



“Insurance is not a luxury, it is a necessity.”



Home strata insurance submission

**Margaret Shaw
21/5/2014**

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About the author

Name : MARGARET SHAW
Nationality : Australian

I spent 28 years in the IT industry specialising in the insurance and assurance industries.

I started with Lloyds of London in the UK in 1976, contracted in Australia to CBA Life before the company was officially formed, and my last contract in semi-retirement was with Zurich Australia in North Sydney.

After running my own IT consultancy and recruitment agency in Australia, in 2002 I “retired” from the computer industry (early I might add). I moved to Airlie Beach in 2005.

I have worked in: The UK; Ireland; Australia; Canada, and I’m very much a “hands on” person.

I have worked from ground floor to Board and Steering Committee level.

I have been everything from a Programmer to Project Leader and Programme Director.

I was happily retired and living in a 25 apartment complex in Airlie Beach (spread over 7 separate buildings) when, suddenly, overnight, and without warning or claims, our insurance went from \$25,000 to \$81,000 – SUU. Our then Treasurer couldn’t cope with the situation and had to resign due to stress related illness, I took over and the fight began.

I was involved in getting the Cross Party Federal Inquiry in February 2012, and presented twice to the Inquiry. I started the on line petition on change.org to give people a chance to protest. I’m active at Federal, State and local Government levels, and I’ve lobbied the then Labor Government, the present LNP Government, State Government, and everyone else I can contact.

AND.... I will not give in.

It isn’t right what is happening to North Queensland, and it isn’t fair. We are paying 5-8 times the premiums of Brisbane without the claims – no matter what your document states.

People are suffering, losing their homes and respectabilities, and all because the insurance companies cannot, or will not, offer affordable insurance, and for strata and some mortgages it is mandatory. Insurance companies are afraid and we need to take the fear away. We have to bring them back into the market.

I have done the best I can on this document. Where I have not addressed the full requirement, especially where finances are concerned, I apologise. All I know about finances is that the current cost to the people and businesses of North Qld in anxiety, stress and monetary value far outweighs any cost of repair of the situation. You only have to come and meet the people face-to-face to find that out.

My Body Corporate levies are around \$12,000 per year of which nearly \$3,000 is my insurance premium and the apartment is unsaleable.

I’m not as badly off as Dave in Cairns who bought his unit for \$180,000 prior to 2011 and had a \$160,000 mortgage. He is now \$5,000 behind in levies and is being pressed by Solicitors to be made bankrupt (as have many others). He cannot pay his levies, he cannot rent his unit for enough to pay his mortgage and levies, and he cannot sell his unit. A fire sale in his complex at the end of last year resulted in one unit being sold for \$90,000. As he said to me *“I can never recover”*.

This has to be dealt with. This has to stop.

Executive Summary

Addressing the high cost of home and strata title insurance in North Queensland.

The options identified in the discussion paper can be categorised into three broad strategic approaches:

- Increasing consumer awareness
- Promoting buildings' resilience to natural disasters
- Expanding insurance markets

Increasing consumer awareness

The idea is to increase consumer awareness by introducing some kind of comparison website for details of the property to be entered and premiums either offered or samples shown for comparison.

Finance has been provided in the current budget to facilitate this.

This concept is already used for other types of insurance such as health insurance and may very well work for home insurance. There are websites already in the market which do a similar thing (see Focus Question 4) and are used by Property Managers when trying to find insurance.

The major problem is that with strata insurance every property is different, we are not all Gold Coast high rises. The problem with strata properties is they also include any type of property with common areas. These can be:

- Gated communities
- Residential strata
- Tourist complexes
- Retirement homes
- Duplexes

to name just a few.

Set basic questions don't work so I suspect under the current circumstances an aggregate website will also not work.

I have hope the current project with JCU and Dr. David Henderson may come up with a solution to this but it will be difficult.

Strata complexes can differ greatly in their makeup. They can be:

- Separate houses with common land
- Single storey
- Multi-storey
- High rises
- Properties which only have a common driveway
- A combination – such as retirement villas and houses

They are all different in their way and no website it going to be able to deal with this.

However, if we go ahead with the website we should make sure Industry Special Risk policies (ISRs) are included so strata properties valued at below \$15M can have access to them. Brokers say at the moment it isn't worth trying to get an ISR unless the property is valued at more than \$15M. The insurance companies which take on this type of policy normally don't deal with standard strata policies. It is a different market.

Since, currently, there are only two companies willing to quote for strata business in North Qld, they being SUU and Vero/Longitude any website for strata properties is going to look a little empty.

I would like the idea to work but the problems are going to be manifold.

Promoting buildings' resilience to natural disasters

It is suggested complexes (including those types mentioned above) undertake proper risk analysis which results in a risk and mitigation report to be presented to various insurance companies to reduce premiums.

\$12.5M has been assigned in the current budget to help with this.

CGU/SUU have already announced their own risk assessment for all strata properties they currently insure (due to be completed by December this year), but the Government proposal is better as the report will be the property of the complex and not the property of a particular insurance company.

I had a meeting with David Grabau Head of Corporate Affairs Brand & Corporate Communications (CGU) and Damien Butler Government Relations Manager (NRMA), in Townsville 6th May 2014. David Grabau told me SUU were expecting a reduction in premiums of up to 15% per property. When your premiums have been increased 200-800% a reduction of 60-90% would be more appropriate. 15% is not sufficient.

It should also be noted that the majority of strata properties hit by the outrageous premium increases had either no claims, or minimum claims, due to Yasi or anything else. So where risk of damage by cyclones can be identified, mitigation to prevent damage for a property which hasn't ever been damaged is not going to help much.

Even when a proper risk assessment report has been undertaken (see Focus Question 20) there is no guarantee an insurance company has to take any notice of it.

It is possible this option may bring more insurance companies back to the market and, hence, create competition (which is missing at the moment) but has anyone actually asked them their opinion?

The current project being undertaken by Dr. David Henderson (JCU) and the Insurance Council of Australia (who still insist North Qld hasn't got a problem) may come up with a risk and mitigation report which can be used in conjunction with the previous idea, but I haven't yet seen the outcome of the project so cannot offer an opinion.

Should the project result in an actual risk rating which can be used for calculating a base premium (before loading for pools, lifts, etc.) then this would be of real benefit, and remove the need for any consideration to be given to postcode or location as the risk has already been fully assessed.

The use of postcode in assessing risk is heavily flawed in Australia:

- Airlie Beach on the mainland has the same postcode as the islands in the Whitsunday area
- Homestead 80 ks west of Charters Towers has the same postcode as Palm Island

Expanding insurance markets

The option is to open the insurance market in Australia to international companies not currently active in this market.

I know less about this option than the others, so I have less of an opinion.

I don't actually know why this market is closed to these companies except in unusual circumstances, but I suspect international companies who want access to our market have already registered companies in Australia.

I can see all kinds of legislative problems with this option but I feel it is worth a try, especially if it upsets our current insurers.

An expansion of the insurance market can only bring competition.

The real problem to be addressed

The real problem to be addressed is the lack of competition in the market which is allowing those still in the market to charge unaffordable premiums. They are afraid.

To give them their due, SUU have been the only company to remain in the market for existing and new business throughout the last four years. I would expect them to be over exposed by now and hoping other insurers will come onto the scene. However, the premiums being charged have meant record profits for many insurance companies. I estimate **additional** premiums over the last three years for strata properties alone has been in the region of \$1B.

I honestly believe that if the Insurance Council of Australia had acknowledged the people and businesses of North Qld had a problem back in 2011, and had contacted their members, sat down to discuss the situation and what needed to be done to bring insurance companies back to the market, we would have had a solution by now.

The insurance companies are the only ones who know why they aren't in our market and what needs to happen for them to return. We need them to offer solutions.

I would like to see a round table of State Government, Federal Government, insurance company representatives (those who can actually make a decision) and interested parties (I would volunteer) to discuss the issue from the insurance company's point of view and see if there is anything simple which can be done which will encourage more insurers back into the market place.

I would leave the ICA out of this as they have proved themselves inefficient, useless and in denial.

Unless our companies return to the marketplace any other action is unlikely to encourage active competition and premiums will remain unaffordable.

We have to remove the fear.

Assumptions the Discussion Paper made

North Queensland premiums versus South East Queensland premiums

I note in the Discussion Paper 9 May 2014 entitled ‘ **Addressing the high cost of home and strata title insurance in North Queensland**’ it is stated on page 7 (and several following pages) that “*Homeowners in North Queensland are paying premiums around two and a half times higher than their fellow Queenslanders who live in the south of the state.*”

Let us address this statement first. In my belief this statement is inaccurate.

I have no idea where these figures come from. I beg you to actually come to North Queensland, let me show you around and give you actual examples of what people here are paying, because it sure isn't 2.5 times Brisbane prices.

As of 21st May 2014, when I started this document, I looked on www.realestate.com.au for a comparable property to mine and contacted a few friends:

Brisbane:

a) *Postcode 4006 - Details provided by Ross Smith, father of owner*

39 units 1 pool no lift flood area but no damage value >\$13M

Premium \$13,893.20 = **\$357 per unit** (total insurance premium divided by number of units)

b) *Postcode 4169 – Details provide by Real Estate Agent 21/5/2014*

3 bedroom, 2 bathroom, 180 degree views_

Insurance levy for this particular unit is \$600.64 as of 21st May 2014 – details taken from the disclosure statement so can be verified.

c) *Postcode 4053, new building - Details provided by Real Estate Agent*

TOTAL body corporate levies are \$1,000 per annum as of 21st May 2014. This includes the insurance premium.

d) *South Brisbane postcode 4101 - Details provided by Dave Tindal, friend of owner*

27 Units on 5 levels plus underground car park 1 lift no pool.

Complex only 4 or 5 years old Replacement value \$13,318,000.

Car park flooded in Brisbane floods 2011 including lift and all complex electrical controls. Flood damage (furniture on the road stuff)

Paid new insurance premium in November \$14,200 with SUU = **\$449 per unit** (total insurance premium divided by number of units)

e) *Postcode 4075 – Details provided by Real Estate Agent 21/5/2014*

3 bedroom, 2 bathroom

Levies (sinking fund, admin fund and insurance combined) **\$2,387.15 per year** – which is less than my insurance contribution.

f) **23/11/2011** *Highgate Hill, Brisbane postcode 4010 – Details provided by an owner*

Block of 13 units built 19 years ago

Quote from one owner - "A lot of water damage claimed in the last 2 years". Annual premium as at above date \$7,012 which is equivalent to approx. **\$540** per household. The basement flooded badly during the Wivenhoe "leak" .

At that date mine was >\$3,000 with no claims.

g) *Broadbeach postcode 4218 – Details provided by Dave Tindal, friend of owner*

4 Units each 2 bedroom built on beach front with road frontage separating units from direct access to beach.

Brick built units with some age.

Only recently paid insurance for coming year \$2,417 for the 4 units = **\$604** per unit

This one he rang back the owners to confirm it was for all 4 units and not just one unit.

We are finding this difficult to take!!

Mackay

24 apartments, 7 storey, 1pool lift

Premium 30 November 2014 \$121,510 = **\$5,062.92** per unit (total premium divided by number of units).

Their premiums have increased 868% in 7 years

20 apartments, 5 levels, pool

2014-2015 premium \$81,400 = **\$4,070** per unit (total premium divided by number of units).

Airlie Beach:

6 units, 2 storey, 1 pool

\$16,310.00 = **\$2,718.33** per unit – all units here have equal entitlements

Seastar Apartments 25 apartments over 7 different buildings, 3 levels, 1 pool 1 lift

Too far above sea level for flood, no cyclone damage Yasi, Anthony, Ului, Ita, etc. etc., new SUU premium quoted for 2014:

\$72,000 = **\$2,880** per unit

We took an ISR policy for \$64,000 which is \$2,560 per unit (total premium divided by number of units).

My actual contribution is just short **of \$3,000 for a 3 bedroom, 2 bathroom unit.**

Tell me again why I'm not supposed to be angry, and I'm supposed to find this acceptable.

Conclusions

Taking the highest insurance levy I could find for a 3 bedroom, 2 bathroom unit in Brisbane with views: \$600.64

2.5 times this is: \$1,501.60

Taking my 3 bedroom, 2 bathroom unit in Airlie Beach with views. **I'M PAYING \$2,700+**

1. Units in North Queensland are between **3 and 8 times** the cost in insurance premiums than Brisbane
2. Units in North Queensland which have had no damage are between **3 and 5 times** the cost in insurance premiums than Brisbane units which maintained damage in the floods
3. In North Queensland, house insurance is 4+ times higher than Brisbane
4. As of 21/5/2014 a duplex on Magnetic Island was paying \$9,600
5. Bed and breakfast in Cooktown - \$15,000; in Airlie Beach \$7,000; in Brisbane \$1,500

It is very easy for someone to do the experiment themselves. Go onto www.realestate.com.au and look to buy a unit in Brisbane, find one similar to yours and ask the Real Estate Agent what the Body Corporate levies are including insurance.

The comparisons do not merit a statement of 2.5 times Brisbane premiums – we wish.

Building costs increasing

I note in the Discussion Paper 9 May 2014 entitled ‘ **Addressing the high cost of home and strata title insurance in North Queensland**’ it states: *In addition to rising claims and the reassessment of risk by insurers and reinsurers, the introduction of flood cover as standard in many home and contents policies, increasing levels of sums insured and increases in the cost of rebuilding have also contributed to increases in property insurance premiums over recent years. These factors go a considerable way towards explaining the high cost of insurance in North Queensland.*

Standard flood cover should be optional for a consumer and not forced onto them without an ability to opt out.

According to Archers Body Corporate Managers it would seem rebuilding costs have stayed static or, in fact, have reduced and not increased over the years. This can be seen where new insurance valuations for strata properties have been done as per the ‘every five year’ rule.

The AGA 2012 report

I note in the Discussion Paper 9 May 2014 entitled ‘ **Addressing the high cost of home and strata title insurance in North Queensland**’ it states: *It seems reasonable, against that background, to conclude that the degree of contestability in North Queensland property insurance markets is lower than for markets in most other Australian regions. It does not necessarily follow that insurance prices are unreasonably high in North Queensland. In his 2012 report, the AGA did not conclude that prices in the region are unreasonably high when assessed against the underlying risk.*¹⁶

Insurance prices **are** unreasonably high in North Queensland, in fact they are unaffordable with people losing their homes and dignities.

The AGA never set foot in North Queensland, neither did he take actual examples as the base of his report. Peter Martin investigated three insurance companies.

Underlying risks

I note in the Discussion Paper 9 May 2014 entitled ‘ **Addressing the high cost of home and strata title insurance in North Queensland**’ it states: *The most reliable and sustainable means of reducing insurance prices is to reduce the level of underlying risk. In relation to the key risk in North Queensland — cyclone — this means increasing the resilience of buildings, so that less damage is likely to occur if a cyclone hits. The insurance industry is taking some measures in this regard and there is potential for involvement by Government.*

The majority of buildings which received 200-800% premium increases (according to the Hon. Warren Entsch MP 1,000%) were buildings with little or no damage due to cyclones – mine included. You can’t mitigate a building that is already fully mitigated and has no damage or claims, just outrageous premiums.

