing market. This region currently consists of **70,627 APARTMENTS/UNITS** which translates to approximately **211,884 RESIDENTS** (4).

3. Australian Bureau of Statistics ('ABS'), 2011.

4. CairnsPlan Planning Scheme for the City of Cairns, Cairns Regional Council, 25 February 2009.

4. Far North Queensland Regional Plan 2009-2031, Queensland Department of Infrastructure and Planning, February 2009.

4. Townsville Residential Land use Study, Urbis Pty Ltd, 2011.

4. Mackay City Planning Scheme, 2006, Mackay Regional Council.

However this market is also expected to experience considerable growth with additional units and apartments to be constructed in the future which will accommodate a significant number of additional residents.

An overview of this market - the residential apartment/unit market of regional Queensland - is provided for in following table:

TABLE 1: UNIT AND APARTMENT MARKET – NORTH QUEENSLAND				
Item	Cairns	Townsville	Mackay	Total
Current Units/Apartments	23,772	26,339	20,516	70,627
Future Additional Apartments	14,228	10,080	9,600	33,908
Total Units/Apartments	38,000	36,419	30,116	104,525
Current Residential Population	71,316	79,018	61,550	211,884
Future Additional Residential Population	42,684	30,240	28,800	101,724
Total Units/Apartments Residential Population	114,000	109,258	90,350	313,608

NB: Population estimates based on 3 persons per household.

Source: 5. Refer to below.

6.0 MAGNITUDE OF INSURANCE PREMIUM INCREASES

Over the last 5 years there have been excessive increases in residential strata title insurance premiums and limited availability of cover for this class of insurance in North Queensland and this is especially the case in the FNQ region. While it is difficult to obtain precise data, UOAQ members and non-members have experienced skyrocketing residential strata title insurance premiums in the years 2010 and 2011. Over this period unit and apartment owners have experienced premium increases that have ranged from **300 per cent to 800 per cent**.

Based on recent advice (as of Friday 13 January 2012) an owner of an individual unit in a building complex which has a value greater than \$6 million, is now paying an annual premium amount of approximately \$2,200 per year for residential strata title insurance.

5. CairnsPlan Planning Scheme for the City of Cairns, Cairns Regional Council, 25 February 2009.

5. Far North Queensland Regional Plan 2009-2031, Queensland Department of Infrastructure and Planning, February 2009.

5. Townsville Residential Land use Study, Urbis Pty Ltd, 2011.

5. Mackay City Planning Scheme, 2006, Mackay Regional Council.

These premium increases are significant; and seem to be disproportionate when compared to increases of other residential household items, such as food, electricity, gas, water etc...especially over the last five years. For example as indicated in *The Cost of Living Report 2011*, which was released by the Queensland Council of Social Services, it revealed that the cost of bills such as electricity, gas and water had risen by **63 per cent** in Brisbane over the past five years (6).

Furthermore, in the latest Household Expenditure Survey (HES) undertaken by the Australian Bureau of Statistics (ABS), it showed that the average Australian household spent \$1,236 per week on goods and services in 2009–10 period, which represented an increase of **38 percent** (\$343 per week) from the previous 2003–04 survey (7).

To understand the enormity of the increases in insurance premium over the last 5 years, it is also important to compare these increases with the Consumer Price Index (CPI) over this period. The Consumer Price Index (CPI) is a measure of changes, over time, in retail prices of a constant basket of goods and services representative of consumption expenditure by resident households in Australian metropolitan areas. Over the period from 2007 to 2011 the CPI increased on average by 2.9 percent.

TABLE 2: CONSUMER PRICE INDEX (CPI) 2011-2007

YEAR	CPI - ANNUAL INCREASE
2011	3.5%
2010	2.8%
2009	1.3%
2008	5.0%
2007	1.9%
Average increase	2.9%

NB: From September to September.

Source: Australian Bureau of Statistics, (ABS).

6. *The Cost of Living Report 2011, Queensland Council of Social Services.*

7. *Household Expenditure Survey (HES) Australian Bureau of Statistics, (ABS), 2010.*

7.0 LACK OF COMPETITION IN THE PROVISION OF RESIDENTIAL STRATA TITLE INSURANCE

The Australian insurance industry has gone through radical change in recent years. Two insurers have vanished – HIH Insurance and FAI – there have been several high profile takeovers – CGU by IAG, AMP/GIO by Suncorp, Lumley by Wesfarmers – and market exits – St Paul’s, Gerling, AXA. The consolidation of the insurance industry has resulted in fewer but larger general insurers offering residential strata title insurance. Provided below is a summary of the general insurers:-

General insurers - The three large general insurer groups are:

- Insurance Australia Group (which includes NRMA, RACV, CGU, SGIO);
- Suncorp (which includes AAMI, GIO, APIA, Just Car, Bingle) and
- QBE Insurance.

