

[REDACTED]

15 January 2012

House of Representatives Standing Committee on Social Policy and Legal Affairs
Inquiry into residential strata title insurance
P O Box 6021
Parliament House
CANBERRA ACT 2600

Dear Sir

I am making this submission to the Standing Committee inquiry as a unit owner and resident of [REDACTED] which is a small 8 unit strata title apartment complex in Townsville. The units are about 11 years old and predominantly owner occupied by working families.

The Body Corporate of the [REDACTED] has made a submission to the Inquiry, which I fully support. Below is my personal submission.

The Terms of Reference are addressed below.

Terms of Reference:

- a) i) **Magnitude of increases.** In 2010, our apartment block was insured with [REDACTED] for \$9,898. In 2010, [REDACTED], our previous insurer, declined to quote. In 2011, [REDACTED] quoted \$41,758 for the same property valuation. Also in 2011 [REDACTED] quoted \$34,466. Eventually, we were able to negotiate through brokers [REDACTED] an insurance contract with [REDACTED] that included a \$10,000 cyclone excess, which resulted in a final premium of \$12,516.

Thus although we avoided an increase of 320%, we were still required to pay a 26% increase, and now must carry the first \$10,000 of any damage in a cyclone. This, in a time when inflation in Queensland is about 3% per annum. One must ask why such a large increase in one year, when the insurance industry takes a long view on all their risks and probabilities.

ii) **Reasons for increases.** I feel that strata units in cyclone rated areas are being asked to carry an unfair burden, which should be spread over the non cyclone areas. These non cyclone areas, particularly Sydney and Brisbane have over the past few years experienced severe weather storms (the press

and politicians like to call them 'mini cyclones'), which have caused extensive damage including to apartment blocks, and expensive clean up. Why is it that these strata title units still enjoy premiums that are a fraction of the northern ones?

- b) **Risk pricing by insurers.** I do not believe that Insurers are properly pricing risk. Most strata title units in cyclone areas have been built since the destruction of Cyclones Althea, Ada and Tracey. Building standards have greatly improved and all modern unit blocks are built to withstand the forces in a cyclone. There is very little evidence of damage to strata units in recent cyclones. During both Cyclones Yasi and Larry, although there was extensive general damage, there was only minimal damage to strata units blocks and modern motel/resort buildings as these have been built to modern standards. In contrast, these high standards do not apply to non cyclone areas, and so when a wind storm hits Sydney or Brisbane, much more damage is sustained than would have been the case if the buildings were to the same standard of ours.

Insurance companies must be required to justify the differential between cyclone and non cyclone premiums, based on a fact based review of the risk.

- c) **Failure in the market.** The excessively high insurance premiums are distorting the market for residential apartments in Tropical areas. The cost of construction for an apartment complex in cyclone areas is much higher than the equivalent in Sydney, Melbourne or Brisbane because of the higher standards that cyclone rating requires. When the ongoing expense of higher insurance premiums is added to the higher initial purchase cost, there is a distinct disincentive to invest in northern regional areas.

If the cost of the higher building standards was taken into account, then the ongoing insurance costs should be comparable or less than those for non cyclone complexes, and the investment market would be less skewed. This would then lead to more development in northern regional areas, and less overcrowding in the South East.

- d) **Interventions.**

- 1) The Insurance industry should be required to demonstrate, based on evidence, that there is a risk difference which justifies the premium difference between strata title apartment complexes in cyclone areas compared to non cyclone areas.
- 2) Steps should be taken to remove the disincentive to investment in northern regional areas caused by the burden of excessively high insurance on top of the extra costs of construction.

I believe that strata title apartment complexes in tropical areas are being unfairly targeted, and request that the Inquiry challenge the insurance industry's thinking. Where is their evidence that apartments built to modern cyclone standards present any greater risk than those in non cyclone areas which have just as many storms, but are much less robust? Insurance premiums should not be allowed to join the long list of disincentives to investment in northern regional Australia.

Should you require any additional information, please do not hesitate to contact me at [REDACTED].

Yours faithfully

Ian Cruickshank
Chairman
Body Corporate [REDACTED]