Insurance for strata properties

I note in the Discussion Paper 9 May 2014 entitled ‘ **Addressing the high cost of home and strata title insurance in North Queensland**’ it states: *Insurance for strata properties is often obtained by a strata manager or insurance broker (with insurance cover for contents being the responsibility of individual lot owners within the strata group).*

Insurance for strata properties is always (haven’t found an instance where it isn’t) obtained by Body Corporate Managers or Brokers, both of which get commission added to base premiums, and sometimes both are involved leading to double commissions.

Insurance companies currently offering strata insurance insist on one or the other being involved.

Even after insurers are provided with answers to a detailed set of questions, they may need to undertake further analysis and investigations (for example, to determine the extent of pre-existing damage to a complex).

I can find no example where anyone from a Brokerage, Body Corporate Management company, or insurance company has ever set foot in a property in order to assess risk, without being requested to by the Body Corporate Committee (see Focus Question 20).

Increased income to Insurance Companies in only 1 year.

Taking only 10 complexes from the Whitsunday area, not the largest, not in alphabetical order, just the first 10 who contacted me:

Bldg	2010/2011	2011/2012
1	\$63,000	\$123,000
2	\$25,000	\$80,000
3	\$8,000	\$18,000
4	\$88,000	\$180,000
5	\$30,000	\$110,000
6	\$15,000	\$38,000
7	\$25,000	\$80,000
8	\$41,000	\$100,000
9	\$34,000	\$177,000
10	\$55,000	\$148,000
TOTAL	\$384,000	\$1,055,000

An increase of \$671,000 in income for only 10 complexes in a single year with no notice or warning given.

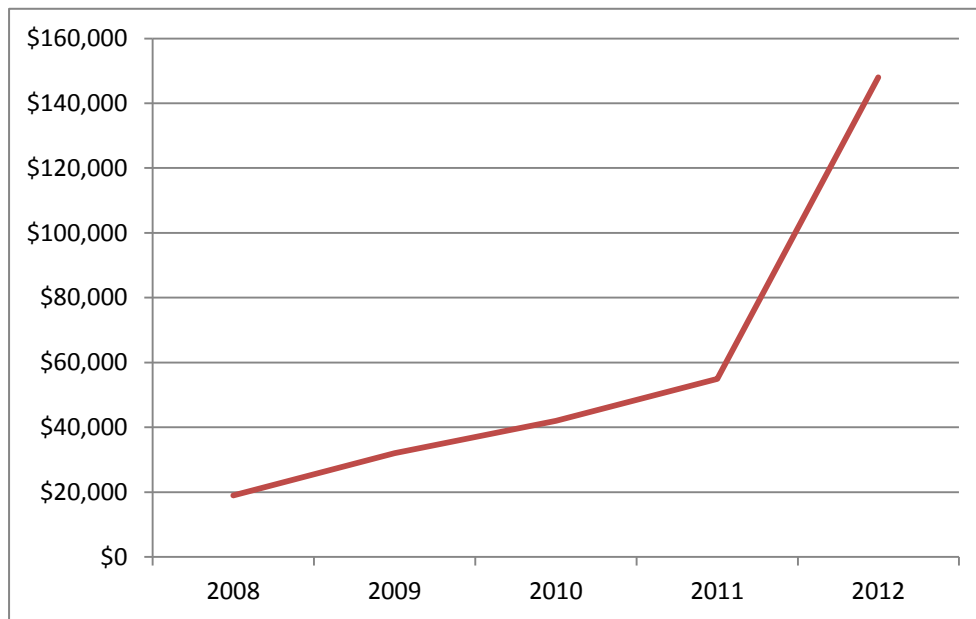
Multiply that up by the number of complexes, retirement villas, resorts from Mackay to Port Douglas and beyond. I believe the additional premiums being paid by strata owners alone in the last 3 years would be in the area of \$1B.

Increases in premiums from 2011 to 2012 in Strata Buildings

Taken from Insurance Submission for the Whitsundays February 2012 prepared by Margaret Shaw, Dave Tindal and Lester Riley

Analysis of over 36 complexes in the Whitsunday area show premiums have risen between 200 and 500%. These are properties which have had no, or minimal, claims in the last 5 years.

Just 1 example – postcode 4802



RISE IN ANNUAL PREMIUM for this 1 complex alone!!

From \$18,000 - \$148,000

Where Body Corporate Committees have responsibly budgeted for insurance increases, no-one ever thought the increases would be so high. Therefore, Committees were put in the difficult position of trying to find the extra money in a short period of time. This proved to be impossible for the majority. One complex budgeted \$27,000 for 2010 and the actual was \$40,940.80, they then budgeted for \$80,000 for 2011 and the actual was \$96,501.36.

Seastar	2010 - 2011	\$25,542.30	2011 - 2012	\$81,996.43
WS1	2010 - 2011	\$41,533.78	2011 - 2012	\$87,356.21
WS2	2010 - 2011	\$88,000.00	2011 - 2012	\$172,710.92
WS3	2010 - 2011	\$5,098.96	2011 - 2012	\$17,684.94
WS6	2010 - 2011	\$8,000.00	2011 - 2012	\$22,500.00
WS7	2010 - 2011	\$40,940.80	2011 - 2012	\$96,501.36
Jewel Apts	2010 - 2011	\$5,634.00	2011 - 2012	\$13,389.00
Azure Sea	2010 - 2011	\$63,000.00	2011 - 2012	\$121,000.00
WS4	2010 - 2011	\$17,000.00	2011 - 2012	\$71,000.00

Problem situation

It transpires there was only one Insurance Company active in the market for Strata Building Insurance Policies for the insurance period 2011 – 2012 (SUU). In September 2012 Vero/Longitude joined the market but initially refused to quote of properties which had any claims. Their quotes came in at approx. 10% below SUU.

Please contact Hon George Christensen MP for full details.

It resulted in the following:-

- There are unmanageably high premiums being paid by Strata Title Owners
- There are massive variations in premiums for buildings of similar style and location
- Commissions may be hidden in Tax Invoices and Quotations which are not transparent
- No consideration is given to prior claims or lack of them

Here are 3 of the worst claim scenarios during 5 years up to 2012:

	CLAIMS (5yrs total)	2010 - 2011 PREMIUM	2011 - 2012 PREMIUM
Case 1.	\$27,000	\$30,251.00	\$117,220.00
Case 2.	\$8,000	\$15,000.00	\$38,500.00
Case 3.	\$6,000	\$8,260.00	\$16,402.00
Case 4.	\$0.00	\$63,000.00	\$121,000.00

- Governments are collecting windfall Stamp Duties and GST payments for exorbitant Insurance Premiums
- One class of people have been targeted for high premiums (Strata Owners in Properties of a value up to \$15M) without any historical evidence of claims to support these premiums
- Owners of units in Strata Buildings are finding extreme hardship in finding additional monies to pay the premiums

According to the Australian Human Rights Act, article 26, people cannot be discriminated against based on property.

1. Strata insurance is mandatory in Qld, house insurance is not
2. Strata owners are paying more for insurance than house owners of properties in the same postcode of the same value.

The Options

The options identified in the discussion paper can be categorised into three broad strategic approaches:

- Increasing consumer awareness
- Promoting buildings' resilience to natural disasters
- Expanding insurance markets

The major problem which these options do not directly address is the use of postcode as a means to assess risk.

Homestead is 80Km (approx) west of Charters Towers. It has the same postcode as Palm Island, so is the 'capital' of our cyclone area – I don't think so.

The Australian Post Offices states that postcode was never intended as an exact location of a property and should not be used to as a basis for premium calculation. However, insurance companies do use it.

Townsville Bulletin December 6th 2013

AN outback town is fighting to change its postcode, so residents are no longer subject to the soaring insurance costs faced by those on the North Queensland coast.

Homestead, about 200km west of Townsville, shares its 4816 postcode with many of Townsville's outlying suburbs, including Palm Island and Alligator Creek.

Homestead Progress Association president Jon Griffiths said residents were being disadvantaged by insurance companies, who quoted high premiums according to the town's postcode. Some residents are paying up to \$6500 a year for home and contents insurance.

“If you can explain to them where you are, you can get it, but if you are just going for a quote sort of thing, it makes life difficult,” he said.

He said Homestead was occasionally subject to flooding, but there was nowhere near the risk associated with natural disasters on the North's coastline.

“There is houses in flood areas, but as for cyclones, Yasi came past us but it was nothing,” he said.

“We had a bit of a breeze but it didn't do any damage.

“It's a bit unfair for us to be lumped in the same category as those living on islands.”

Dalrymple MP Shane Knuth has been helping Homestead residents prepare a submission about a postcode change, to be sent to Federal Communications Minister Malcolm Turnbull and Australia Post.

“When it comes to natural disaster, there is quite a minimal risk for Homestead, particularly with cyclones,” Mr Knuth said.

“By the time a category 5 cyclone is going through Homestead, it's a category 1.

“Obviously there are greater risks in Townsville than Homestead.”

He said exorbitant cost of insurance was deterring people from moving to small outback towns.

“We are trying to encourage people to live in rural and regional Queensland and the government has indicated it wants people to live in rural and regional communities,” he said.

“Yet with the cost factor associated with travel and fuel, and people being smashed with high insurance costs, it removes that incentive.”

An Australia Post spokeswoman said postcodes corresponded with the delivery centres from which mail is delivered.

“A change in a postcode has a significant impact on the community and Australia Post only makes changes to postcodes where there is a significant benefit to the processing and delivery of mail,” she said.

“The use of postcodes by other parties and service providers for their own purposes does not and should not influence Australia Post’s operational decisions regarding postcode allocation, nor can Australia Post be held responsible for such decisions.”

Increasing consumer awareness

Such a website might take the form of:

- A range of information on insurance products and potentially a periodic report comparing prices offered in the relevant region.*

I don’t believe this would be worthwhile.

- An aggregator that enables indicative or sample quotes based on basic information supplied by consumers, who would need to be redirected to individual insurers to obtain an individual quote and complete their purchase.*
- A ‘live quote’ aggregator providing consumers with a price specific to their property after answering a series of detailed questions, and enabling instant online purchasing.*

Either of the other two options is feasible.

If you could make it happen:

Advantages

- An easy way of inputting answers to a set number of questions to result in comparisons between products and companies
- Similar to existing health care fund comparison web sites
- Product descriptions and details available on-line
- Consumer aware of companies and products they may not have been aware of previously
- Hopefully, depending on the detail, full transparency as to how a premium is made up and who is being paid what

Disadvantages

- Insurance companies do not want to offer insurance policies to North Qld.
As set out above, there are some sites of these general types currently operating in the private market. However, participation by insurers is not extensive and they do not appear to be highly active in markets such as those in North Queensland. For that reason it may be necessary for an appropriate site to be facilitated by a government agency.

- Insurance companies not committed to making such a web site work
- Lack of companies quoting for all types of insurance, such as strata
- Insurance companies don't have to contribute to such a web site

Questions

- Who is going to develop it
Please note: I can put you in contact with professional, experienced, TOP Business Analysts from the insurance industry who have worked for more than 20 years with Australian insurance companies and their systems.
- Who is going to run it?
ASIC already has insurance information on its MoneySmart website, which could potentially be expanded to include more detailed information, and potentially price information. Alternatively, such a site could be facilitated by the Australian Competition and Consumer Commission (ACCC).

Alternatively the Government could tender for a private operator to provide a site.

I suggest The Australian Prudential Regulation Authority (APRA) as being more appropriate.

- How are you going to insist companies take part?
- Transparency is a very important part of this type of web site and companies may not want to disclose they rates, penalties and loadings – especially catastrophe loadings and extra catastrophe loadings

Costs

- The cost of developing the website – money has been allocated in the recent budget
- The cost of insurance companies to keep their details updated – a one-off cost to develop the interface, minimal cost to include it in a daily update run

Promoting buildings' resilience to natural disasters

This proposal is to undertake proper risk and mitigation assessment of strata properties.

The strata building inspections would have the aim of identifying any site-specific factors that might affect building performance in future severe storm weather events, including identifying possible works to be carried out to make the building more resilient. Given that past insurance claims for strata properties in North Queensland has been a driver of rising insurance premiums, reducing the risk of potential damage from cyclones for a property (by undertaking the necessary mitigation work identified in the assessment) may enable a body corporate to negotiate a lower insurance premium with their insurer.

Note:

- The majority of properties given the 200-800% increases in 2011 had no claims or damage due to Yasi
- Properties which have off their own bat have undertaken such risk assessment and have been told there is nothing else they can do have not received lower premiums (see Focus Question 20).

CGU/SUU have already started a proper risk assessment project but in their case the report remains the property of CGU/SUU and cannot be used for alternative quotes.

*Recommendations from the assessments will be provided to strata property owners and managers on repairs that could be made to improve a property's resilience and risk rating. Body corporates that carry out the remedial works may potentially be re-rated so that customers receive premium discounts.*²¹

“May potentially be”, not WILL be.

CGU (David Grabau Head of Corporate Affairs Brand & Corporate Communications) told me in a meeting last month in Townsville that SUU were expecting a reduction in premiums of up to 15%. When your premiums have been increased 200-800% a reduction of 60-90% would be more appropriate.

Advantages

- Risk assessment and not the current risk assumption
- Reliance on postcode should be reduced, if not removed
- One report which can be accessed by more than one insurance company to use for quoting
- Grants available for already strapped Bodies Corporate
- Potential problems identified
- Potential problems rectified

Disadvantages

- The people producing the reports may not be locals who know the area
- They is no dispute resolution
- Mitigation suggestions could easily cause large expenditure outlay for complexes already stretched
- Refusal to undertake the mitigation may make a complex uninsurable
- I think pre 1986 buildings are going to suffer; listed buildings don't stand a chance; neither do period buildings

Questions

- Who owns the risk reports
- Who is going to undertake the assessment? – Local who knows the area and potential risks, or Engineers from outside an area who have no local knowledge
- If the complexes choose not to undertake mitigation does that mean their premiums will rise?

Costs

- The report cost – money has been allocated in the recent budget to help with this but \$12.5M spread over the number of complexes from Rockhampton to Cooktown and above is not a lot. I envisaged the report should cost in the region of \$700 + GST based on the cost of a current valuation report
- IF these reports result in risk ratings such that postcode becomes no longer relevant then there will be a cost to the insurance companies to amend their systems, making them simpler

Expanding insurance markets

The current circumstances in which UFI's may write business in Australia include:

- *purchases by 'high value' insureds (those with \$200 million revenue or gross assets or with 500 staff);*
- *insurance for atypical risks (including risks arising from war, nuclear or biological hazards, space debris, and certain aircraft and marine vessels risk); or*
- *where a broker has certified that a risk cannot reasonably be placed with an Australian insurer, including on the basis that the price offered by Australian insurers is substantially less favourable.*

It is suggested the Australian insurance market be opened to international insurance companies.

Advantages

- More competition in the market place
- An understanding already established of the kinds of catastrophes which may occur in Australia
- May have ideas for new types of policies for the Australian marketplace

Disadvantages

- No knowledge of 'local' rules, regulations and legislation
- No knowledge of strata policies
- International companies which want to operate in Australia have already registered Australian based companies – Zurich Australia; Youi (South African)
- Claims handling may prove difficult

Questions

- Are these companies to operate under Australian laws or their country's laws?