Other insurers are:

- Allianz Australia;
- Hollard Insurance (which includes Real Insurance, Guardian Insurance, Aussie, Australian Seniors);
- Budget Direct (which includes Virgin Money, Australia Post);
- Wesfarmers (which includes Coles);
- Calliden Insurance;
- Zurich Insurance ;
- Youi Insurance and
- Progressive.

Considering the above changes in recent years the FNQ insurance market has also dramatically changed especially with regards to Body Corporate insurance. Strata owners in FNQ have suffered from a number of Insurers exiting from the region in a short period of time. To demonstrate the dramatic changes in the insurance industry and the current attitude of the major insurers to provide residential strata title insurance in FNQ, provided below is a summary of these changes in the FNQ market:

- Suncorp Metway Insurance.

This insurer has withdrawn from the Australian Insurance market for Residential Bodies Corporate i.e. Residential Strata Title Insurance.

- Ace Insurance Company Limited.

This company has withdrawn nationally from the Residential Body Corporate insurance market.

- Zurich Australian Insurance Company Limited.

This company has increased all its rates for Residential Body Corporate policies by 25% in September 2009 and another 35% in March 2010 and has also withdrawn all policy discounts , ranging up to 15%, in March 2010.

Zurich has again increased rates by a further 35% in September 2010. Zurich also do not underwrite any business with a sum insured or asset value over \$20,000,000 and currently has a new business moratorium for 60 days.

- Allianz Australia Insurance Company.

This company will no longer underwrite any risk in FNQ with a value over \$6,000,000. Any risk under this value has a 70% loading to normal rates.

- QBE Insurance Ltd via CHU Underwriting Agencies.

The company is reluctant to provide quotations for any risk in the Far North Queensland region. QBE only offers Commercial Strata Insurance.

- AMP General Insurance.

This company will not underwrite risks higher than \$5,000,000 and only with minimal holiday accommodation.

- CGU Insurance Ltd via Strata Unit Underwriters.

This insurer has applied Named Cyclone Excesses and increased all premiums and whilst they are willing to underwrite risks in North Queensland it is at non negotiable rates. They remain the most competitive of all "A" Rated insurers.

- RACQ insurance.

This company will only provide quotations for non holiday complexes to a maximum value of \$5,000,000.

- Vero Insurance

This insurer does not offer a Residential Strata product in the Far North Queensland region.

- Lumley General Insurance.

This insurer does not offer a Residential Strata product in the Far North Queensland region.

- Chartis Insurance.

This insurer does not offer a Residential Strata product in North Queensland.

- Chubb Insurance.

This insurer does not offer a Residential Strata product in North Queensland.

- CHU Insurance.

This insurer does not offer a Residential Strata product in North Queensland.

Finally on 15 December 2011, Queensland Underwriting Solutions decided to stop writing new business and renewals for risks that are located above the Tropic of Capricorn. In other words they have withdrawn from providing residential strata title insurance in the Far North Queensland market. This is mainly due to the global reinsurers who have imposed significantly high costs of reinsurance for risks located in Northern Australia.

8.0 UPDATE OF AVAILABILITY OF RESIDENTIAL STRATA TITLE INSURANCE IN FNQ

As of 15 December 2011 for unit/apartment complexes with a building value greater than \$5 million and the complex is not part of a national hotel chain, there is now **ONLY ONE INSURER PROVIDING RESIDENTIAL STRATA TITLE INSURANCE IN THE FAR NORTH QUEENSLAND REGION.**

CGU Insurance Ltd via Strata Unit Underwriters is now the only insurer in the FNQ market offering this type of insurance for unit/apartment complexes with a value greater than \$5 million.

9.0 ANTI-COMPETITIVE BEHAVIOUR - DRAMATIC INCREASES IN PREMIUMS

As a consequence there are now only a few insurance companies offering this class of insurance to this region resulting in market concentration and a lack of competition.

