

[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

This submission to the Standing Committee inquiry is made by the Body Corporate of Caro Mel Apartments 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 Terms of Reference are addressed below.

Terms of Reference:

- a) i) **Magnitude of increases.** In 2010, our apartment block was insured with [REDACTED] Australia 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.

What evidence is there that residential unit developments have sustained disproportionate levels of damage compared with individual dwellings or strata title complexes in non cyclone areas?

ii) **Reasons for increases.** We 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.** We 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.** There seems to be a failure in the market for insurance of strata title residential apartments as many see these as being predominantly investment properties. The insurance companies (and many others) consider that they can charge excessively, as many apartments are negatively geared. The owner will not complain as the extra comes off his tax. This, even if true, not only places an unfair burden on owner/occupiers, but also effectively has the Australian Taxpayer subsidising the insurance companies.

The extraordinary premiums required to be paid in tropical areas are a disincentive to potential residents, businesses and investors. If the Australian and Queensland Governments wish to see development in regional areas, and not just more overcrowding of the South East, the inequity between insurance premiums must be addressed.

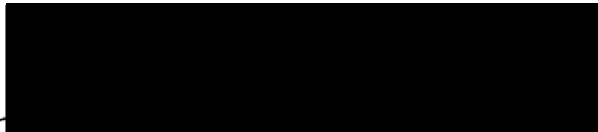
- d) **Consumer awareness.** There is a need to increase the awareness among consumers, of the options available to reduce the insurance premiums in individual cases, especially for ordinary bodies corporate that have little in the way of professional advisors. For this to be successful, the ability for ordinary bodies corporate to negotiate in an equitable way with much the more powerful insurance industry must be guaranteed. For instance, quotes should contain details of varying levels of policy excesses which may be negotiated. Our Body Corporate had to initiate and negotiate this for itself.
- e) **Nature of body corporate arrangements.** Many residential strata title unit developments are handled by Body Corporate Managers who deal with a large number of premises. Insurance renewals are handled as a matter of course and unless unit owners collectively object to an insurance increase at renewal time, then normally the renewal is accepted. Body corporate budgets are normally increased automatically each year to take into account inflationary trends. We believe insurance companies are taking advantage of the fact that bodies corporate have administration funds with money set aside for expenses, more than individual home owners do.
- f) **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) A means should be established to allow ordinary bodies corporate to negotiate premiums equitably with insurance companies to suit individual circumstances. To underpin this, the bodies corporate of the individual owners need to be aware of the range of options available.
- 3) Evidence of building preventative maintenance such as (voluntary) regular bi-annual or annual roof inspections, should qualify for a discounted or lower rate of premium. This is something that could be considered for all building insurances.

We 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?

Should you require any additional information, please do not hesitate to contact me at 

Yours faithfully



Ian Cruickshank  
Chairman  
Body Corporate Caro Mel Apartments