Costs

- I would imagine there would be large legislative costs to this idea which may make it prohibitive to implement
- You may be better off offering incentives to insurance companies not already in the Australian market to register Australian based companies

Additional Suggestions

What suggestions do you have for how the regulatory compliance burden of any options in this discussion paper can be reduced?

Try some alternative options, they won't all bring competition back to the market but they would help the consumer with information to negotiate the 'extras' added onto the base premium. A major problem identified is that no-one actually ever knows what the base premium is.

Easily understood invoices and capping of commissions

Insurance invoices do not show the entities being paid, or the amounts being paid to them. This is a Federal issue as the two main entities involved come under different legislation.

Outcome wanted:

Easily understood invoices so Committees, or any property owner, can negotiate for a reduction in costs, if not a reduction in base premium.

Issue:

On actual insurance invoices, the monies paid to third parties and the total premium breakdowns are not shown as separate entities so the invoices can be misleading.

- According to Management Agreements signed with Body Corporate Managers (etc) between 5 and 20% of base premium (occasionally more) can be paid to the BCM for arranging insurance. Using a variable percentage is also confusing
- Brokers fees often aren't shown as a separate entity either
- In the case of Retirement Villas, and similar cases, owners do not get the choice to try and arrange their own insurance, neither do they get any say in the broker used or the companies approached. There is little or no transparency

This all means owners actually have no idea how much they are paying, or to whom.

Part of the problem is that Body Corporate Management companies fall under one set of legislation "[Section 135 of the Queensland Body Corporate and Community Management Act 1997 regulation 2008](#)" and brokers fall under a different legislation [Commonwealth Corporations Act 2001](#).

When the insurance has been arranged through a Body Corporate Manager the broker may declare their commission to the BCM as they are considered the client and not the actual entity paying the invoice.

For management companies: up to 20% of base premium in commission for making a phone call to a broker is excessive, especially when the premium is >\$25,000 which most are now.

For brokers who put in more work and actually have to try and find a company who will insure a property, up to 25% (OAMPS) and sometimes more, is also an excessive commission to charge. But in actual cases I have found brokers end up with less than they pay to the management company for doing more work. This is because they pay up to 20% of the base premium to the management company, leaving themselves with only 5%. They agree to do this because they get all the business of this particular management company.

Suggestion/Solution:

- a) Put both entities under the same legislation
- b) Legislation is required to make invoices clearer with every entity, and payment to them, identified in full on the actual invoice
- c) Legislation is required stating a management agreement must show actual amounts, an actual percentage, or a percentage range (if absolutely necessary) and a maximum amount payable
- d) Owners should be allowed to arrange their own insurance, if they are willing to do so, and at the very least have a say in what broker is to be approached. Management companies don't want this to happen as only a few brokers pay them commission for arranging the insurance
- e) Commissions to management companies should be capped by law to 5-20% of base premium up to a maximum amount of \$5,000. This covers making a phone call and up to 30 hours a year working on any claims (Based on \$150 per hour + GST). *Even then I think this is excessive*
- f) Broker commission should be capped at a maximum of \$10,000, and brokers should be encouraged to switch to set fees instead of using percentages

Effect: This can apply to just Qld or Australia overall.

- a) There is a benefit to every property owner as one can actually see what one is paying and to whom. This allows for negotiation which has already proven to reduce insurance outlay if not the base premium.

Point b) Having a maximum amount payable means owners know the maximum they will have to pay to their management companies and can choose to arrange their own insurance instead.

Point c) By using a broker who doesn't pay commission to the management company and charges a set fee, a property can significantly reduce their insurance outlay, if not their actual base premium.

Point d) Capping management commissions removes the obscene amount of commission currently being charged to complexes with premiums over \$25,000, for very little work.

Point e) Capping broker commission also allows owners to know the maximum they will have to pay out.

Basically, it allows Treasurers and owners to try and budget for the maximum they are going to have to pay out. They can also see what exactly their base premium is and be able to negotiate, swap broker, or bypass the management companies, where allowed.

There would be no difference to the stamp duty received, so no reduction in monies available to the State Government.

If Broker and Body Corporate Management fees are reduced then the GST component will also reduce. This should be so minimal as not to make that much difference to the Federal Government.

Example:

A complex valued at >\$10M with a base premium of \$60,000 using their management company to arrange their insurance, going through a major broker (BCB or OAMPS).

Currently the complex will be paying (ignoring stamp duty and GST components ++):

\$60,000	base premium	
\$12,500	broker commission	the management company gets \$7,500, the broker \$5,000
\$100	broker administration fee	
TOTAL	\$72,600 ++	

With the suggestions actioned and the owners going to a broker who charges a set commission (Aon Townsville):

\$60,000	base premium	
\$2,240	broker commission	no payment to the management company
\$100	broker administration fee	
TOTAL	\$62,340 ++	

Removal of conflict of interest situations

Legislate against Body Corporate Management companies receiving commissions direct from insurance companies and/or brokers. This is a State Government issue.

Outcome wanted:

Payments to management companies direct from insurance companies, from brokers, or from any third party stopped immediately.

Issue:

It is a clear conflict of interest for management companies to be receiving commission, payments or kick-backs of any kind by a third party for acting on behalf of owners who are already paying them to do a job.

A broker at the Inquiry held on February 2012 in Townsville told the Committee that some insurance companies deal direct with Body Corporate Management companies (instead of using brokers) and pay them commission for their business – this can be seen in the following agreement (Archers Whitsunday 2012):

I. DISCLOSURE OF COMMISSIONS

Providers of services that pay a commission to the Manager

Name of Company: CHU Insurance Australia
Commission Details: 5 – 20% on base premium

Name of Company: Allianz Insurance Australia
Commission Details: 5 – 20% on base premium

Name of Company: SUU Insurance
Commission Details: 5 - 20% on base premium

Name of Company: BCB Insurance
Commission Details: 5 – 20% on base premium

In this case CHU, Allianz and SUU will pay commission direct to the management company.

Body Corporate Managers are not brokers and do not have the experience or knowledge of brokers, and should not be acting as one.

This agreement also shows the Brisbane based broker BCB will also pay commission to the management company if they are unable to use one of their preferred insurance companies and have to use a broker.

Additional issues:

- Brokers are losing out on commission as they have to share it, and quite often they are not even retaining 50% of the payment
- Insurance companies are paying out too much in commission because the payments have to cover 2 sets of commission – brokers and management companies
- 'Expensive' brokers are being used because they can afford to pay the management company for their business

Suggestion/solution

It's a very simple solution..... STOP IT!!!!

Note: Archers Body Corporate managers have stopped the % commission and only charge a set fee for arranging insurance cover for a complex – one win to me. They have also ceased working with BCB, but I don't know who they now work with.

Effect:

This would:

- a) Have no affect on the income of insurance companies, in fact their outgoing commissions should be less so they would have higher returns
- b) Increase business for brokers with management companies unable to bypass brokers and go direct to insurance companies
- c) Give owners better service and information as brokers are trained to advise on insurance and management companies are not
- d) Remove the conflict of interest of management companies, which should be illegal anyway
- e) Result in a reduction in insurance premium outlay if not actual base premium

Legislation is required to prevent management companies getting any type of payment from third parties when acting on behalf of owners.

Example:

A complex valued at >\$10M with a base premium of \$60,000 using their management company to arrange their insurance, going through a major broker (BCB or OAMPS).

Currently the complex will be paying (ignoring stamp duty and GST components ++):

\$60,000	base premium
\$12,000	management company commission
TOTAL	\$72,000 ++

Let's say that instead of 25% in commission a broker can now afford to charge 10% in commission because they no longer have to share it – this is more than they are getting at the moment.

Even using a broker who charges 10% instead of a set fee:

\$60,000	base premium
\$6,000	broker commission
\$100	broker administration fee
TOTAL	\$66,100 ++

Increase in options by insurance companies operating in Queensland

If a company wants to offer a product in Queensland then a company must offer it to the whole of Queensland. I know people say the insurance companies will price themselves out of the market should they be forced to offer policies but they may in fact be surprised and find people accepting their outrageous quotes as insurance companies offering insurance to North Qld currently are already offering outrageous quotes. This is a State Government issue.

Outcome wanted:

An increase in strata insurance options being offered in North Qld by insurance companies already operating in Qld.

Issue:

Everyone seems to be pulling out of the market for strata insurance in North Qld but still providing it in other parts of Qld, so allowing those insurance companies remaining to have an almost monopoly situation, with little competition. Companies are 'cherry picking'.

A person could not go into a Myers or an Ikea shop and be refused service or a product based on where they live.

An additional issue is insurance companies are still using advertising slogans such as "Strata insurance and only strata insurance" or "The strata insurance specialists" but they don't offer strata insurance in North Queensland. I believe this is false advertising.

Suggestions:

- a) Any company (insurance or otherwise) which operates in a State or Territory must offer its complete range of services across that State or Territory.
- b) Any company which uses the name of the State or Territory in its name must offer their complete range of services across that State or Territory, or change their name.

E.g. Queensland Underwriting Solutions (QUS) no longer offers strata insurance in North Qld but it does in other areas of Qld. If they want the name then they should not be allowed to pick and choose their areas of operation.

How about they rename themselves Selective Queensland Underwriting Solutions?

- c) Look at preventing false advertising

CHU – 'Strata insurance specialists and only strata insurance' *except for North Queensland*

Effects:

- a) Increased competition as companies are forced to return to the market, or pull out entirely
- b) Hopefully lower premiums

No effect on State budgets.

No effects on Federal income or budgets.

No effects on the TIO.

Sensible time lapses

Four weeks notice to get quotes and comparisons

Outcome wanted:

A sensible time lapse for insurance to be arranged. This is a State or Federal issue.

Issue:

In the examples given to the Inquiry held in February 2012 in Townsville, one complex only had 36 hours between getting a quote from their management company for more than \$100,000 and having to pay it. The normal time was less than 2 weeks between getting a quote and it being due to be paid.

Body Corporate Committees using Body Corporate Managers have not been given time to arrange EGMs so special levies can be raised in order to pay the increased premiums. Occasionally time has been so tight it hasn't even allowed the Committee to set up an insurance premium loan.

With insufficient funds available Strata Unit Committees have to organise an EGM (30 days notice) to issue a special insurance levy with thirty days to pay in the hope all owners pay on time.

Suggestion/solution:

I am told insurance companies will not quote an insurance policy more than 4 weeks from renewal. This needs to be expanded to at least 6 weeks which allows for EGMs, special levies, loan applications etc.

Management companies should have to produce their quotes at least 4 weeks prior to renewal, to allow for negotiation and acquiring additional quotes.

Effect:

When you are given 36 hours – 2 weeks, as is the norm, to find >\$50,000, \$100,000 or more it causes stress and panic. Decisions have to be made quickly and there is little or no time for communication, negotiation, or searching for alternatives.

Insurance premium loans have been taken out at the last minute causing an extra load on the owners as they incur set-up fees and interest (often outrageous interest).

Time is important, especially in a strata situation where meetings have to be arranged.

Example:

Shingley Beach Resort received their insurance renewal for more than \$100,000 from their Body Corporate Managers 36 hours from the due date.

Variable payment periods

Monthly, quarterly and half yearly options for premium payments with little or no interest applicable. This is a Federal Government issue.

Outcome wanted:

Monthly, quarterly or half yearly payment of annual insurance premiums.

Issue:

- Most insurance companies will only allow insurance premiums for strata insurance to be paid up-front for the entire period of insurance
- If a six monthly policy is taken then a new policy is issued at the end of the six months and often at a higher premium
- Since premiums are now so high, insurance premium loans have to be taken out which incur additional set up costs and interest
- Companies which do accept payments over a prolonged period are charging ridiculous interest

Suggestion/solution:

- a) Annual insurance policies should be allowed to be paid monthly, quarterly or half yearly with little or no interest being applicable – Bank rate

Other insurance products offer this option, why not strata insurance? The insurance companies are going to get their monies anyway.

Effects:

- Allows owners to budget accordingly
- Body Corporate Committees can organise collection of monies without having to have EGMs
- Insurance premium loans will not be required so saving additional costs
- Less stress
- More time for negotiation
- Have no affect on the income of insurance companies

Example:

A complex received an insurance premium renewal for \$81,000 approx. payable in 2 weeks, where the previous premium had been \$25,000. This significant increase was not expected so the money was not available in the administration fund. There was no time for an EGM to raise the money, and as the complex is a tourist resort most owners and Committee members were not readily available.

The then Treasurer had no choice but to find an insurance premium loan in very short time. This was provided by Lumley at a set-up cost and interest of an additional \$6,000 approx. In actual fact, since the complex consists of 25 apartments, the maximum amount which could be approved by the Committee was \$5,000 (BCCM legislation \$200 per unit), so they were technically in breach of legislation. The management company turned a blind eye to this as payment of the insurance was necessary.

Compulsive cover

Change to legislation for compulsive cover for properties with common areas. This is a State Government issue.

Outcome wanted:

- Properties with common areas allowed to choose their level of cover, as with stand alone houses
- Properties able to opt out of insurance coverage, rather than getting cover for things whether they want it or not
- Properties not being unnecessarily loaded at the instruction of the insurance company

Issue:

- According to Qld State Legislation strata properties have to be insured for total replacement value including a percentage increase to allow for the fact it may take up to 2 years to rebuild. Houses do not!
- Insurance companies have overreacted to the floods and have made flood cover compulsory without any ability to opt out for those properties that do not want to be, or need to be, covered for flood.
- Insurance companies do not seem to have optional risk clauses
- It is costing owners more to insure their properties because they are getting 'loaded' by insurance companies

Suggestion/solution:

- a) Since the compulsory strata level of coverage is not applied to stand alone houses, or industrial, or commercial properties, it is clear discrimination. The Australian Human Rights Act (article 26) states that a person cannot be discriminated against based on property. I believe there may be a case for a class action against the Qld State Government based on discrimination.
- It is suggested legislation be changed to include all types of properties (houses must be insured if only for a bare minimum)
- OR
- The legislation be changed to allow for Body Corporate Committees to decide how much to insure a strata property for
- OR
- The legislation be changed to allow owners to insure either for replacement value or market value

Since Real Estate Agents already have the ability to produce Comparable Market Analysis (CMA) via software packages such as RpData and Pricerfinder, and legislation requires it for the selling process, providing a market value analysis of a property is simple.

- b) Change the compulsory flood cover to a series of additional optional clauses covering special cases such as land slip, flooding, ocean frontage/tsunami damage. Or if these clauses are made compulsory, allow properties to knowingly opt out. Owners know their properties better than insurance companies such as the RACQI which covers properties for flood whether they want it or not.

- c) Prevent catastrophe loading by insurance companies, especially extra catastrophe loading
If you are covered for full replacement value, plus 2 years to rebuild, plus alternative accommodation, plus... what is the extra catastrophe loading for? What bigger catastrophe can you have than lose everything? It is an expensive and redundant loading.

