

From: [REDACTED]
To: Committee, SPLA (REPS);
cc: [REDACTED];
Subject: Submission - Inquiry into residential strata title insurance
Date: Monday, 16 January 2012 4:45:46 PM

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16 January 2012

Secretary
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

Dear Secretary

Please accept this personal submission into the Committee's Inquiry into residential strata title insurance. I am a member of my apartment building's body corporate committee, and previously held positions during the past two decades such as Chair, Secretary and Committee member of large bodies corporate when I resided in Sydney.

I relocated to Cairns about 18 months ago, and purchased an apartment in the suburb of [REDACTED]. The building is about 30 years of age, solidly built of concrete and situated well above any storm surge or estuarine flooding. The building is well maintained and the body corporate committee manages the building very effectively. The body corporate accounts show a healthy sinking fund. There are 20 apartments in the building.

The committee was shocked and surprised to receive an annual premium request for its building insurance for 2011/12 of some \$80,000 a little over four months ago. The Body Corporate Committee asked me to inquire into the matter and this submission is based on those inquiries and subsequent discussions. In short, my inquiries elicited responses confirming that the premium increases were based on the multiple natural disasters experienced in Queensland in January 2011.

Term of reference (a) – increases in insurance

In the building that I currently reside, the body corporate insurance premium has risen from \$19,910 in 2009/2010, to \$27,680 for 2010/2011 and to \$35,832 for the first six months of 2011/12 (making an annualised rate of \$71,663 for the current year). This

means that, on average, each owner's annual contribution towards the building's strata title insurance has risen in 2 years from \$1000 (in 2009/10) to \$3500 (in 2011/12) per unit.

I am unsure whether recent strata title insurance premium increases will be sustained, and as a temporary measure, our Committee has negotiated a six-month policy with our current insurer. To assist body corporates throughout northern Queensland make informed decisions about their insurance needs, it would be useful for the Standing Committee to seek information from insurers about the rise (and fall?) of insurance premiums after previous natural disasters, such as from Cyclones Tracy and Larry, and the hail storm in Sydney in the late 1990s. My own assessment is that the current premium increases for bodies corporate in northern Queensland are unprecedented. This makes it extremely difficult for bodies corporate to responsibly plan their future financial obligations.

Term of reference (b) – ability of insurers to price risk

I am firmly of the view that many insurers have 'lost the plot' when it comes to the calculation of risk. I am advised that the apartment building in which I currently reside is one of the most solidly constructed and least likely to suffer any significant impact from cyclones and other natural disasters in the Cairns region. However, in my attempts to identify an appropriate body corporate insurer, I was surprised to learn that:

- There is only one insurer in northern Queensland that would insure our 30 year old building;
- That no insurer wanted to undertake an individual risk assessment of our building (a solidly constructed building at no risk from storm surge and flooding);
- Insurers were reluctant to insure our building because it comprised primarily owner occupiers (rather than short-term holiday lettings), which seemed counter-intuitive to me;
- Previous claims history was deemed not relevant (our claim history for the previous 7 years was one claim of \$5000 due to a plumbing problem); and
- No insurance company would deal directly with me, although I was specifically requested by the Body Corporate Committee to request premium quotations – all companies that I approached would deal only with brokers; and
- Significant commissions were being made by brokers that were not disclosed to the body corporate committee.

These factors suggest that risk appears to be of little relevance in setting premiums.

Term of reference (c) – market failure

There is unquestionably market failure for body corporate insurance in northern Australia as evidenced by the fact that only one insurance company was willing to quote for our building. I made numerous attempts to identify other insurers, as did our current

insurance broker. The legislative requirement for bodies corporate to take out building and other related insurance has created a monopoly of sorts, where one insurer is able to command premium increases of around 400% in 2 years.

In addition, it appears that body corporates are being unfairly targeted, as media reports have suggested that single-dwelling homes have not been subjected to the premium increases that have been experienced by bodies corporate.

It would be useful for the Standing Committee to seek from the insurance industry information about proportion and quantum of the claims made by single dwelling homes and by body corporates as a result of the recent natural disasters. This would assist in determining the validity of the suggestion that bodies corporate are being unfairly targeted because of the compulsory nature of their building insurance (i.e. if single dwelling home owners were faced with the extent of increases being experienced by bodies corporate they might well decide not to insure.)

Term of reference (d) – consumer awareness

I was surprised to learn about the extent of secret commissions being paid on body corporate insurance. In the case of my apartment building, this amounted to \$18,000 of the requested \$80,000 annual premium. It seems as though some of these funds were retained by the broker and some were being remitted to the body corporate manager – both without the knowledge of the apartment owners or body corporate committee. Commissions of this extent are unconscionable and I believe that this strongly suggests the need for government regulation.

In our renegotiated insurance policy, our body corporate has contracted with a broker for a fixed annual fee (\$3500), and the broker now explicitly rebates the previously secret commission to the body corporate.

Term of reference (e) – body corporate arrangements

My inability to deal directly with insurers was frustrating and annoying. I am unsure of the reasons for this approach by the industry, but given the extent of secret commissions being paid, there is an argument that bodies corporate should have a statutory right to deal directly with insurers and bypass the use of brokers.

Term of reference (f) – possible government intervention

Based on the comments above, I suggest that the Standing Committee consider the following legislative protections for bodies corporate:

- All commissions on body corporate insurance premiums should be made explicit to the elected Body Corporate Committee;

- That there be legislative cap on annual insurance premiums increases allowed for bodies corporate (say 50%);
- That the Commonwealth Government establish an insurer of last resort to provide body corporate (and other insurance) in situations where only one insurer will provide insurance cover or a quote;
- That there be enacted a legislative right for bodies corporate to deal directly with insurance companies (i.e. bypassing brokers); and
- That insurance companies detail explicitly the reasons for insurance premium increases and decreases (phrases such as 'do not meet underwriting requirements' should be explicitly not allowed).

In summary, it seems to me that bodies corporate are being unfairly targeted by insurers in attempts to recoup losses from recent natural disasters (because of the legislative requirement for bodies corporate to take out building insurance). In this context, it is reasonable to anticipate a legislative remedy to the problem.

I wish the Standing Committee well in its deliberations.

Regrettably, I will be overseas when the Standing Committee holds its public hearings in Cairns and thus I will be unable to attend. However, I am more than willing to assist the Standing Committee with any follow-up information if required.

Yours sincerely

Matthew Blackmore

