

16 January 2012

House Standing Committee on Social Policy and Legal Affairs
PO Box 6021
Parliament House
CANBERRA ACT 2600

By email: spla.reps@aph.gov.au

Inquiry into Residential Strata Title Insurance

Suncorp welcomes this opportunity to contribute to the *Inquiry into Residential Strata Title Insurance* being conducted by the House Standing Committee on Social Policy and Legal Affairs.

Who are we?

The Suncorp Group of companies (Suncorp) includes leading general insurance, banking, life insurance and superannuation brands in Australia and New Zealand. Suncorp has around 16,000 employees and relationships with nine million customers. It is a Top 25 ASX listed company with over \$95 billion in assets.

Suncorp has five core businesses: Personal Insurance; Commercial Insurance; Vero New Zealand; Suncorp Bank and Suncorp Life.

One of the products Suncorp provides among our suite of personal, commercial and life insurance products is residential strata title insurance. Strata title insurance is distributed by Suncorp nationally, through AMP and GIO.

This submission is made on behalf of the Suncorp General Insurance division which includes both Personal Insurance and Commercial Insurance.

The Terms of Reference

Suncorp notes that the inquiry is seeking to assess the affordability of residential strata title insurance. As such our submission focuses on the reasons for variation in the cost of insuring residential strata title properties, with particular attention to tropical northern Australia.

The Suncorp Experience

Suncorp offers strata title insurance nationally, through AMP and GIO. In Far North Queensland, where there are some concerns around the availability of strata insurance, AMP writes strata title insurance up to the sum insured of \$5 million per property. This is a reduction from a previous ceiling of \$20 million and is due to a number of key factors, including Suncorp's risk appetite and the complexity in underwriting larger strata title developments due to such things as underground car parks, pumps, elevators, swimming pools and other facilities on common ground. Although Suncorp underwrites strata title properties nationally, we have a relatively small market share in Far North Queensland.

Suncorp has experienced increases in the cost of issuing strata title insurance over recent years. It must be stressed that these were inevitable as the market has hardened, especially after the weather events of late 2010 and early 2011. Large loss events, historical under-pricing and increases in the cost of reinsurance have resulted in higher premiums.

Furthermore, Suncorp's focus on the pricing and introduction of automatic flood cover on home insurance for non-strata titled properties, has impacted on Suncorp's ability to assume additional risk on potential strata title business.

Due to the diversity of strata developments, strata title insurance is not as easily priced as other properties, such as individual domestic residential dwellings. Additionally, while most houses are relatively similar, multi-title developments vary to a far greater degree, and increasingly include commercial components, which can push them outside normal underwriting criteria.

The magnitude of the increases in the cost of residential strata insurance over the past five years, the reasons for these increases and whether these increases are likely to be sustained.

Suncorp's records show that while strata title insurance has increased in cost over the past five (5) years, there is nothing to suggest these increases are unjustified or deviate from usual insurance responses to increased claims and detailed understanding of the risks facing a region.

With particular respect to Far North Queensland, the incidences of severe weather events over recent years have had an impact on premiums. This is to be expected, as insurers must price premiums according to the risk policies carry. A sustained increase in disaster events in a particular region will always result in increased costs for insurance cover, as the region poses a greater risk for catastrophic loss and reinsurers respond with higher reinsurance rates. Australian insurers experienced just this in recent reinsurance negotiations.

An analysis of strata title policies held continuously in Far North Queensland (defined at postcodes 4800-4895 inclusive) from November 2009 to November 2011 shows the average premium increase for these policies was 37% over the specified period. Suncorp does not view the increases in our portfolio as unreasonable or unjustified.

Suncorp considers that a diverse range of factors influence the cost of strata title insurance, and accordingly may have a substantial cost impact, especially for larger developments. These include, but are not limited to:

- Liability; the joint and several unlimited liability of strata tile lot holders, as well as incorporating elements of personal (building) and commercial (officers and directors) insurance, contribute to increasing the cost of strata title insurance, as the potential claim loss is heightened. Strata insurance is unlike any other insurance product in this regard.
- Cover; the combined personal and commercial elements of strata insurance make it more expensive than other insurances as it covers more diverse risks. Large recreational and communal facilities also increase the risk of public liability cover being required. These factors make comparisons of costs between strata and standard home insurance coverage somewhat difficult.
- Historical underpricing; strata title insurance has been underpriced in Australia for many years, especially in the tropical regions.
- Size; larger developments pose a greater risk of loss and therefore may be beyond the risk appetite of some insurers.
- Use; many large strata title developments have mixed use, in that they also contain commercial businesses or may have units available for rent. This often means that strata title development fall outside the residential underwriting criteria for many insurers. Suncorp's strata products do not insure mixed use strata titled properties.

- Environment; a combination of cyclones, storms, flooding and storm surge make northern Australia a more hostile environment for insurers. Many smaller insurers specialise in products of a lower sum insured in less volatile environments. While some companies are willing to write insurance for larger developments in such environments, it cannot be expected that all insurers will be able to participate in this market or be willing to bear such a concentration of risk in a high-peril environment. Suncorp research indicates that in hurricane-prone regions of the United States, strata title cover for “condo” associations is more expensive due to the threat from that peril.
- Specialist underwriting; for the reasons outlined above, underwriting bodies corporate and strata titled properties is often difficult. Differences between developments require individual assessment, which means strata title properties cannot be insured with “off-the-shelf” policies as readily or cheaply as stand-alone houses.
- Intermediaries; the residential strata title insurance market is a heavily intermediated, with the majority of policies being written through brokers. While this is necessary to ensure bodies corporate hold appropriate cover, it does increase the price of insurance.