The monopolistic conditions in this region with few insurance firms are driving up premiums to unreasonable and unaffordable levels, but it is also leading to a very limited range and choice of insurances products and classes.

Specifically with regards to the FNQ market, the lack of competition by the insurance industry as well as its anti-competitive behaviour in providing residential strata title insurance has resulted in **PRICE GOUGING** with spiraling increases in premiums for this class of insurance in this region. This situation is having a severe impact on unit owners, residents, businesses and the community.

10.0 BODY CORPORATE MANAGEMENT COMPANIES

In addition to the premium increases there is also a practice where some Body Corporate Management Companies are receiving a commission for the insurance they recommend which is accepted and approved by body corporate management committees. These commissions are an additional cost which is paid for by unit /apartment owners and is in addition to the insurance premiums paid by unit and apartment owners.

A body corporate management committee is a committee which comprises of individual unit/apartment owners. They manage unit/apartment complexes on behalf unit/apartment owners.

11.0 IMPACT

The anti-competitive behaviour by insurance companies (dramatic increases in premiums) and a lack of competition in the provision of Residential Strata Title Insurance is causing significant impacts in this region some of which include:-

- A worrying concentration of market share in the provision of Residential Strata Title Insurance in FNQ which has had a dramatic impact of the price and availability of cover for this class of insurance.
- There is now **only one** insurer providing residential strata title insurance in Far North Queensland for unit/apartment complexes with a building with a value greater than \$5 million.
- Unit and apartment owners, residents and tenants and investors have been affected by escalating insurance premiums and, in some cases, have been unable to find cover or are now deciding not to renew their cover for this class of insurance.
- This unfair and unsustainable situation in FNQ has become untenable for many unit owners in this sector of the housing market. It has become such a major issue in this region that it is impacting on the affordability of units and apartments in the region, rental levels, unit valuations and prices, current and future investment in this type of accommodation and ultimately jobs in building and constructing new units and apartments.
- In short given the extremely difficult economic conditions of FNQ, this market **SIMPLY CAN NOT ABSORB** the soaring increases in premiums – for the unit sector this situation is detrimental to the affordability of home ownership for units and apartments, rental prices and current and future investment in unit housing stock.

- To further highlight the severity of this situation please find attached copies of recent newspaper articles the feature this issue.

12.0 RECOMMENDATIONS.

Given the above circumstances and the catastrophic insurance premium increases in this region which is occurring with immediate effect in 2011, UOAQ strongly appeals to the committee to consider the following recommendations:

1. Immediately suspend and place an embargo of all premium increases for Residential Strata Title Insurance coverage in 2011/2012 by all insurance companies offering this insurance class in FNQ and in regional Australia.
2. Investigate the provision of Residential Strata Title Insurance in this region and regional Australia more broadly including legislation such as the Body Corporate Act which requires this type of insurance coverage for unit and apartment complexes.
3. Consider the tax deductibility status of this insurance premium which would allow unit and apartment owners to deduct the cost of this insurance premium from their tax.
4. Consider developing an entirely new insurance model which reflects insurance needs and risks but also takes into consideration all of the new building and design codes and planning and development schemes which are responding to risks especially natural disasters in regional Queensland. The current market driven insurance model is problematic which is clearly demonstrated by insurance companies having little interest in providing affordable insurance to consumers and property owners in regional Queensland.
5. Investigate and assess the possible development and establishment of an insurance company that can cater for the needs of regional Australia and this region in particular (– where the established and larger insurance companies have vacated the market). Such a model could be based on and be similar to the business model used for community banks and building societies etc...
6. Investigate and assess the possible development and establishment of other insurance models such as the Natural Disaster Insurance model used in in New Zealand which could be designed to cover a range of classes of insurance such as Residential Strata Title Insurance. In addition other models should also be investigated such as the Territory Insurance Office (TIO) which is a Northern Territory Government-owned banking and insurance provider.

7. Investigate the practice of Body Corporate Management Companies receiving a commission for the insurance they recommend which is accepted and approved by the body corporate management committees.
8. Investigate the possibility of the Australian Government becoming the re-insurer to insurance companies offering this type of insurance.

It is clearly evident that this is a very serious issue which is having a significant impact on this region and Government intervention is needed.

UOAQ urges the Australian Government to intervene in this matter to deliver affordable and sustainable residential strata title insurance to all unit and apartment owners in North Queensland.

