

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

16 January, 2012

The Parliamentary Committee,

SUBMISSION TO THE INQUIRY

This submission is prepared on behalf of the Body Corporate Committee for [REDACTED] [REDACTED] Cairns. The purpose of this submission is to support:

- the inquiry into residential strata title insurance and specifically inquiries relating to affordability;
- the view that diminished competition between insurers influences affordability and is a major failing in the insurance market, and
- the view that different insurance options as well as consumer awareness of them must be enhanced.

Further, this submission intends to draw attention to the questionable practices of [REDACTED] [REDACTED] (and those acting on its behalf) that would warrant increases in premiums inconsistent with other property insurance movements or [REDACTED] exposure to risk.

Background

The [REDACTED] Body Corporate committee is in receipt of [REDACTED] quotations for insurance premiums representing increases of more than 650% in less than three years. Although insurance has been sought from a competing insurer, [REDACTED] insurance payments have still more than doubled from \$3,158 in 2009 to \$7,018 in 2011. Increases of this magnitude are such that:

- the value of personal property investments are rapidly eroding;
- the rent required to meet increased costs is increasingly unacceptable to tenants; and
- Owner occupancy under resident strata title is becoming unaffordable.

The lack of competition between insurers coupled with negligible advocacy by [REDACTED] [REDACTED] nominated body corporate management service provider, Body Corporate Services (BCS) is such that owners have had no alternative but to bear the additional and significant financial burden. Sky-rocketing insurance has been identified as an incentive as

well as a barrier to sale by at least one third of [REDACTED] investors and owner-occupiers who share a sense that they are obligated by law to meet excessive 'costs' that are driven up by uncompetitive means and are beyond the capacity of most owners to pay.

Increases in premium

The insurance renewal notice received from insurance broker, [REDACTED] on behalf of the incumbent insurer [REDACTED] in April 2011 (see attachment 1) quoted a premium of \$20,826.33 representing a 390% increase in the premium paid in 2010 of \$5,346.34 (see attachment 2) and a 659% increase in the premium paid in 2009 (\$3,158.00). [REDACTED] is subject to regular infrastructure maintenance, has a 'no claims' history and notwithstanding seasonal climatic conditions, has not been subject to increased exposure to risk.

The quoted 659% increase in 2011 was described by [REDACTED] Deputy Branch Manager, [REDACTED] as being indicative of the '*massive increases in the cost of insurance*' contributing to an '*insurance crisis*' ([REDACTED] email dated 4 April, 2011). The Hon Warren Entsch has since described the increases in Far North Queensland in a single word: '*devastating*'.

Included in the quoted premium (attachment 1) is the share taken by the Office of State Revenue in Stamp Duty (7%) the share taken by Federal Government in GST (10%) and the share taken by [REDACTED] (0.5%). Stakeholders and others either acting on behalf of, or profiting from the commercial practices of [REDACTED] must also be held to account - not just the insurer alone.

Body Corporate Management and affordability challenges

The increase in 2010 was described inaccurately by [REDACTED] as '*in-line with all insurance premiums*' and as a result of '*the economic climate and the fact that we are in a cyclone area and there have been cyclones (eg Cyclone Larry in Innisfail 2yrs ago) (sic) that required large pay outs*' despite [REDACTED] assertion that '*public liability is the most likely claim*' ([REDACTED] email dated 9 April, 2010). By this explanation, [REDACTED] evidence an inability to advocate authoritatively for owners subject to inordinate price pressures. Whilst [REDACTED] committee acknowledges that this is a matter for them and [REDACTED] it serves to illustrate the basis for limited and flawed consumer awareness.

[REDACTED] also claimed in April 2010 that '*the numbers of companies that will insure bodies corporate in Cairns are decreasing*' evidencing the long term decline in competition in the far north Queensland insurance market. In 2012, [REDACTED] committee will have only two insurers to choose from. It will come as little surprise to the parliamentary committee then, that [REDACTED] committee share a sense of being at the mercy of a market subject to

diminished competition and genuinely fearful of the increase to coincide with the next payment.

Conclusion

Further increases in insurance premiums of the magnitude evidenced by this submission are a recipe for certain and serious financial hardship for [REDACTED] tenants and owners alike. The phenomenal increases in premiums are far in excess of CPI or wage increases and are in many cases beyond the capacity of owners to pay.

In the absence of healthy competition, State and Federal governments must legislate to ensure remaining insurers do not impose punitive increases that overstate risks and ensure that increases are commensurate with the policy holder's history of claims. In this regard, the conduct of [REDACTED] and others acting on its behalf must be investigated.

On this basis, [REDACTED] Committee strongly supports the inquiry into the affordability of residential strata title insurance.

[REDACTED]

Caleb Wiles
Committee Chair

[REDACTED]

[REDACTED]

[REDACTED]