Suncorp has reason to believe that strata title insurance premiums, especially in northern Australia, may continue to increase in the short term, as the product becomes more accurately and appropriately priced.

The ability of insurers to price risk and the availability of accurate data to allow for this.

Insurers use a range of methods to price policies, and strata title properties do complicate these calculations. Strata title properties in tropical northern Australia pose a range of problems, even for insurers specialising in residential insurance, especially with increasing severe weather events.

Given the presence of insurers offering strata title insurance throughout Australia, Suncorp is of the view that there appears to be no question about insurers’ abilities to price the risks large strata titled developments carry. While there have been some substantial premium adjustments reported, these are attributable to historical unsustainable aggressive underpricing, increases in the cost of reinsurance and the claims (losses) experienced in northern Australia in recent years.

As highlighted in previous submissions, Suncorp is concerned about the lack of adequate flood mapping and flood mitigation in some regions. Inadequate flood mapping makes underwriting flood risk difficult, and this is exacerbated by the complexities of many strata title developments.

Whether consumer awareness of different insurance options should be enhanced.

Suncorp supports any measures to improve the community’s knowledge and understanding of the insurance industry and awareness of the differences between various products. Suncorp believes that informed consumers are more likely to purchase appropriate and adequate cover, benefiting both policyholders and insurers.

Suncorp has identified that many strata lot owners are unaware of their insurance options, and we recommend that increased education and information be provided to policyholders during the conveyance process. This will increase understanding and ensure that appropriate advice is given to lot owners.

The extent to which the nature of body corporate arrangements are contributing to affordability difficulties.

Residential strata title insurance covers a broad spectrum of properties, encompassing subdivided lots containing as few as two dwellings, to large multi-lot apartment towers. This variation impacts greatly on strata title insurance premiums for larger developments. Many of the larger developments also contain commercial operations and other amenities, or may have units available for short-term lease.

This complicates risk estimation, as the above features are essentially commercial and pose a different risk to wholly-residential developments. Due to their size and complexity, these developments require an on-site assessment and must be underwritten on an individual basis. They cannot be priced through standardised pricing criteria in the same fashion as single residential dwellings.

Many insurers find these developments outside their risk appetite and underwriting criteria. This may limit the number of insurers willing to insure larger residential strata titled developments, concentrating the risk among few companies. This concentration of risk may contribute to higher premiums, as the insurers face greater losses in the event of a major event.

There are some regions in Australia that are exposed to particularly strong threats, especially extreme weather events. This includes much of northern Australia, especially Far North Queensland. While there may be similar weather events in the Northern Territory and northwest Western Australia, the sparse development in these regions and the reduced frequency between major loss events equates to lower levels of risk, and therefore lower premiums.

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 availability of strata title insurance throughout Australia shows there is a functioning market for this product. While the number of insurers offering this product may have decreased, especially for larger developments, cover is still available. Although cost increases have occurred in certain higher-risk regions, these increases reflect conditions and risk in those areas.

Potential innovations to decrease cost of residential strata title insurance.

The biggest issue with strata is its complexity and variation across Australia. In each State and Territory there is specific legislation governing strata plans registered in its jurisdiction. In some states, such as Queensland, the same Act applies to all strata schemes regardless of property type or lot size, while others like New South Wales, have different laws depending on the age, type and number of lots in the scheme.

Consequently, lot owners are continuously confused by the legal responsibilities and obligations required of them. It is Suncorp's opinion that strata regulation should be harmonised across the States. It is recommended that COAG consider harmonising strata law under the National Partnership Agreement to Deliver a Seamless National Economy. Nationally uniform strata title laws have the potential to make insuring strata title developments simpler and enable increased standardisation of cover.

Improvements and standardisation of planning and building codes in high-peril areas such as northern Australia could reduce some of the problems reportedly experienced with regard to affordability in certain areas. For many developments, their size and location contribute considerably to the insurance premiums; with improved understanding of the costs of insuring such developments, planners, developers and lot-holders could make a better informed choice about building or investing in multi-peril environments.

Suncorp supports calls for a government review of taxation on insurance. While the States and the Commonwealth Government support individuals and businesses purchasing insurance, excessive and inefficient taxation greatly impedes the affordability of insurance for many. As recommended by the Henry Tax Review, Suncorp calls for stamp duty and the fire services levy (where applicable) to be removed from insurance, as these taxes discourage people from insuring, and contribute to higher premiums.

Government intervention

Given that residential strata insurance is widely available throughout Australia, including multi-peril environments, Suncorp is of the view that Government intervention in the strata title insurance market is

unnecessary and would ultimately be unable to ensure more cover options, or cover at reduced cost, without significant administrative burden, and risk to the Government balance sheet.

Suncorp believes there is an opportunity for all levels of government to play a role in ensuring that future strata title developments are built to higher standards and located away from potential water hazards, such as coastlines, lakes and rivers. Appropriate planning and development will ensure more affordable insurance premiums.

Conclusion

Suncorp is aware that there have been price increases in parts of tropical northern Australia for residential strata title insurance, and believes that there may be further, less severe, increases in future. These are largely attributable to the complexities of strata title insurance, corrections for historical underpricing, increases in reinsurance costs and an aversion to holding an excess of concentrated risk in a multi-peril environment with a recent history of catastrophic losses.

Suncorp believes that national harmonisation of strata law, removal of inefficient taxes, more appropriate development and improved planning would assist in maintaining the long-term affordability of strata title insurance throughout Australia. Suncorp does not believe there is a need for Government intervention in the strata title insurance market, as the national availability of the product shows there is no market failure.

Should you require further clarification in respect to these matters, please contact me on 03 8681 9428 or 0425 294 903, or Mike Thomas, Manager - Government & Stakeholder Relations on 02 8121 3115 or 0419 772 069.

Regards

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