Effects:

- a) Should a complex be totally destroyed due to a natural disaster, it is highly unlikely a building of the same style and make-up will be built on the same area. Therefore, it is useless for properties to have to insure for full replacement value based on the building that used to exist. It makes more sense to be able to insure for market value. This allows owners to either rebuild, or walk away and sell the land
- b) In the majority of cases for complexes their market value is less than their replacement value ++, so the amount to be insured is less, and therefore, the insurance premium would be less
- c) It should remove the ridiculous premiums we have seen lately where Allianz has quoted \$20,000 in premiums for houses because of their location, not knowing their actual circumstances or situation
- d) Properties would be able to have the level of cover required not legislated
- e) If all properties had to have minimal insurance, there would be:

An increase in the income of insurance companies
An increase in the income of brokers
A possible reduction in insurance premiums as profits would rise
The removal of discrimination by the State Government
- f) Policies would not be unfairly loaded
- g) Reduction in premiums

Example:

Once again Seastar Apartments consist of 25 apartments spread over 7 separate buildings, even if Yasi had hit us directly we would not have lost all 7 buildings, in fact we had no damage, no claims, no power loss, only a 364% increase in insurance premium. We were built to special cyclone standards because we are a tourist resort, so we are less likely to have damage than any other type of buildings. So, being insured for full replacement value plus time to rebuild is not logical.

Current replacement value : \$13M
Current market value: 12 x 2 bed @ \$350,000 = \$4.2M
 12 x 3 bed @ \$460,000 = \$5.52M
 1 x 4 bed @ \$850,000 = \$.85M
 Total = \$10.57M

Approximately \$10,000+ difference in premium.

No claims bonus

If a property hasn't made a claim then premiums should not increase over an agreed and monitored percentage. This is down solely to the insurance companies.

Outcome wanted:

No claim bonuses or reduction in premium increases.

Issue:

The fact that a property has not made a claim does not seem to have influenced the increase in premium.

Suggestion/solutions:

There are no claims bonuses for all sorts of insurance policies, but not for building insurance. There should be a ruling that if a property has not made a claim in the past 12 months then the insurance premium should not go up (maybe come down) over a certain agreed amount - CPI.

Effects:

- a) Owners would think twice before claiming if they knew it would affect their next insurance premium
- b) Prevent owners abusing the system
- c) Reduce the outlay of insurance companies
- d) Have no effect on the income of insurance companies
- e) No effect on the income of brokers

Example:

One complex built 6 years ago has not had a single claim in the 6 years but still had an increase in insurance premium of more than 200%.

The present system is open to abuse:

'When Yasi hit Mission Beach we were renting a small two bedroom town house that was one road back from the beach. We went down to clean it out so we could give it back to the owner. It hadn't sustained any damage so we wanted to free it up for others that were homeless.

I scrubbed that property from top to bottom and because we are in property we are very aware of what is damage and what is just wear and tear. The only water that entered the house itself was through some louvre windows on the side and this went onto the solid timber stair case. I am not an insurance assessor, but I will say in my opinion there was nothing really damaged in the property.

I have since been told this owner got a brand new roof, the entire unit repainted internally, new kitchen, new bathroom and repainted externally. There will always be some that will take advantage of the situation – worse still the insurance companies allow it.'

Reinsurance penalties

Spread of penalties across Australia. This is a Federal Government issue.

Outcome wanted:

Reinsurance penalties to be equally apportioned over the whole of Australia and not just the areas currently penalised.

Issue:

We have been told by SUU the main reason why the premiums have increased so dramatically is that reinsurance penalties have been applied to this area of Qld due to cyclones and damage. I am told the reinsurance penalties make up 6-8% of the current premium. However, I believe approximately 45% of the 6-8% is being applied to the north Queensland market.

Your document states: *On top of this insurers are now allocating a greater share of the cost of their catastrophe reinsurance cover to North Queensland policies, again in line with their assessment of risk.*

Australia constantly has disasters, from bushfires and drought to floods and cyclones, there are going to be constant reinsurance penalties. If every penalty was apportioned across the whole of Australia instead of just in the area penalised you would remove the peaks and troughs.

Suggestion/solutions:

If Australia can have a mining tax so profits from Qld and WA are spread across all areas to benefit the whole of Australia, Australia should be sharing the reinsurance penalties as well so the pain is spread across all areas. There is no difference.

Effects:

- a) There would be a much better balance of premium increases with no particular area being penalised.
- b) Australia would have the ability to continue development in emerging areas which fall within the 'penalty zone' (e.g. North Western Australia).
- c) State Government(s) income from stamp duty may vary a little.
- d) No change to Federal Government GST income.
- e) No difference to the income of insurance companies
- f) No difference to the income of brokers

Removal of the insistence that we use Brokers

Allow owners to search for their own insurance direct. This is a Federal Government issue.

Outcome wanted:

People to be able to have direct contact and negotiation with Insurance companies, if wanted.

Note: Brokers will always be needed for intervention direct with Underwriters, and any International players in the market, and to arrange ISR (Industry special Risk) policies.

Issue:

- Some Insurance companies will not deal direct their actual clients, you have to use a broker (Lumley)

This means there is a percentage of the premium shown on an invoice which is actually the commission payment to the broker (or on an additional page). These amounts could be avoided if the insurance company would deal direct with the actual people insuring.

- If a broker is used the insurance company will not discuss the policy details with authorised Committee members or owners although they are the ones paying the premiums

The probability behind this might be that the insurance companies do not want to discuss broker commission. I was informed it was a Privacy issue and I had to go through my broker for information. We are the ones paying the invoices, so insurance companies should have no reason for not discussing policies direct with owners.

Suggestion/solution:

- a) Insurance companies should change their rules to be able to communicate direct with Body Corporate Committees (Treasurers), so long as the Treasurer has been given the power to act by the Committee, and property owners.
- b) At the moment most insurance companies will only deal through brokers, particularly for strata insurance, which is automatically an increase in the out-goings for property owners. Where owners are willing and able to search for their own insurance, then they should not be made to go through a broker.

Effects:

- a) Wipe out the commissions payable to Brokers for those who are willing to find insurance for themselves, so reducing the outlay for owners.

I believe it is unlikely that more than 1 or 2% of properties will actually make use of this, so having very little effect on broker income.

- b) Little or none for State or Federal Governments
- c) No difference to insurance company income
- d) A reduction in insurance company outlay – less commissions

Example:

Owners have been told by their insurance companies that they can only get quotes via brokers. Lumley is an example.

I was told by SUU they could not give me any information on our SUU policy as we had used a broker and it was a breach of privacy. All I wanted to know was if we were covered automatically for flood, as I would have cancelled that part of the policy.

New type of insurance policy

We need insurance companies to be encouraged to consider different and new type of policies for the future. This is an insurance company only issue but could be pushed by State and Federal Governments.

Outcome wanted:

Variable types of insurance policies particularly for strata buildings.

Issue:

Strata properties in particular are finding obtaining insurance difficult. This cannot be argued with (ICA please note).

We need more flexible insurance options, as per point 7 previously.

Suggestion/solution:

This is going to be difficult, I know, and may turn out to be impossible.

- a) Option 1 for consideration

I would like to see a standard insurance policy for strata buildings which covers the communal property (swimming pool, lift etc), public liability, office holder's insurance etc, and have all the owners insure their units separately.

There cannot be an option not to insure, otherwise we get into the situation of not being able to rebuild, but owners should be able to insure with what-ever company they wish which spreads the risk between companies and should lower prices.

b) Option 2 for consideration

I understand from investigation that Mining companies can get different types of insurance for different types of property for buildings on the same title, using different companies.

I would like to be able to do the same and be able to insure separate buildings within a complex with different insurance companies.

c) Option 3 for consideration

I would like to see a standard insurance policy for strata buildings which covers the communal property (swimming pool, lift etc), public liability, office holder's insurance etc, and have the actual building insurance covered separately and underwritten by someone like Lloyds of London. This is basically an ISR policy but for the smaller complexes as well.

Effects:

- Spread the risk between companies
- Lower insurance premiums
- Very little difference to the income of insurance companies or brokers
- Very little difference to State and Federal budgets

Example:

Seastar Apartments has 25 apartments spread over 7 separate buildings, we would look at spreading the risk.

Currently we are valued at \$13M replacement value with SUU (up to 2013-2014 insurance premium, quoted by SUU as \$74,000 and GIO at \$92,000. As of 2013-2014 period we got an ISR policy for \$64,000, main insurer ACE).

We could look at a public liability policy with insurance for the pool, plus insure each building (or combine some) with different insurance companies to spread their risk and lower our premiums.

Rules on percentage increases

There are rules for rent increases, so there should be rules for premium increases. This is a Federal Government issue.

Outcome wanted:

Prevention of increases of 50% and above in a single year. In fact I would like the maximum percentage increase allowed to be CPI or 5% if the property has had no claims.

Issue:

Insurance companies can increase their premiums by any amount, it is totally unregulated.

Suggestion/solutions:

It is against State legislation for rents to be increased above a certain amount in a rental term, so why can't we make it against State legislation for insurance premiums to be increase above a certain amount in an insurance period?

Effects:

Body Corporate Committees would at least be able to budget for a maximum insurance premium increase, where at the moment it can be a pure guess.

Australian Reinsurance Pool Corporation

Expansion of the role of the Australian Reinsurance Pool Corporation. This is a Federal Government issue.

Outcome wanted:

Expansion of the Australian Reinsurance Pool Corporation to include all types of national disasters and not just terrorism.

OR

Access to the Reinsurance Pool to provide Insurance Premium loans at low or no cost to the borrower.

Issue:

- Owners cannot get insurance
- Owners cannot afford their insurance
- Insurance companies do not want to do business in North Queensland because they are scared of large claims due to cyclone damage
- Insurance premiums are so high that a number of Body Corporate Committees and management companies have to arrange insurance premium loans – this cost Seastar Apartments in one year more than \$6,000 in set up fees and interest.

Suggestion/solution:

- a) Introduction of a Federal Government insurance company – not going to happen
- b) Introduction of a State Government insurance company – also not going to happen
- c) Expand the use of the Pool which was set up because insurance companies refused to insure terrorist attacks.
 - 1) Federal Government could consider underwriting unaffordable insurance

- 2) Federal Government could consider funding premiums of over what is considered as affordable in disaster prone areas – problem in defining “affordable”
 - 3) Federal Government could consider paying the first \$100,000 of any claim over \$100,000 in the case of a natural disaster (as defined by the Government) – as with Christchurch
 - 4) If insurance companies honour the first \$50,000 of any claim then Federal Government could consider paying the second \$100,000 of any claim, and then it reverts to the insurance companies again
 - 5) Some different form of any of the above points
-
- d) Expand the Pool so it can be used in the case of market failure or natural disaster, as defined by the Government not the Insurance Council of Australia
 - e) Allow access to the Reinsurance Pool to people and companies unable to pay their insurance premiums at a low, or no, rate of interest

Effects:

All or any of the points above should reduce premiums.

IF the Government was to subsidise insurance premiums, then it would be much more interested in keeping insurance companies honest and premiums down. It would also be the cheaper option.

If the Government agreed to fund the first \$100,000 claim per property for claims over \$100,000 for any natural disaster, as defined by the Government and not the ICA, then premiums should drastically reduce as most claims are well below \$100,000 - even in Yasi.

Providing access to the Pool for premium loans would reduce the pain being experienced by those having to take them out which can be substantial.

Note: Wayne Swan took \$400M from this pool in 2011 to help balance his budget. This is not what this pool was designed for.

Focus Questions

Focus Question 1.

1. The Government has committed to identifying (in dollar terms) measures that offset the cost imposed on business of any new regulation. What suggestions do you have for how the regulatory compliance burden of any options in this discussion paper can be reduced?
 - a) If the insurance companies stopped wasting money they could contribute to the process.
 - b) If Councils could be fined for breaking their own rules and knowingly allow properties to be built in flood plains they could also contribute
 - c) Australian reinsurance pool

a) Repair Quotes

Outcome wanted:

The best and most efficient quote for repair work should be accepted by insurance companies.

Issue:

- Insurance companies are using (in Queensland) contractors from the south east to do repairs in the north
- Insurance companies have their preferred suppliers and have even been known to send people from Sydney to North Queensland to do repair work. This involves travel expenses and accommodation costs
- Insurance companies are not taking local quotes, and are not listening to their clients when they complain the company is being ripped off

This problem is widespread.

Suggestion/solutions:

According to State legislation, Body Corporate committees have to get at least 2 quotes for insurance (this actually means a number of strata complexes are currently in breach of legislation because we can't).

Insurance companies should have to get 3 quotes for repairs, one of which must be a local contractor – they can ask the owner to do this for them if it's too much trouble for the company itself. The 3 quotes should be presented to the owner as proof the legislation has been adhered to, with an explanation as to why the accepted quote was chosen.

Effects:

- a) Insurance companies would stop wasting money on claims.
- b) Reduction in outlay for insurance companies, hence higher returns.
- c) Efficient repairs as the local companies know the situation.
- d) Increase in share price as the waste of shareholders money is lowered.

- e) Money available for insurance companies to contribute to legislative costs

Example:

Insurance companies have been complaining they are spending out for than they are getting in premiums from our area. However, look at these examples (I've chosen just 2):

"We are being ripped off! My premium has increased by 280% in the past 2 years. After Cyclone Yasi I had a claim - a local builder mate of mine assessed the damage and said \$9000 would fix the repairs. The insurance mob, hired a Gold Coast firm to do the repairs, the job was shoddy and I had to get them back to re-repair the work, during a conversation with the contractor, he revealed that he didn't mind coming back as there was 'plenty of fat' in my job, and the release proved that - they were being paid \$31000 to do a \$9000 job - that in a nutshell, is why my premium has increased, its nothing to do with the 'dangerous weather', its to do with the incompetence of the insurers and their resultant waste of money!"

A second example shows a job quoted locally in Townsville at \$2,500 cost \$16,000 through a south east company and they charged the insurance company for scaffolding – which wasn't used. The owner called his company to tell them they were being ripped off, but the insurance company said it wasn't his problem so long as the job got done.

As a Lawyer who signed the online petition wrote:

"The insurers have themselves to blame for the costs blow out from Yasi. I have heard of many cases where assessors appointed builders who had quoted silly amounts and got the jobs over local contractors who had quoted ½ or 2/3 of the amount of the successful tenderer. If it wasn't crooked it was grossly negligent."

b) Councils

The role of the local Council in deciding what to build and where

Outcome wanted:

Councils should be accountable for their actions and be made to adhere to legislation and the Planning and Development Approval System.

Issue:

There are definite cases where Council have knowingly allowed, and approved, building to occur on inappropriate land

Suggestion/solution:

This is beyond my expertise as to what action should be taken.

Effect:

- a) Less properties affected by flooding, landslip, erosion etc. so less claims.
- b) Easier to get insurance as insurance companies could be sure risk was minimalised.

Example:

In the words of Bernadette George, Social Planner MUP BA (Soc Sc) MPIA Fellow PIA – contact number can be supplied on request:

“However, as I have also pointed out to the ICA and RACQ, the much fairer and effective strategy to protect the viability of their industry would be to insist the Qld govt both take responsibility for the consequences of their either corrupt or incompetently administered Planning and Development Approval System prior to January 2011 (and especially since 1997 with the introduction of the Integrated Planning Act) and establish a more effective and competent planning system thereafter.