UOAQ looks forward to your favourable consideration of the issues raised and recommendations outlined in this submission.

Should the committee require additional information concerning or elaboration on any matters set out in this submission, contact Mr Andrew Hayes the Cairns based Committee member of the UOAQ. He can be contacted on H: 07.4041.6334, M: 0439.715.938 and E: andrew.hayes01@gmail.com

Yours faithfully.

Mr Paul Cassels
Vice-President
Unit Owners Association of Queensland

Contact:
Phone: (07) 3220 0959
Fax: (07) 3211 7762
Email: info@uoaq.org.au
GPO Box 2359
Brisbane, Queensland, 4001
Australia

Premium rise blow to market

MICHELLE HELE
CHRIS HERDE

SKYROCKETING insurance premiums have lifted body corporate fees, making apartments and units costlier to keep and harder to sell – delivering another blow to Queensland's faltering property market.

The Unit Owners Association of Queensland claims insurers, in some cases, are seeking up to 800 per cent more from body corporates, despite many being outside flood zones and escaping the worst of the summer of disasters.

Vice president Paul Cassels has been inundated by complaints that the rise is creating financial hardships for owners of apartments from Mackay and further north.

The Insurance Council of Australia blames some of the increase on the fact strata insurance had been under-priced compared with the risk.

But Mr Cassels said it was now difficult for some owners to get insurance that has not had a 300 to 400 per cent increase.

"Cairns is the worst-affected area," he said. "We've had more complaints from Cairns and Townsville than from Airlie Beach."

"Perhaps they think we are not a big enough part of their business to matter."

Insurance Council of Australia general manager of risk

INSIDE TODAY

OLD-SCHOOL BRICKS ARE BACK IN STYLE
REAL ESTATE LIFTOUT

Karl Sullivan said there had been a national shift in premiums for residential strata properties.

"There has been a historical under-pricing of residential strata pricing," he said.

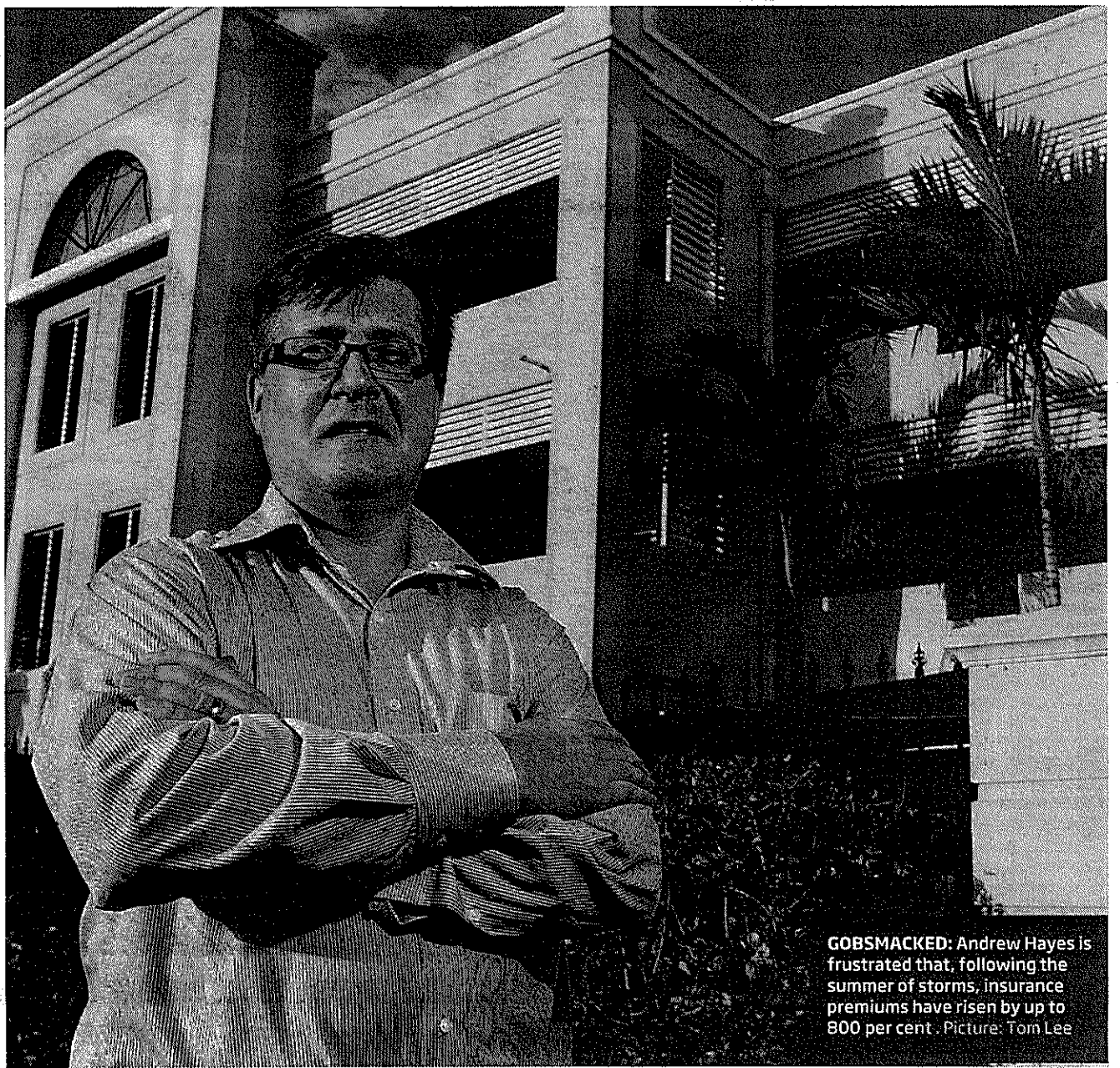
"They have come back to about parity, or just below parity – what an ordinary householder is paying."

