The following response is submitted to provide a landlord's perspective of the significant increase in insurance costs for strata title properties in Townsville. As self–funded retirees we have invested in:

- two apartments in a block of 18 -
- one apartment in a block of 45 -
- 6 apartments in a block that is not strata titled -
- 5 apartments in a block that is not strata titled -

The diversity of this portfolio enables us to comment upon the Terms of Reference from experience in the strata and non-strata situation

*(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;*

The following historical records clearly indicate the magnitude of the increase in strata insurance.

**EXAMPLE** 1 -

| PERIOD | PREMIUM | INCREASE | CUMULATIVE |
|---|---|---|---|
| 2009 | $ 5,610.00 | | |
| 2010 | $10,451.00 | 86.29% | |
| 2011 | $45,485.46 | 435.22% | 810.79% (2 Years) |
| 2012 | $55,000.00 | 21.00% | 980.39% (3 Years) |

**EXAMPLE 2 -**

| PERIOD | PREMIUM | INCREASE | COMPANIES | CUMULATIVE INCREASE |
|---|---|---|---|---|
| 2008 | $ 16,852.95 | | | |
| 2009 | $ 19,741.56 | 17.14% | | |
| 2010 | $ 21,376.13 | 8.28% | | |
| 2011 | $ 25,555.96 | 19.53% | | |
| 2012 | $ 87,845.62 | 343.79% | | 521.24% |



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The following calculations demonstrate the impact of these increases when the principle of *User Pays* is applied.

| | | | | | |
|---|---|---|---|---|---|
| 2009 | $ 5,610 | ÷ | 18 Units | = | $ 311.66 |
| 2012 | $ 55,000 | ÷ | 18 Units | = | $ 3,055.00 |
| | | | Increase | = | **$ 2,743.34** ÷ 52 weeks = **$ 52.75 pw** |

This calculation indicates that a weekly rental of $300 to $320 with an additional $52.75 would result in an increase of **15.62%.** It is impossible for such an increase to be imposed on a long-term tenant renting in a strata situation due to Government regulations and affordability. This raises the question of how unit owners will be able to absorb or sustain these increases? For many, it may mean exiting the rental property market or bankruptcy, particularly since the average return on investment is around 5%. It should also be noted that this increase will be in addition to the significant increases in Council, electricity and utility rates that will also need to be covered.

By way of comparison the insurance costs for our privately-owned unit blocks that are non-strated were:

| **PERIOD** | | **PREMIUM** | | |
|---|---|---|---|---|
| | 2010 | $ 933.89 | 5 Units | |
| | 2011 | $ 988.29 | | |
| | 2010 | $ 1,378.15 | 6 Units | |
| | 2011 | $ 1,599.51 | | |
| | | | | |

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

From our experience insurers seem to be willing to price risk on general across-the-board geographical location principles rather than on accurate historical records of claims or geographical data pertinent to each situation. Into this equation however, one has to also factor in a broker's willingness to discount commission for the cover.

*(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;*

The lack of competition resulted from a number of strata underwriters withdrawing their services from the north Queensland area. Only two insurance companies remained in the



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market place and offered cover with exorbitant increases. The possibility of opting out of insurance cover was not available to Body Corporates due to government regulation. Spreading the level of risk across the whole country rather than a specific area is preferable rather than subsidisation, particularly if people who are prepared to invest in accommodation for others are punished with such cost escalations. Perhaps basing the insurance cover on the Third Party insurance model may be a solution.

*(d) Whether consumer awareness of different insurance options should be enhanced;*

There is a compelling case for consumer awareness of different insurance options to be enhanced. Just as with any learning process there is a variety of teaching strategies that could be employed to heighten consumer awareness. Short video clips clarifying the most common misunderstandings could be accessible on the internet, an internet or telephone hotline service could be made available along with access to competent presenters online or in person. A price for accessing these services on a user-pays basis would be a realistic option for Body Corporates. Such strategies that might assist Body Corporates in their decision-making process particularly that associated with insurance cover. Of course this is all irrelevant if there is no choice available.

*(e) The extent to which the nature of body corporate arrangements are contributing to affordability difficulties;*

Body Corporate groups trying to manage facilities in the face of such exorbitant increases would appear be a selective and easy target for insurance companies particularly when compared with individual home owners and non-strated buildings.

In the non-strata situation we have become aware of owners choosing to self-insure. Perhaps this option could also be made available to Body Corporates. Naturally strict regulatory controls, such as a list of essential criteria for opting out of the commercial insurance scene, registration requirements and a system of monitoring would need to be developed if such a scheme were to be put in place.

The Government itself benefits from this situation through state and federal taxes imposed on highly inflated premiums. For example, a costs analysis of the government taxes on reveals the following:

| | | TAX % | | |
|---|---|---|---|---|
| PREMIUM | $ 91,268.18 | | | |
| GST | $ 9.126.82 | 10% | | |
| STAMP DUTY | $ 7,529.61 | 8.25% | | |
| **TOTAL TAX** | **$ 16,656.43** | **18.25%** | | |



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It is suggested that premium increases in excess of 10% could be subject to a tax rate based on a 5 year average.

In summation, we are facing in total a 900% increase in insurance costs.  Without government intervention to ensure some equity in the cost of insurance cover, there could be significant detrimental effects including, in our opinion:

- a fall in the number of investments in body corporate situations by self-funded retirees and investors
- a negative impact on available tenancies
- the movement of older residents from strata titled units into retirement facilities earlier than planned which could indeed place greater strains on government funding sources

It is our opinion that if such conditions continue to prevail there is ample justification for government intervention in the residential insurance market.   In conclusion, any of the suggested options outlined above are of little value if they are not affordable.

Dr Deanna & Gerd Hoermann



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