Basically, the whole point of having a planning assessment and approval system for new development is to ensure new development occurs in the most sensible and efficient locations (e.g. ensuring the most fertile soils / productive land is preserved for farming and grazing; ensuring a convenient location for commercial activities, providing enough attractive park lands to accommodate sport, walking the dog and quiet enjoyment of nature; and ensuring housing is located in safe and pleasant environments that typically “maintain and enhance the cultural and social well-being of the community”). To surely state the obvious, allowing people to build new homes in known high risk flood prone areas is not, was not consistent with the Qld planning legislation, ever since the first proper planning legislation was introduced in 1997 (*“high risk” being defined as anything more than a 1 in 100yr probability, a definition widely used in planning and engineering university courses and accepted in the planning and engineering professions for several decades now). “*

During the 2012 Engineers Australia conference in Canberra which she attended and presented a paper, one of the three Flood Commissioners, Phil Cummins, told the audience how astounded he was to have evidence presented to the Commission of planning approvals having been granted for sites with a known a 1 in 20 year flood risk!

“A leading engineer attempted to argue (and yell) and attempted to excuse the scale of flood damage in Qld “because we have always built on floodplains”.

c) Australian Reinsurance Pool

I understand the Australian Reinsurance Pool is paying premiums to the Federal Government.

These premiums, from a fund already set up for insurance purposes, could be used towards the costs of any legislative changes.

Wayne Swan managed to take \$400M from the Reinsurance Pool to help balance his budget, maybe we should look at doing the same.

Focus Question 2.

2. Is home and/or strata title insurance in North Queensland unaffordable, having regard to the price compared to the risks insured?

I find this question very disturbing. Does the Federal Government really believe people would waste time and their own money over 3 years to lobby Governments, get Inquiries, start petitions, pester insurance companies, be called “part of the lunatic fringe” by the ICA, spend hours writing documents, thinking of solutions, chatting on talkback radio, putting pressure on media, sending more than 3,000 emails, listening to older people cry on the phone because they can’t pay their bills, just for the pure fun of it?

I totally believe we currently have a dysfunctional market and we have had market failure:

- If someone cannot get an insurance quote – that is market failure
- If a strata property cannot get 2 quotes for insurance then that is in breach of legislation – that is market failure
- If a person cannot afford their insurance – then that is market failure

National Insurance Brokers Association CEO Dallas Booth said in September 2013 "I have had reports from brokers about inconsistent pricing for similar policies, and lack of insurers willing to price at all." "It's not possible to shop around."

Mr Booth's comments came after the Insurance Council of Australia said the market remained competitive.

- Premier Campbell Newman has said we have market failure.
- Hon Warren Entsch MP has said we have market failure.
- Suncorp have said to Senator Arthur Sinodinos they feel we have market failure.

As for risks:

According to the JCU cyclone watch group the number of cyclones in North Qld is reducing, yet our premiums go up.

In terms of severe weather capable of causing large scale property damage the main risk to Cairns is Tropical Cyclones. The Australian Bureau of Meteorology says to expect 2 to 5 tropical cyclone events per season to affect the Queensland region and the history of Tropical Cyclone activity in the region dates back to the 1880's when records were first kept. In terms of impact some Tropical Cyclones don't cross the coast and those that do can cross anywhere over a coastline that stretches 2000km from Brisbane to Thursday Island. Much of the coastline is sparsely populated or remote so the chances of a severe Tropical Cyclone hitting a specific area, i.e Cairns are quite low

According to SUU Western Australia has more cyclones than North Qld, yet they have lower premiums.

Brisbane is more likely to flood than North Qld.

Sydney has more hail storms and damage than North Qld.

Victoria has more bush fires than North Qld. In fact Tasmania has more bush fires than North Qld.

The Sunshine Coast should be emptied due to possible storm surges **"ACCORDING to new government mapping, coastal areas of the Sunshine Coast will be seriously impacted by the combination of coastal erosion, sea level rises and storm surge by 2100"**.

Newcastle NSW should be shut down immediately due to the possibility of earthquakes.

The Gold Coast South East Queensland has received warnings of tornado activity so we should cease development there as well.

However, I digress, back to your question: Is home and/or strata title insurance in North Queensland unaffordable, having regard to the price compared to the risks insured?

YES!!

The problem comes in defining "unaffordable". The CEO of an insurance company or a politician may find the term unaffordable meaning something different to the aged pensioner living on a fixed income of \$39,000 per year where the Body Corporate fees come close to \$13,000 per year, or the young married couple with one child that has a joint income of \$41,000 per year, or retirees on fixed income, plus others.

Do I think:

- \$9,600 for a duplex on Magnetic Island is affordable – NO
- \$17,000 for a brand new house in Idalia Townsville is affordable – NO (we found a lower quote)
- \$74,000 for a complex of 25 apartments in Airlie Beach where similar apartments in Brisbane are \$600.64 per apartment affordable - maybe, justifiable – NO
- A quote of \$39,000 for a set of 3 apartments owned by 2 retired couples and a 91 year old widow is affordable – NO
- A quote of \$20,000 for a house in Ingham is affordable – NO (presume Allianz doesn't want the business)

- Premiums of 4-8 times those of the South East are affordable - NO

Do I think that when 50% of Cairns went into this cyclone season either under insured or not insured at all that insurance is affordable in North Qld – NO.

Do I think that when people can be in breach of their mortgage commitments since they can't find insurance, that insurance is affordable – NO.

Do I think that when people may have to be in breach of legislation that insurance is affordable – NO.

Do I think that when people are being taken to court for inability to pay their insurance premiums and levies that insurance is affordable – NO.

Bodies Corporate cannot be declared bankrupt. It is the owners who have to be taken to court to be made bankrupt, one by one and that is happening.

Letters about defaults in levies can add an additional \$350 per letter to the outstanding bill. In some cases Bodies Corporate are paying more in legal fees to make an owner bankrupt than the cost of the default.

October 2013 Townsville Bulletin

Debt collectors are being sent to recover costs from cash-strapped unit owners while bodies corporate are taking out loans to cover their strata insurance costs in North Queensland.

Northern Body Corporate Management principal Seimon Griffiths said debt collectors were being sent in to recover money owed by unit owners at a greater rate than ever before.

"Where we might have had one person every five months being chased by debt collectors, we now have about one a fortnight," Ms Griffiths said.

"A lot of those are pensioners who can't afford to stay but can't sell because no one wants to pay the levies".

According to the Hon Warren Entsch, he has examples up increases up to 1,000%. Do I think this is affordable – NO.

Really, what can you say?

Focus Question 3.

3. What impact is the high cost of insurance in North Queensland having on the local economy?

It isn't just the effect on the local economy, it's the effect on people as well.

Summary

- a) Inability to pay body corporate fees
There is an increase in those unable to pay their bills and body corporate fees due to the increases in insurance premiums
- b) Special levies
Strata properties and any properties which have common areas, such as retirement villas, are having to raise special levies to pay the (somewhat) unknown insurance premiums

- c) Loans set up to pay Body Corporate insurance premiums
Complexes are having to take out insurance premium loans to cover the insurance premiums because they do not have the money in their funds to pay the increases
- d) Owners either moving out entirely or into different accommodation
There have been examples of people moving out of their properties into rented accommodation, or back with families, or turning their backs on their homes because they can no longer afford the expense
- e) Mental anguish
The pain of seeing your home gone, not being able to pay your bills, and feeling abandoned by all Governments cannot be calculated
- f) The effects on marketing properties
The number of mortgagee in possession properties is reducing because the major number of people having to sell was experienced in late 2011 and early 2012. However, people who managed to hold on believing things would get better are now rethinking their situation.
- g) Reduced purchasing power
Property owners no longer have the purchasing power they did have due to increases of 200-800%. The money is being directed elsewhere
- h) A reduction in the value of Management Rights
On site managers who have paid for the management rights have to take long-term tenants instead of tourists in order to make the most for their owners
- i) Rent rises and a reduction in rental accommodation
Costs will be passed on, investors have left the market and are being warned away from North Queensland

Effects on people and the community

a) Inability to pay Body Corporate fees

There is an increase in those unable to pay their bills and body corporate fees due to the increases in insurance premiums.

Since the units affected cannot be sold, due to the level of body corporate fees, the owners are getting more and more into debt. Owners who have paid their levies are being asked to contribute even more to cover the difference leading to additional hardship for them. This is a compounding issue.

Figures analysed in an Airlie Beach property indicated the number of homeowners defaulting on their payments had risen by 30% IN ONE QUARTER.

More and more strata units are being forced to sell, the majority towards the end of 2011 and beginning of 2012. However, this is still happening big time in most areas. You only have to open the local property guide to see how many of the properties for sale are now mortgagee in possession. These properties first go to auction where offers are reduced due to the owner's circumstances. This is leading to a reduction in property prices beyond that experienced in other areas of Qld and other states. In the rare cases where a property has sold the amount paid has just covered the mortgage and has not covered the debits of the owner, and in some cases the amount paid does not even cover the mortgage.

For example (late 2013) actual case:

An owner of a unit in Cairns purchased his unit for \$180,000 and took a \$160,000 mortgage. His insurance (and hence levies) have continued to rise since the purchase in 2010 to the point where he is now \$5,000 in debt. There was a fire sale in his building in late 2013 and the unit was sold for \$90,000. As he said to me

“I cannot see how I can ever recover.”

According to Archers body Corporate managers, the REIQ have reported that 53% of units sold in the last quarter of 2013 were sold at less than purchase price. Archers Body Corporate managing director Colin Archer said the spiralling costs of strata title insurance had forced some owners to go without cover (in breach of legislation), while the unit property market in North Queensland had suffered, making it the nation’s worst-performing market.

b) Special Levies

Strata properties and any properties which have common areas, such as retirement villas, are having to raise special levies to pay the (somewhat) unknown insurance premiums

Special levies and increases in body corporate fees to obtain monies for insurance premiums have added more pressure on an already stretched system. Treasurers have to guesstimate the amount to be raised for insurance premiums as they have no idea what the next premium may be.

The money in the Administration Funds does not cover the increase in insurance premiums being experienced. No-one expected increases of 200-800%, where we believe this has not been the experience of properties in other parts of Qld affected by the floods.

Owners who cannot afford the body corporate fees and special levies are defaulting, resulting in the amounts required for insurance premiums not being met. This is leading to additional special levies being issued for payment by those who have not defaulted, so insurance premiums can be paid. Basically, some owners are paying 2 special levies due to the number of defaults of the first levy issued.

Case 1	Special levy	\$745 per quarter as well as \$2,400 levies for sinking and admin
Case 2	Special levy	\$3,000 per owner
Case 3	Fees	\$972.29 a quarter to \$1686.65 a quarter
Case 4	Special levy	\$745 per quarter in addition to \$1,860 levies

c) Loans set up to pay Body Corporate Insurance Premiums

Complexes are having to take out insurance premium loans to cover the insurance premiums because they do not have the money in their funds to pay the increases.

Since the Administration Funds do not contain the amount of money required to pay the insurance premiums and, in a number of complexes, it is not feasible to issue special levies for the total amount required in one go, the Body Corporate Committees are having to set up ‘Insurance Premium Loans’. These are taken out with Insurance companies (e.g. Lumleys) and incur set up costs and interest etc. This is an additional strain on the funds of Body Corporate Committees, although the Insurance companies involved are benefitting from extra benefits and funds. This is somewhat ironical as Lumley no longer offers insurance to North Queensland, but they will lend you the money to pay for premiums offered by other companies.

Quote from Whitsunday Body Corporate Management:

“So far the majority of committees, after consulting with the owners, have opted for premium funding and then holding an EGM to approve Special Levies spread over a period rather than a one off.”

Seastar Apartments Lumley's loan for the premium 2011-2012- total additional cost \$5,614.53 (premium was >\$80,000)

d) Owners either moving out entirely or moving into different accommodation

There have been examples of people moving out of their properties into rented accommodation, or back with families, or turning their backs on their homes because they can no longer afford the expense.

Some owners of units have rented out their units and are moving to different accommodation costing less.

The reason being - they are unable to sell their Properties and in making such moves they can achieve more cash to pay the Body Corporate Fees.

Case 1: Cairns

A young lady signed my petition, and I've contacted her back. She bought her first home, a 2 bedroom unit in Cairns, only to find her body corporate fees quadrupled in the first year. In addition, since their insurance premiums jumped massively within a single year without any warning, just after moving in they found there was shortfall in the admin fund to pay them so a special levy was raised of >\$1,000 which she had 30 days to find. She eventually rented out her second bedroom to help pay the bills but since the situation didn't improve she's rented out the whole unit and left Cairns. She is heart-broken.

Case 2: Airlie Beach

"Our apartment in Airlie Beach is our holiday home for around six months of the year, or has been in the past. Now we have decided to either rent the apartment on a permanent rental or leave it in the letting pool, and we will stay somewhere cheaper when we visit the area."

Case 3: Seastar Apartments – these people have still not been able to move into their unit as of today (2014)

Correspondence:

From: **John & Diana Rowley**
Subject: RE: Insurance Call To Action

Dear Margaret,

In reply to your request for information regarding the impact the recent massive building insurance premium increase has had on us, please find below a summary of facts and feelings. I am more than happy to have my name published as I don't believe in hiding behind anonymity.

Financially Unable To Occupy Our Own Unit

We purchased our unit in February of 2005 with the intention that we would occupy the unit after I retired from work. At the time of our purchase the annual building insurance premium was around \$6-7,000 if I remember correctly. In our wildest dreams we did not envisage seeing an \$80,784.66 premium 6 years later.

As we are now self funded retirees on a small pension, we have to work to a relatively tight budget. In early 2012 we intended to shift to our unit and live in it and as part of the financial planning we had allowed in our calculations for the exorbitant and greedy (or so we thought at the time) 2010-2011 insurance premium of

\$25,542.30 to be increased by a reasonable margin of 20-25% given the spate of natural disasters that had occurred recently. When the 2011-2012 premium arrived and showed a tripling of the premium, that additional cost, when passed on to us as unit owners, meant that we can no longer occupy the unit in 2012 as planned but rather leave it in the rental pool in an attempt to cover some of the additional operating costs.

Possible Forced Return to the Workforce

To forefill our desire to live in our unit I may have to pursue employment to earn additional funds to cover the increased costs. As I have been retired for a couple of years, and am 65 shortly, I am very concerned about my ability to get employment in a very depressed local employment market. My past employment was in the resources sector and while there may be an avenue for employment there, drive in drive out or fly in fly out positions are very arduous at my age. Also, regardless of all the government hype about it being illegal to not employ people based on age, gender, race etc, mines do not like employing "older" staff.

Unable to Sell Unit

When I contacted a number of real estate agents about selling the unit and shifting south of what I call the Insurance Company Rip-off & Greed Line (Mackay), I was informed that I would be hard pressed to get the same price that we purchased the unit for in 2005. A depressed market and very high, by southern standards, body corporate/insurance costs where the reason given for not achieving my 2005 buying price. One real estate agent said to me that southern investors were also concerned that the "greed" of the insurance companies would manifest itself in more large increases in premiums next year and that north Queensland was a no go zone for investment in strata titles.