Mr Sullivan said some insurers had decided not to take on new customers in the north or not provide cover over a certain level.

REIQ chairman Pamela Bennett said there had been a flow-on effect to the property market, as the downturn of visitors to tourist areas meant the costs of keeping a unit had increased.

Lester Riley, the chairman of the Whitsunday Ratepayers Association in Airlie Beach, called on the State Government to set up an emergency insurance company to help property owners caught up in the situation.

The Property Masterclass, brought to you by The Courier-Mail and Quest publications, will be held in Brisbane (Tuesday) and on the Sunshine Coast (Wednesday).



GOBSMACKED: Andrew Hayes is frustrated that, following the summer of storms, insurance premiums have risen by up to 800 per cent. Picture: Tom Lee

UNIT BLOCK OWNER SHOCKED BY 500 PER CENT HIKE

LAST year, Andrew Hayes was surprised when the insurance premium for his block of units in Cairns jumped by 68 per cent. This year, he was gobsmacked when the insurers of his 18-unit block in Cairns North asked for a 500 per cent increase.

Having had early warning of a dramatic rise this year, Mr Hayes and his body corporate sought out and found a more reasonable residential strata

title insurance. But others have not been so lucky.

"Other body corporates don't have enough time," he said. "This renewal notice lands without warning, and they can't find alternative arrangements in time and have to pay up. I know of a lady in Cardwell who had an 800 per cent increase."

Mr Hayes, who is the Cairns spokesman for Unit Owners Association of Queensland,

said there were more than 70,000 units in central, northern and far north Queensland. He said the premium rises would impact on the value of those assets and the future of medium-density housing.

"Because of skyrocketing outgoings, people are trying to get out of owning units and this suppresses interest," he said. "I know people who have bought units completely

oblivious to what's going on; they can't afford the outgoings and have to put it on the market. This affects retirement homes, and what's really dramatic about that is those people are on fixed incomes and they simply can't pay."

Despite being above local council Q100 planning, Mr Hayes said insurers wouldn't insure him against floods.

Chris Herde

Executive MBA



Rebecca McLeod, Jane Neame and Sonya Keep, QUT EMBA students.

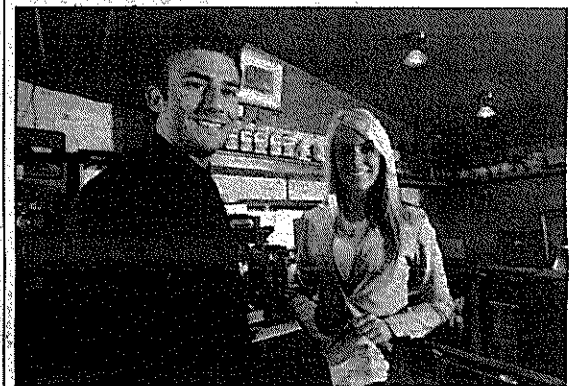
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