

Submission to Parliamentary Inquiry

To:	Parliamentary Inquiry on Strata Titled Insurance
From:	Graham Koch
Location of Property:	Insurance Broker Representative with 37 years insurance experience
Number of Units:	None
Comments:	<p>There are a number of insurance issues facing property owners in north Queensland and they are not limited to strata unit owners.</p> <p>The main problem of course for strata is there is no competition in underwriting as most insurance companies have opted not to underwrite body corporate insurance in North Queensland. The only ones still doing it seems are through through . Fewer players equals less competition and higher premiums.</p> <p>Insurers tell us that water damage claims are one reason they are reluctant to underwrite strata insurance anywhere, eg. a long leaking pipe on the top floor of a 20 story building can cause massive search costs that are difficult to allow for when calculating premiums. Throw in the fact that they are having trouble making money out of investments and with the recent number of catastrophes, the insurers have problems. I think a focus of the inquiry should be how to resolve the problems the insurers have and get them back into the market.</p> <p>There is virtually no competition between insurance intermediaries as the gate keepers, being the body corporate managers, in most cases have insisted intermediaries kick back commission to win the insurance on the properties they control. The body corporate committees seem to be powerless if they challenge their body corporate manager on this matter. This has resulted in most intermediaries being reluctant to be involved in body corporate insurance as they perceive this practice as either unethical, unprofitable or both. Consequently you have just a few brokers doing most of the body corporate insurance, with the lions share appearing to go to one broker in the South East corner of the state. Once again, fewer players equals less competition and higher premiums, not to mention this of course does nothing to aid local employment in North Queensland. As part of your inquiry, I recommend looking at the way body corporate managers influence insurance decisions and how they are remunerated for their involvement.</p> <p>In relation to property insurance generally in North Queensland, the government has allowed insurers to pick and choose where and how they will do business and so naturally they have chosen to stay away from northern Australia for the low hanging fruit in the south.</p>

This is a problem not just for strata insurance but all property insurance as the majority of companies will no longer insure property in the north, leaving the few who are left to carry all the risk. Again I say, fewer players equals less competition and higher premiums.

If a company wishes to call itself an Australian insurer, surely it can somehow be made to insure property in all of Australia. The insurance laws are there for the benefit of all Australians, not just to ensure insurance companies can easily make a profit by discriminating against the northern half of the country. I am sure none of them are going to stop writing insurance in Melbourne now they have had a major hail storm there.

In my opinion there are too many corporations with multiple distribution channels that appear to virtually manipulate the market to suit themselves. An example of this is the Suncorp group of companies, but there are others. A person could approach an insurance broker and get a quote from Vero, then go to their Suncorp bank branch and get a Suncorp quote, visit their local AMP Financial Planner for an AMP quote, ring GIO, AAMI, Shannons, APIA and possibly a few others thinking they are doing a lot of shopping around but in actual fact they are only going to Suncorp companies.

Corporations that have multiple brands should be made to disclose quite clearly, on the front of their PDS, they are part of a larger conglomerate, so people know who they are dealing with and are not duped into this quasi shopping around.

I believe a way to create competition, is to legislate that insurance companies only underwrite insurance leaving the sales and distribution to ASIC registered intermediaries. Most life insurance companies and Fund Managers now work on this basis and it is working well.

I think it is time to take commissions out of domestic general insurance (including strata, home and motor vehicle) and have intermediaries charge their own fee. More importantly the practice of referral commissions, kick backs, spotters fees, etc disclosed or otherwise, should be banned completely.

If insurance companies just manufactured the product and had to give the same price net of commissions, over-ridings, volume bonuses, etc to all ASIC authorised intermediaries this would create competition. It would be up to the bank branch, insurance broker, insurance agent, call centre, retail outlet, etc to add their own fully disclosed fee on to the policy to win the business on a level playing field.

Do not forget that another major contributor to rising costs are government charges. There is a 10% commission charged by the commonwealth government on the premium, otherwise known as GST. The state government also wants a commission (stamp duty) of 7.5% on the premium as well as on the GST. Yes you actually pay stamp duty on the GST, or another way of putting it is a tax on a tax.

This equates to 18.5% extra on top of the premium going to governments. Not bad money for not doing any work at all. This of course works as an incentive for the government to have rising premiums. If intermediaries are banned from earning a percentage based commission, it is only right that government taxes be changed to a fee for service also.

My final point on this subject is that insurance is a fundamental part of the economic fabric of our society. Without an insurance industry, business in Australia would grind to a halt. Allowing people or corporations to treat insurance as a way to make a quick dollar out of exploiting average Australians without any concern for the welfare of society or for a strong and viable insurance industry should be unacceptable to us all.