Same Broker, Same Unit, Same Insurance Risks, Different Premium Increases

Our unit contents insurance premium for 2010-2011 was \$343.96 while for 2011-2012 it is \$492.19. This is an increase of 43% which in itself is a huge lump to swallow. While I realise that the insurance broker would not necessarily go to the same insurance company for building insurance as he would for contents insurance, why has the building insurance tripled while the contents insurance has been increased by a "mere" 43%? Our unit contents are at the same risk as the building so this massive building increase beggars belief.

Between a Rock and a Hard Place

Fortunately my wife and I can live with my elderly mother on a temporary basis but in reality we are between a rock and a hard place. We can't sell our unit unless we "fire sale it", we can't afford to live in it and the rental income does not cover the costs to run and maintain the unit. Seeking employment appears the only way out of our predicament.

Regards
John Rowley, Unit 23

e) Mental Anguish

The pain of seeing your home gone, not being able to pay your bills, and feeling abandoned by all Governments cannot be calculated.

The effect these premiums are having on the community is being under rated. Owners would sell and move out of areas if they could, but they can't as the units are unsaleable.

People who cannot get insurance at any cost are finding strains placed on their marriage as the husband thinks his wife has not tried hard enough to find them insurance. He doesn't understand what she has been up against.

This is leading to welfare problems and mental anguish.

In some cases the younger owners have to call on their parents for help, putting additional pressure on the parents. In other cases it is the older, retired person who is suffering:

Late 2011 Margaret Shaw was contacted by an 83 year old woman who was in tears because for the first time in her life she couldn't pay her debts. Her body corporate fees had increased so much due to the insurance premiums she just couldn't do it. She wanted someone to listen to her for help. She refused for her name to be given as she was more than embarrassed, she was humiliated. People don't deserve this.

A considerable number of units, and of course retirement villas, are owned by self funded retirees and their income is being affected. Self-funded retirees have to draw down savings with **No Means Of Achieving Any Additional Income.** If this continues there will be no choice but to make demands on the pension system if costs cannot be afforded and sales take place at below purchase prices.

Pensioners who have to watch their expenditure carefully cannot find the extra money and older people already suffering from depression and anxiety are having their conditions made worse.

Actual examples:

An 81 year old widow living in a 2 bedroom unit has body corporate fees now (2014) of \$13,000 per year, and an income of \$39,000 per year.

A 90 year old widow who is living on the top floor of a 3 storey building with lift has 2 retired couples owning the other 2 units. Their insurance renewal for 2013-2014 came in at \$39,000 (NOT body corporate fees, but insurance premium alone). I don't know what action they decided to take.

Some retirees are even contemplating returning to work as an option to cover increased costs, but the jobs aren't there for them.

In the case of Seastar, we had a 2010-2011 premium of \$25,000 (approx), the renewal premium came in at \$81,000 (approx). Our then Treasurer had increased the amount for insurance in the annual budget meeting by 10%, but our insurance actually increased by 324% with no claims due to Yasi and NO warning. She couldn't cope and came close to a stress related breakdown. This is when I started the fight and took over as Treasurer the next AGM.

Past History -

In the past, the story wasn't even over when insurance has been quoted and agreed, with Insurance companies pulling out at the last minute causing people to be un-insured and having to start again.

I am told in one instance a Strata complex insuring, for a year, unable to meet the full year's premium as a lump sum, was paying month by month. After two months the Insurance Company cancelled the insurance policy saying they were withdrawing from Strata Complex insurance, and refunded the money.

Details from Whitsunday Body Corporate Management:

*"QUS has completely withdrawn from the North Queensland BC insurance market as of 5th December 2011 even to the extent of **not honouring quotes** they already had offered to bodies corporate for renewals in December."*

It was thought that at the beginning of the 2013-2014 cyclone season more than 50% of Cairns was either not insured or under insured.

f) The effects on marketing properties

I believe the number of mortgagee in possession properties reduced in late 2012 because the major number of people having to sell was experienced in late 2011 and early 2012. However, people who managed to hold on believing things would get better are finding it isn't and mortgagee in possession sales are on the rise, yet again.

Due to large increases in body corporate fees, selling units has become extremely difficult. Therefore, the financial difficulties being experienced by many people already cannot be easily overcome by selling out.

I have spoken to: PRD Whitsunday; Harcourts; Ray White; Century 21; First National; and others. Some of their comments are detailed below.

One of the major real estate agencies in my area states they have seen a 50% drop in enquiries for units, as owning units is too prohibitive. Prices are now at 2004 and in some cases 2002 levels. Even though this may be true strata units are still not selling.

Another agency in Airlie Beach advised me that of the strata unit complexes they have on their books, four are bankrupt owners and a further two are going through divorce proceedings due to finances.

Of 260 Strata units for sale on their books in the Airlie Beach and Cannonvale area they sold only 17 units in 2012, in a market where value has declined 30%. This has not improved.

Another Real Estate Agency spoken with says in 2013 the steady increase of strata units for sale/auction in North Queensland has escalated into an avalanche of available units, with no buyers interested. Yet in all capital cities Strata Unit Complexes are promoted as the future way Australians will live. It calls for an evening out of complex insurance Australia wide, or is it the State Government's plan we all live only in Capital Cities?

Yet another Real Estate office informed me insurance has increased three or four fold so that when prospective Strata Unit clients view properties, the question now is not how much is the unit selling for but, "WHAT ARE THE INSURANCE AND BODY CORPORATE FEES ?" after which the prospective sale becomes a non event. The same office is now receiving five or six Strata Units for sale per month when previously in the boom times it was only four a year.

All Real Estate companies said due to these high Body Corporate fees brought about by increased insurance plus high local Council rates, future investors with negative returns will no longer invest in Strata units in Nth Qld. The agents are now forced to concentrate on selling private houses which have smaller increases in their insurance premiums.

The insurance premiums are even affecting Developers. In 2011 one Developer decided to sit on 3 blocks of land he owned until the situation improved, as he was finding it difficult to sell the units he had just built due to the insurance costs. He is still sitting on them! (2014)

Other Developers are in receivership and units are selling below cost.

September 24th 2013 Townsville Bulletin

Apartment sales in the Townsville CBD have slumped with exorbitant strata insurance levies blamed for the shortfall.

Unit sales data compiled by RP Data show just 40 units have settled in the Townsville CBD this year, down from 248 in 2007.

As the Weekend Australian also quoted October 2012:

First National Magnetic Island principal Ian Ivers blames the fact that two of the major developers of apartments at Nelly Bay who had controlled most of the stock are in receivership.

“This has happened up and down the north Queensland coast,” Ivers says. “It’s common across the state. Certainly there’s been a lot of mortgagee in possessions up and down the coast.”

Ivers says the biggest problem for prospective apartment investors is the high insurance premiums flowing from the recent floods and Cyclone Yasi, which hit north Queensland early last year.

“If these apartments didn’t have these horrendous fees, they would be a great investment. There’s hundreds of thousands of dollars off the original prices of what people paid for them.”

As of March 2014 it is close to impossible to sell a unit in the Whitsunday area. I currently have a renovated 2 bedroom villa in Cannonvale on the market, easy walk to the beach and everything, fully furnished, last rented at \$280 per week, for sale at \$177,000. No offers.

Recently I approached three Real Estate Agencies in the Whitsundays for their opinion on selling my actual home, a 3 bedroom, 2 bathroom apartment with 180 degree views of the Whitsunday Islands, only to be told Banks and Developers are holding so much stock in the area so as not to flood the market I could only expect to be offered \$460,000 IF I was lucky. The last 3 bedroom unit sold in my complex was in 2011 for \$645,000.

I too cannot see a way out since we have Body Corporate fees of \$12,000 per year. I have to keep my ‘forever home’ as I have no choice even though I too have had enough.

g) Reduced purchasing power

Insurance premiums for the larger strata complexes are taking up any spare cash, purse strings are being tightened, and resources stretched. Money is not being spent in the community as it is being directed to Insurance Companies.

Businesses are closing and there are now over 30 shops empty in the Airlie Beach main street alone, and we only have one main street.

When you have a retail shop located within a Body Corporate complex the retail tenants operating on a Net Lease bear the Administrative Levies for the Strata Lot they are associated with. Any changes in the operating costs are passed on to the tenant. Tenants can’t afford the increase and shops are shutting.

According to Brian Parsons Real Estate:

“Increase in operating costs to a retail business in the current economic climate can spell doom to any business.”

h) A reduction in the value of Management Rights

On site managers who have paid for the management rights are taking long-term tenants instead of tourists in order to make the most for their owners.

Resort Managers are not only having to pay the increases Body Corporate fees on their units, but the value of their businesses is also being affected, and some face a very bleak future.

- I. The only prospective purchasers who are considering buying in the large tourist complexes are owner occupiers. This reduces the number of holiday lets available and therefore, the value of the Management Rights

- II. Since insurance costs have sky rocketed, more owners who normally holiday let their units through Resort Managers are long term leasing them instead through Real Estate Property Managers for guaranteed returns. This also has an immediate effect on the income of Resort Managers

Take for an example. 25 apartments in a tourist resort. As of 13th January 2013:

Permanent rental or owner occupied:	10 units
Holiday let:	12 units
50/50 owner/tourist:	3 units

This means approx 50% of the units in this resort are now owner occupied or residential, and two others are considering their options.

i) Rent rises and a reduction in rental accommodation

Costs will be passed on, investors have left the market and are being warned away from North Queensland.

Landlords and Investors alike are going to pass on their increased costs via increases in rents. However, unlike our insurance premiums rent rises are capped, so it will be over a prolonged period.

Since investors are no longer entering the market, availability rates are going down. New investors are not entering the market, and Mum and Dad investors are keeping their money safe or looking at houses only.

The Weekend Australian (October 27-28 2012 page 15) has even warned investors from the North Queensland unit market:

'And finally a word of warning: be very careful to check body corporate costs in Queensland. Insurance premiums have skyrocketed and can shallow your rental yield.'

Focus Question 4.

4. Is there a lack of competition or contestability in the North Queensland property markets? Is this driving higher prices?

The lack of competition

Not only the relationships between insurance companies themselves, but the number of insurance companies that won't even quote for north of the Tropic of Capricorn and refuse to compete based on postcode

Major relationships:

Westfarmers	QBE Insurance	SUNCORP Group	Zurich	Allianz	IAG (Insurance Australia Group)	Chubb	Progressive Online	Hollard Insurance	Chartis (Part of AIG Group)
	CHU	AAMI		Club Marine	CGU			Real Insurance	
	AIB	VERO			NRMA			Gaurdian Insurance	
OAMPS Insurance Brokers	Elders Insurance	GIO			RACV			Aussie	
Combine Lockwood Insurance Brokers	Defence Forces	APIA			Buzz			Australian Seniors Insurance	
	CUNA	Just Car (owned by AAMI)			SGIO/SGIC			RSPCA Pet Insurance	
		Bingle (owned by AAMI)			Swann			Choosi	
		Shannons			SUU (owned by CGU)				
		Australian Alliance			WFI				
		AMP GI**			Lumley Insurance				
		Insuremyride			Coles Insurance				
		Resilium							

Auto & General Insurance Company Limited	Calliden Insurance	AXA	Youi Insurance ***	Liberty International Underwriters	Underwriting Agencies who access Lloyds of London
Budget Direct	QUS	AMP**			SLE Worldwide
	Sports Underwriting				Miramar Underwriting
	Argis				JUA Underwriting
	Dawes				SRS Underwriting
	Arena Underwriting				ASR Underwriting
	Aobis				Australis Underwriting
	IUA				Asset insure
	Mansions				Altiora Insurance
	Liberty				
	Solutions				

**AMP Group comes under AXA, but AMP general insurance policies are underwritten by GIO as the GI business is owned by Suncorp.

From 31 December 2011, AMP GI Distribution Pty Ltd (ABN 40 098 080 810) became a wholly owned subsidiary of Suncorp Insurance Services Ltd (ABN 79 000 746 092). AMP GI Distribution Pty Ltd is no longer part of the AMP group and uses the 'AMP' name under licence from AMP Life Limited (ABN 84 079 300 379) and AMP Limited (ABN 49 079 354 519).

*** Youi Pty Ltd, is a wholly owned subsidiary of OUTsurance Holdings Limited part of the Rand Merchant Insurance Holdings (RMIH) Group (South Africa)

ACE Insurance is backed by the ACE Group. ACE Limited, the parent company of the ACE Group, is listed on the New York Stock Exchange.

Suncorp is the most interesting of them all as it started life in 1916 as the State Accident Insurance Office 100% owned by the State Government, and then became SGIO. In 1998 the State Government announced a total sell-down of its shareholding through a second Exchanging Instalment Notes issue. The public paid \$7.10 in two instalments, the second being paid on 6 November 2000. These notes were exchanged for ordinary shares on 31 October 2001. However, the new brand, Suncorp Metway, was launched in May 1999.

Basically, Queensland lost its insurance company.

Also, worth noting Suncorp put out a media release in 2013: Media Announcement

Information for policyholders about a proposed transfer of general insurance business

The Suncorp Group is taking steps to consolidate its general insurance businesses.

As part of that internal reorganisation, the following Suncorp Group companies intend to transfer their general insurance businesses, by way of four schemes, to AAI Limited ABN 48 005 297 807 (AAI), a member of the Suncorp Group:

- Suncorp Metway Insurance Limited ABN 83 075 695 966 (which currently underwrites Suncorp Insurance general insurance policies);*
- GIO General Limited ABN 22 002 861 583 (which currently underwrites GIO, AMP and Resilium general insurance policies);*
- Australian Alliance Insurance Company Limited ABN 11 006 471 709 (which currently underwrites Apia, InsureMyRide and Shannons general insurance policies); and*
- Australian Associated Motor Insurers Limited ABN 92 004 791 744 (which currently underwrites AAMI, Bingle.com.au and Just Car Insurance general insurance policies).*

Before the proposed transfers can take place, these four companies and AAI must first obtain confirmation of the schemes from the Federal Court of Australia. If the schemes are confirmed, they will all be implemented simultaneously on or around 1 July 2013 and AAI will become the underwriter of all policies issued by the companies listed above from that date.

So they are amalgamating their companies.

It is also interesting that where QBE normally won't quote on strata properties unless you're part of a hotel chain, QBE underwrite all the Defence Force insurance and are substantially lower than any other quotes.

Cairns House quote this week:

The Property Manager normally uses this site to get comparisons – normally doesn't work now.

Home Insurance Quote from Zippy

Dear Mrs,

Thank you for your enquiry through www.Zippy.com.au. Zippy is pleased to forward you the following quote based on the information you have provided online. Please note that your cover is subject to acceptance by the insurer. The insurer reserves the right to change, amend or refuse cover.

Insurer	Policy	Premium	Excess			Accidental Damage Cover	Personal Effects limit (inc Jewellery, Watches, Mobiles, Digital Cameras & Laptops)	Worldwide Accidental Loss, Damage and Theft Cover for Personal Effects	Money and Negotiable Items	Storm Damage to gates and fences	Flood Cover	Motor Burn out/ Fusion Cover	Product Disclosure Statement
			Building	Content	Personal								
Allianz	Steadfast Listed Events Home Insurance												quotes not available
Allianz	Steadfast Accidental Damage Home Insurance												quotes not available
Ansvar	Steadfast Maxicover Household Insurance												quotes not available
Ansvar	Steadfast Homecover Household Insurance												quotes not available
Calliden	Steadfast ELITE Care Home and Contents Insurance												quotes not available
Calliden	Steadfast Extra Care Home and Contents Insurance												quotes not available
CGU	Steadfast Listed Events Home												quotes not available
CGU	Steadfast Accidental Damage Home												quotes not available
QBE	Steadfast Insured Events												quotes not available
QBE	Steadfast Accidental Damage												quotes not available
Vero	Steadfast Listed Events Home Insurance												quotes not available
Vero	Steadfast Accidental Damage Home Insurance												quotes not available

*Subject to postcode acceptance

Companies tried:

This is what I believe the current situation is for strata properties, in fact it applies to any property with common areas, such as Retirement Villas, gated communities and tourist resorts, which are not actually defined as strata.

- QBE Unable to quote unless managed by a major hotel chain & > 75% holiday let
- AMP Used to be unable to quote with sum insured >\$5M, but now no longer quotes on new business

I am told by WILLIS Australia, Sydney that AMP have left the strata market with their strata policies taken over by Vero Insurance who have joined with an Underwriter and launched Longitude Insurance on 3rd September 2012. Longitude is finding it difficult to keep up with requests for quotes from N. Qld and will not quote if there have been any claims. They come in at 10% (approx) less than SUU.

- CHU Do not insure in FNQ
- ACE Unable to quote
- Chubb Unable to quote in NQ
- Millenium Unable to quote
- AXIS Unable to quote
- QUS QUS has completely withdrawn from the NQ BC insurance market from 5/12/11
- JUA Unable to quote
- Zurich Unable to quote due to moratorium on all FNQ business + unable to quote on sum insured >\$20M
- Allianz Unable to quote on new business in FNQ (quoted \$20,000 per year in 2013 for a house in Ingham)
- Westfarmers/Lumley Not insuring any new business in FNQ, and has now sold its underwriting operations:

WESFARMERS will sell the Australian and New Zealand underwriting operations of its insurance division to Insurance Australia Group for \$1.845 billion.

In a statement to the Australian Securities Exchange, Wesfarmers said the deal did not include Wesfarmers' broking operations in Australia, New Zealand and the United Kingdom, or its premium funding businesses in Australia and New Zealand.

The deal includes Wesfarmer's underwriting companies trading under the Lumley Insurance and WFI brands, as well as a 10-year distribution agreement with Coles Insurance.

Wesfarmers said it expects to record a pre-tax profit of \$700 million to \$750 million on successful completion of the transaction, which it expects to include in the financial results for the second half of fiscal 2014.

Business Spectator December 16, 2013

- Vero Now insures via Longitude as of 3rd September 2012. However, if there has been a large claim they refuse to quote, so they're basically having the sense to pick up the properties which haven't had any claims but have still had massive increases in premiums. They currently work out only 10% less than SUU
- Asset Insurance Unable to quote
- Elders Will quote and it's QBE underwritten, but they have turned down quoting on at least one property due to age
- GIO Unable to quote
At the end of 2013 GIO started quoting again but came in at \$92,000 as against a quote from SUU for \$72,000, and an ISR policy with Ace as the major insurer for \$64,000. They did say they would look at their pricing in early 2014. I have yet to hear if they have
- APIA Do not cover strata

I went direct to SRS, but they only deal through brokers so I asked my broker to talk to them, SRS were prepared to take on the latter half of our insurance under a ISR (Industrial Special Risk) policy, still leaving us with no main insurer.

We now have an ISR policy through a broker with ACE as the main insurer.

It is now plainly obvious that all Strata complexes in North Queensland have been singled out with inappropriate and over priced insurance premiums, 300%, 400% and upwards, in an insurance market where only one or two insurance companies are quoting, there is no competition. It beggars belief that in the flooded half of Queensland insurance premiums have risen only 36% and in the most severely flooded Gatton area premiums only rose by 65% by comparison.

The biggest increase in insurance premiums has been levelled at complexes that are over twenty units and with a building replacement value of over \$10M.

Strata properties valued at more than \$15M can apply for ISR policies through brokers. Normal residential have a choice between SUU and Vero.

Domestic homes and smaller complexes are able to search for competitive quotes for their premiums so, although initially seeing increases of more than double their previous premiums, they are able to get reduced quotes from other companies, although I understand this is now changing and house insurance is also going through the roof. Complexes cannot shop around.

Is there a lack of competition or contestability in the North Queensland property markets?

YES

Is this driving higher prices?

YES

Lack of competition always brings higher prices.

SUU is over exposed in North Qld and has to cover themselves for catastrophes. It is in their interest not only to assess risk properly but for there to be greater competition in the market.

Focus Question 5.

5. To what extent is the level of competition or contestability in North Queensland insurance markets affected by uncertainty around the level of risk in the region?

Insurance companies shouldn't be uncertain about the level of risk in the region, but they are scared of the region.

We are going to get cyclones, but they are reducing in number. In addition, it costs significantly more to build property in North Qld than it does in areas further south because of our cyclone standards. Hence, according to Colin Archer, CEO of Archers Body Corporate Managers, there have been no claims for any strata properties managed by Archers due to the most recent cyclone ITA.

It should be noted that the majority of strata complexes which received premium increases after Yasi had no claims due to Yasi, Seastar included.

Their assessment of flood prone areas should now be much better now they're using the correct maps.

16th October, 2013

LEICHHARDT MP Warren Entsch has welcomed news that insurance companies will now have access to the most up-to-date flood risk data when calculating property insurance premiums.

"I congratulate the Queensland Government for choosing to work proactively with the Insurance Council of Australia to address common insurance issues," he said. "This is a very important move.

"It was the South East corner of the state that was most affected by major flooding events, yet we here in the North and Far North have been equally penalised – if not more.

"By releasing this information through the MOU, insurers will have access to the most accurate spatial and elevation data and this should have a significant impact on property insurance in Far North Queensland.

"This is another piece of the puzzle and I'm looking forward to bringing a whole range of other issues that impact on insurance affordability in Northern Australia to the Round Table, including the ongoing tendency by insurance companies to assess based on postcode rather than on actual risk."

Mr Entsch said that for far too long there have been major discrepancies between the State Government flood maps that the insurers used to determine risk, and the Cairns Regional Council maps which in many cases were more recent and accurate.

"After the 2011 floods the State Government undertook a rapid floodplain mapping program, however this was only designed to be used as a quick guide to flood hazard areas. But feedback to my office suggests that many insurers were determining policy pricing based on this information rather than using data from local authorities on the ground.

"At my own property in Whitfield I had to accept compulsory flood cover but if floodwaters were lapping at my footpath, the CBD would be 30m underwater.

"Now, insurers will be able to use official flood data and mapping for the first time and they can also access Queensland Globe, which details flood lines from the 2011 and 2013 flood events. Clearly this should show little impact in Far North Queensland."

Mr Entsch said property owners should also be aware that in all cases where insurers are assessing flood risk, they should be using the most detailed study available.

"This means that if Cairns Regional Council has high-level flood risk mapping available for a suburb, it should take precedent over State Government mapping. Policy holders should dispute this with their insurer if they believe their property has been assessed using out-of-date data."

Focus Question 6.

6. Do existing insurance comparison websites in Australia adequately enable consumers to compare the features of products offered by multiple insurers?

YES – if you can find one which works for your type of property.

YES – if you can find one which will quote for postcode in North Qld – very hard to find.

For strata it is a bit more difficult as there are no web sites dealing with ISR policies, and there are only two companies quoting for normal strata policies. These companies are SUU and Vero (via Longitude). If you think you're getting two quotes when Vero and Longitude quote you're actually not, Longitude just adds a fee on top.

I also believe we should include business insurance in the scope of this project as people are finding it more and more difficult to get this type of insurance as well.

Focus Question 7.

7. What characteristics should an insurance comparison site have to make it useful for consumers?

What type of consumers? There are:

- Rural insurance
- Residential insurance
- Strata insurance
- Business insurance
- Car insurance
- Pet insurance
- Home and contents insurance
- Boat insurance

I understand even farmers whose produce is insured whilst on their premises are finding it difficult to get insurance cover when it leaves the farm on the way to the market.

I would very much like to see a web site which details in full:

- How the premium is made up
- Who is getting paid what
- What third party commissions are being paid
- What the loadings are **and** why
- EXACTLY what the base premium is
- In fact, how the premium is calculated and put together

If a property is insured for full replacement cost plus 2 years to rebuild, then why is there a catastrophe loading on top? What can be a bigger catastrophe than a completely destroyed building?

And I quote:

'As a Chair person, one thing I am struggling with at the moment is the building valuation and then the catastrophe allowance the insurance companies include.

I have a property with 16 town houses, with the value to rebuild these small, basic one bedroom units that are 55 square metres in size at \$1.4 million. The quantity surveyor then adds this and that, then a bit more for good measure and suddenly I have to insure for \$1.8 million.

I can wear this, but then when the renewal comes in they put on 30% catastrophe cover, and on the last one another 30% extra catastrophe. This essentially took the value I am insuring this \$1.4 million building for up to \$3 million.

As a Chairperson and owner I cannot understand why I would want to have or pay for \$3 million worth of cover for our \$1.4 million complex. I was advised that if I didn't and took this catastrophe cover out, then we would run the risk of being "under insured" or self insuring and if we had a claim it could be only partially paid out.'

This is happening all over the place.

Not only do you have to insure for full replacement value, which in itself is ridiculous since if a building was completely destroyed the likely-hood of you rebuilding exactly the same building is next to nothing, we have to insure for much more than the cost of rebuilding!

One of the problems is that Bodies Corporate Management companies fall under one set of legislation and brokers fall under a different legislation. Insurance invoices do not in general show all the payment breakdowns and can be misleading.

a) The tax invoice for the insurance premium rarely shows the total individual costs associated with it.

Where body corporate managers have to disclose the commission they are entitled to receive to the Body Corporate:

“Section 135 of the Queensland Body Corporate and Community Management Act 1997 regulation 2008”

They don't have to declare it on the actual invoice.

Brokers fall under the regulation of the *Commonwealth Corporations Act 2001*.

The AFM (Sydney 2012-2013) invoice for our insurance at Seastar Apartments showed a brokerage commission of \$0. I don't think so. Having asked, I understand our broker commission was between \$4,000 and \$5,000 and could be found on a completely different page NOT presented to the body corporate committee.

September 30th 2013 Townsville Bulletin

Brokers taking up to 25pc of premiums

A policy renewal sent to a body corporate in Townsville earlier this month, and seen by the Townsville Bulletin, shows one local broker received an 18 per cent commission from the insurer for re-signing a customer.

Page one of the policy shows the total premium cost to the body corporate \$24,196 with costs including the premium (\$19,904.55), fire levy (\$0), GST (\$2,000.46), stamp duty (\$1,970.55), policy fee (\$100), broker's fee (\$200.40) and the broker's fee GST (\$20.40) detailed.

On page five of the policy, under “Our Remuneration”, it shows the broker received a commission from the insurer of \$4,379.

When the insurance has been arranged through a Body Corporate Manager the broker may declare their commission to the BCM as they are considered the client and not the actual Body Corporate Committee paying the invoice.

b) Even with Body Corporate Managers the amount of commission is declared as a variable percentage in the management agreement. Some Committees have no idea they are paying up to 20% (possibly more) of their premium in commissions.

Quote from Archers:

“If cover is placed with them (1 of their preferred brokers) we will be paid commission in accordance with our agreement.”

Archers have now moved to a set fee for arranging insurance rather than a non specific percentage. One win to me!!

- c) People are complaining about huge premium increases but we don't actually know what the base premium is and because most commissions are based on a percentage, if the base premium rises so does the commissions paid.

There is a duty of disclosure for the insured to disclose to the insurer, but no duty of disclosure for other parties to disclose their interest in any policy in actual figures on the tax invoice.

Up to 20% of base premium in commission for making a phone call to a broker is excessive. I understand it also means the Body Corporate Committee won't be charged for the processing of claims, but being charge \$150 per hour + GST (approx) is nothing if a property is being charged 10s of thousands of dollars in commission.

In addition, Retirement homes and villas are managed by their Retirement Managers, the residents get no say what-so-ever about where their quotes come from and no information as the whether their Management company is getting a commission or not. This is shameful.

Quote from a retirement village resident (2013):

"From a retirement village perspective I believe that the current 'one size fits all despite the location' policies currently being used by owner/operators (as in our case) should not be allowed and an individual risk assessment of a village undertaken prior to a quotation being given mandated. There should also be a Resident Committee consultation process (as is done with the Village Budget) when formulating the policy coverage."

Focus Question 8.

8. If insurers were required to provide information to enable simple price and features comparison for insurance products, what would be the compliance costs to business?

Minimal. All the information is available.

Your useless information for the day: Interesting to note, the majority of insurance companies use the same computer system. It's been renamed over the years but it's still based on the original POLISY system (spelt correctly) or PROTECT or COGEN or CLOAS, basically all the same thing which can be determined by the use of the DATBAS sub-module. It's actually a 1985 Australian system from Inscom (which became Paxus Information Services, which was bought by CSC and developed into a recruiting agency last sold in 2012). It was launched in the UK at a later date in the 1980s. This system uses Tables to calculate premiums, the main ones being the postcode table and the rating tables.

Companies whose computer systems come from the same base include;

- AMP General Insurance
- Zurich
- GIO
- QBE
- CGU/SUU
- Westpac GI

Focus Question 9.

9. Are there any impediments to adopting an insurance comparison website model that provides indicative or sample quotes to potential customers to either the home or strata title insurance markets in North Queensland?

You have to base a web site on assumed risk based on set questions and not assessed risk based on fact. UNLESS after a risk assessment and mitigation document has been commissioned it results in one single overall rating. Then this can be entered and premium calculated on that rather than on location of the building, which should be irrelevant.

Example: Airlie Beach may be in danger of experiencing a cyclone, but my building cannot flood, and if the tsunami which hit Japan came to shore it wouldn't reach our doorstep, and we're not in a bush fire danger zone. So if a similar building in Brisbane can flood but is not susceptible to cyclones or bush fires, then we may end up with a similar end risk rating. We should have the same premium no matter the location of the building. They are as likely to get damaged as we are.

Focus Question 10.

10. Would participation in an insurance comparison website that provides indicative or sample quotes to potential customers result in compliance costs for business?

Of course there will be a cost, but they're making record profits already, so I wouldn't expect them to put up premiums as a justification for costs incurred

There would be a one-off cost to change the system to produce the information and to comply with the requirements.

Focus Question 11.

11. Would the creation of an insurance comparison website that provides indicative or sample quotes and other policy information to consumers be effective in enhancing transparency in insurance markets in North Queensland?

That would depend on what the web site makes them disclose. If it makes them disclose the actual breakup of the premium amount then, yes, it would enhance transparency. If, however, they just have to disclose a premium based on a set of questions and you have no idea how it was calculated or what went into it, then no, it won't make a blooming difference and is a pointless exercise.

Focus Question 12.

12. What are the risks, if any, associated with live quote aggregator websites?

- You have to base a web site on assumed risk based on set questions and not assessed risk based on fact.
- Properties are never the same and there can always be exceptions to any rule
- They is no dispute resolution
- I think pre 1986 buildings are going to suffer
- Listed buildings don't stand a chance
- Neither do period buildings
- They get it wrong

Focus Question 13.

13. What design features should be incorporated into any live quote aggregator to minimise the risks?

- Cooling off period
- Dispute resolution
- Terms and conditions
- Premium breakdown
- Commissions payable
- Optional cover – do you want flood cover? Do you need cyclone cover? Do you wish to be quoted for bush fire cover? Let the consumer make their own decisions rather than insist each policy has to cover everything

Focus Question 14.

14. What would be the compliance costs associated with insurers participating in a live quote aggregator website?

I do not know. However, my rough calculation is that the insurance companies have reaped an additional \$1B in premiums over the last 3 years from strata properties alone, so I suggest they can afford it without putting up premiums.

Focus Question 15.

15. Are there any impediments to adopting a live quote aggregator model to either the home or strata title insurance markets in North Queensland?

Yes and No – or rather No and Yes.

I cannot see impediments to adopting a live quote aggregator model to home insurance, as the standard questions apply to most (not all) properties – I do know of a house with a lift.

I cannot see impediments for rural, boating, pet, and maybe business insurance.

However, with strata properties each one is different (see Focus Question 19) and I cannot see how an aggregator website will work unless the risk assessment and mitigation report results in information and risk ratings that can be used by the site – JCU project.

Focus Question 16.

16. What measures, if any, would be required to ensure that an adequate number of insurers participated in a live quote aggregator site.

I suspect you would have to make it compulsory as insurance companies do not want customers to know how their premiums are made up and who they are paying commissions and third party payments to.

Any strata website is going to look a little sparse at the moment, even if participation was compulsory.

Focus Question 17.

17. Are there any confidentiality and privacy implications that need to be considered in implementing an insurance comparison website?

Only for the insurance companies. They have little or no intention (I'm told) to disclose their rates, penalties and loadings to other companies or to the consumer.

Focus Question 18.

18. Are there other website options (apart from the consumer information model, indicative or sample quote model, and live quote aggregator model) that would be more appropriate to address the issues identified in this paper?

It would be interesting if Industry Special risk (ISR) policies could be represented on a web site and could be accessed by Bodies Corporate who normally have no access to them, such as those valued at <\$15M. Some insurance companies only operate through ISRs, such as SRS and ACE, and brokers can only get a quote if the building is valued at >\$15M, otherwise it isn't worthwhile. So most residential complexes have no ability to get quotes from them.

Also, ISRs are a way of limiting liability for a company. They allow a company to take on different types of insurance in an area so spreading their risks.

Focus Question 19.

19. Should an insurance comparison site include a comparison of strata insurance property products?

It would be nice for any insurance comparison site to deal with strata property products as this is where the major concerns and highest premiums are.

However, for 'normal' strata policies it may be possible but only 2 companies are quoting so it's going to look a little sparse to say the least.

For Industrial Special Risk policies (mostly for complexes valued at >\$15M) it will be extremely hard if not impossible.

The problem with strata properties is that they also include any type of property with common areas. These can be:

- Gated communities
- Residential strata
- Tourist complexes
- Retirement homes
- Duplexes

to name just a few.

Set basic questions don't work. I have hope the current project with JCU and Dr. David Henderson may come up with a solution to this but it will be difficult.

Strata complexes can differ greatly in their makeup – please tell Jarrod Bleijie this as he has definite tunnel vision and can only see Gold Coast high rises. They can be:

- Separate houses with common land
- Single storey
- Multi-storey
- High rises
- Properties which only have a common driveway – I had one example where the insurance on the driveway was more than the insurance on each house sharing it
- A combination – such as retirement villas and houses

They are all different in their way.

Where I live at Seastar Apartments, Airlie Beach, we have:

- 25 apartments spread over 7 separate buildings – 12 x 2 beds, 12 x 3 beds, 1 x 4 bed
- All the ground floor is garages so accommodation only starts from 1st floor up
- There are only 2 apartments per floor
- Only 1 block has a third floor
- Only 1 building has a lift
- Only 1 building has a roof (as such) the rest have concrete slab with roof gardens
- We share a swimming pool

This year SUU quoted \$74,000 – GIO quoted \$92,000. We cannot flood, and have no claims due to cyclones or water damage in the last 5 years, and have experienced several cyclones. BUT we share the same postcode as the islands – Hayman, Hamilton, South Mole etc. although they would be in our way should any tsunami hit, which wouldn't reach our front door anyway.

One year a property in Townsville with 90 units where the first 5 floors are open car parking had to pay a premium of \$320,000 with a named cyclone excess of \$150,000. I believe they now have an ISR policy which has reduced the premium a little. This complex has a large number of retired people living in it as the Townsville Council are actively encouraging older people to move out of houses and into apartment living.

A complex in Airlie Beach changed from a normal SUU policy to an ISR policy and reduced their premium by \$80,000. Normal strata valued at <\$15M can't do that, they have no options.

Focus Question 20.

20. How can the additional complexities of strata title property insurance be overcome?

If proper risk assessment is undertaken and the complex is given a **final risk rating** based on set parameters, including their risk of being damaged due to bush fires; cyclones; floods; storm surges; hail etc. Then it would be simple, as all buildings with the same risk rating should be quoted the same premium NO MATTER its location. So you remove the postcode loading.

Naive Basic Example; Seastar may have a 10 rating for cyclones, a zero rating for floods, a 2 rating for bush fires (I suppose it could happen but it never has), a zero rating for storm surge, a 1 rating for hail. This would result in a final risk rating of 13. We should be quoted the same premium as any similar property with the same final risk rating NO MATTER where it is. Then they could take into account the building structure, pool, lift, roof etc. and add to the base premium accordingly.

Parity for all!!!!

Just because a complex undertakes a proper risk assessment doesn't mean any notice is taken of it (and please note Vero and Longitude are basically the same company):

Thank you Margaret for keeping us up to date.

As a matter of interest, I am an owner of a townhouse on Magnetic Island.

I followed your previous advice as to who we could contact to possibly get better building insurance terms.

The Brokers recommended & contacted couldn't actually get us terms. I acknowledge that every location has its differences and preference by firms.

The outcome was that in the end we stayed with our current broker OAMPS and they found that only two insurance companies would offer building cover for our \$6m+ property. (At least there were two) They were Vero & Longitude. Vero was our current insurer and the annual premium was some \$5000 less than Longitude. So we stayed with Vero.

We also had a Vero Risk Consultant, Corporate Portfolio & Underwriting Management, visit our site to do a risk survey assessment just as our premiums were due. He went over the full site and confirmed there was no further action the Body Corporate Executive could take to mitigate risk. He was also made aware that we had no claims as a result of Cyclone Yasi and that the building was built in the last 8 years to cyclone resistant specifications. Our building is also located on the opposite side of the island from where the direct impact of storms hit, noticeably Yasi.

Yet our premiums had gone up over the last 4 years from \$10,000, to \$17,000 to \$48,000 to \$52,000 odd this year. Concern was expressed that our specific risk position was not fully appreciated by the Underwriters and we would wish for this feedback to go back to the firm and be considered for next year's renewal premium. We will see what happens.

Kind regards,

Quote from an engineering company with regards to the CGU announcement of proper risk assessment (2014):

Hi Margaret,

We believe it would be best if the policy holder commissioned and owned the inspection and report, carried out by a certified 3rd party and not by an agent of the insurer. That way it can be private and also 'shopped-around' to different prospective insurers at the prospective policy holder's discretion.

The current move by CGU seems to have effectively high-jacked control away from their policy holders and possibly any accountability and dispute procedure as well. So, please tread carefully in support for CGU.

We believe that the ICA commissioned JCU Cyclone testing station work with Dr David Henderson is still underway. As we understand it, the result may also inform SERGON the CGU inspection agent and any other insurer, and also give people a choice to go independent.

We believe it is very important that the work from JCU is supported. It will support all of the Insurers to work to provide a better policy that is more tailored to individual needs with the facts well resourced.

*Regards and thank you
name removed for privacy reasons*

Focus Question 21.

21. Could an insurance price or features comparison website be effective in smaller markets like that for strata title property insurance in North Queensland?

I am loath to say it but I don't consider strata title property insurance a 'smaller' market. It is already a big market and getting bigger every year.

More and more Councils are building more and more strata properties. Certainly in the cities it seems to be the way of the future. There are more retirement villas, and older people are being actively encouraged to 'retire' to strata properties where the maintenance is easier and the units more secure.

Could an insurance price or features comparison website be effective for strata title property insurance in North Queensland?

There will be problems, see answer to question 20 above.

Focus Question 22.

22. What are the implications of providing any aggregator for home and contents, and potentially strata title insurance;

So long as any aggregator web site is transparent in how a premium is calculated and all its components including payments to third parties, it would save people hours in combing through web sites and quotes.

It took me 3 months to find a second quote for Seastar Apartments.

BUT, how can you force/persuade an insurance company to take part in such a web site? That is the question.

22.1

22.1. nationally; or

Nationally has to be the way to go. North Qld can't be seen as having preferential treatment and what has been done to us can be done to other areas at whim.

Western Australia is vulnerable, Victoria has its bush fires every region of Australia is susceptible to some form of catastrophe.

22.2

22.2. only for North Queensland or other regions acutely affected by affordability problems?

If you're going to set one up, then set it up for all. Try to make location irrelevant and base premiums on actual risk.

Focus Question 23.

23. If an insurance comparison website is to be facilitated by government, should it be attached to ASIC or ACCC, another agency, or under contract with a private operator? Would there be any difference in the cost of compliance for business in each of these cases?

Does either the ASIC or ACCC have any real power? I have written to both of them over the last 3 years and received back standard letters saying it's nothing to do with them and they can't help.

What about The Australian Prudential Regulation Authority (APRA) as being more appropriate – although they couldn't help me either?

Whoever you put in charge they have to have the power to insist insurance companies take part in the exercise. The only association who should not be put in charge is the Insurance Council of Australia who over the last 3 years has insisted we don't have a problem, even though some companies have agreed that we do.

Self regulation of the insurance industry is not working.

I truly believe that if the ICA had recognised the problem (and admitted it) back in 2011, they could have sat down with its members and worked out a solution – a sharing of the problem. But they didn't. Even up to today the ICA say there has been no market failure and North Qld doesn't have a problem. Well, Campbell Fuller, if we don't have an on-going problem then why are there projects with JCU, Inquiries, petitions, and this report.

An increase in nett profits of 37% at a time when owners in North Queensland are truly suffering is unacceptable!!!

As someone on my petition wrote:

“Insurance is not discretionary (strata and properties with common areas such as retirement villas have to have insurance for full replacement value), it is like water and electricity, and should have the same kind of independent authority monitoring price rises.”

Insurance companies have been allowed to increase price beyond normal expectations and beyond acceptable limits.

If the industry cannot self regulate and it seems it can't, then we may need an independent authority to monitor it and hold it accountable.

Focus Question 24.

24. What, if any, is the role for government/s in promoting resilience in North Queensland?

I believe:

- It is for the State Government to promote resilience

- Local Governments should be held accountable for breaking their own rules and for allowing properties to be built in inappropriate places
- Mitigation can only take a property so far, when all the suggested mitigation projects have been completed we are still not guaranteed a premium reduction – see Focus Question 20
- It is difficult to promote resilience to a property which has had few, or no, claims but premium increases of 200-800%

Focus Question 25.

25. Are there other options for enhancing resilience that should be considered?

An adaptation of the Australian Reinsurance Pool

“Companies who insure risk should be companies who share risk.”

There is precedence for this idea. This is a Federal Government issue.

This year the insurance companies announced an increase in net profits of 37%, which equated to an increase of \$1.1B according to the reports.

If \$1.1B = 37% then total net profits should be in the region of \$2.97B per annum.

If insurance companies, all of them, put 1% of profits per year into a central pool for claims in the case of national or regional disaster, this year alone they would have contributed \$29.7M. (*The amount could be matched, or not, by Federal Government.*)

We do have years without a catastrophe. The pool would slowly build up and be able to cover extreme circumstances without having a major affect on the profits of the companies.

The pool could be managed by the insurance companies or the Insurance Council of Australia or someone else. When it got to a healthy amount the companies might decide to use some of the money in prevention or mitigation, such as choosing to build levies etc. Towns could apply for grants.

Being controlled by the insurance companies themselves means it cannot be seen as a tax by them, just a way of mitigating their risk and preventing the peaks and troughs of insurance in Australia. AND if we aimed at grants for the future then it would be good publicity for an industry which looks dreadful at the moment.

Premiums would go down across Australia as the pool increased, and natural disasters would be covered and have very little effect.

Maybe we would get into a situation where Australian insurance companies wouldn't need international underwriters, we could underwrite ourselves. Now, that would be nice.

Lloyds of London works in a slightly similar way. Anyone wanting to become a 'Member of Lloyds' pays a non refundable amount to a central pool. This pool isn't touched unless there is a circumstance where an Underwriter cannot cover their claims, then the pool is used to pay the excess. It is HUGE and has been used in the past to cover bad debts. Basically, Lloyds of London underwrites itself.

This would work in a similar way.

- People who cannot afford their insurance (mandatory or not) would benefit
- Insurance companies would benefit by removal of the peaks and troughs

- Those not currently taking out insurance due to the cost would be able to do so, raising profits for the insurance industry
- Towns where disasters could be prevented would benefit from grants
- International underwriters would not be needed
- Australia wouldn't have loaded reinsurance costs due to
- STABILISATION!!

Focus Question 26.

26. Would the relaxing of restrictions on unauthorised foreign insurers be likely to result in more insurers entering the North Queensland strata or home insurance markets?

I would like to say yes, but I suspect not. Any foreign insurers who want to be in our market have already registered Australian companies and are in the market.

We can but see.

Focus Question 27.

27. What would be the costs or consequences for locally authorised insurers if unauthorised foreign insurer restrictions were relaxed?

I suspect none (see Focus Question 26). However, if relaxing the rules would bring alternate insurers into our market then I would sincerely hope their quotes would be competitive and result in more competition in the marketplace so lowering premiums.

Focus Question 28.

28. Are there risks associated with relaxing restrictions on unauthorised foreign insurers, and how could these risks be minimised?

There is risk in any action. There may be a bigger risk if we take no action.

I would like to know why foreign insurers were prevented from offering their products here in the first place before I can answer this question fully.

Risks:

- A lack of understanding of the rules, regulations, and legislation
- A lack of knowledge of the types of insurance products required
- Non recognition and/or payments of claims (then again we have that already with our existing insurance companies)
- Call centre requirements
- Currency conversion

How to minimise risk:

- Education
- Insist call centres are based in Australia