



# Northern Australia Insurance Premiums

Focus Questions

Information For The Taskforce 22/8/2015

**Margaret Shaw**

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## Summary

The Taskforce have had to undertake a fast learning curve to fully get to grips with the history of the insurance crisis and the current situation. I think they have done this well.

The job of the Taskforce is not to decide whether there is a problem, it is to recommend a solution to the problem.

### Past information:

The report is missing some very important information, namely:

- The AGA cannot update his reports showing the data for 2013-2014 or 2014-2015 because some insurance companies have chosen not to provide the data to him. Without this data we cannot be sure what the current situation is, and even though increases may have “slowed” they have not ceased
- Data from the ICA stops at 2010
- The data pertaining to insurance affordability for 2013-2014 will be forthcoming
- The data for those underinsured or not insured is only up to 2012 but will be forthcoming

It has proved:

- Premiums in northern Queensland are “largely unconstrained by competitive forces”, as there is little or no competition
- The market has deteriorated as Brokers state at one point (2011-2012) there was only one company offering strata insurance in the area. Even today although there is more than one company offering strata insurance there are limitations on what kind of property, value and location is covered
- Although there are 12 insurers offering home and contents insurance in Queensland, they are not all in North Queensland, as not all companies operate in all regions
- The economic affect of the premium increases is enormous and has been recognised
- More money is paid out for floods and storm damage than for cyclones - losses due to cyclones from 1999 – 2013 have resulted in insured losses of \$2.929B, losses due to other kinds of natural disasters have resulted in losses of \$8.735B.
- Premiums are not affordable by anyone’s standards. Even if a property can get a quote for insurance until the owner can afford to pay it we have market failure. The report also notes home insurance is not available on the West Island of the Cocos (Keeling) Islands, or for strata complexes on Christmas Island, this is also market failure.

### Future

Insurance companies are in two minds as to how they feel. Depending on the recommendation, some may leave the market and others may enter the market increasing competition. It is important we try to keep those companies already in the market and increase the competition.

Having thought about the Focus Questions, options and solutions I have decided a cyclone reinsurance pool, with the format to be expanded for other natural disasters is the option I prefer.

This mixed with education and mitigation, so long as insurance companies take notice of the mitigation, and coupled with a reduction of the items covered by cyclone damage (such as shade cloths), will make a difference. I also think the State Government should investigate a few cost

reduction legislation procedures (sent to them separately), and the insurance companies themselves should be made to mitigate their claims by investigating their own procedures after a natural disaster.

People are still angry, not anxious, angry! The insurance industry needs a watchdog.

To make it brief, Northern Queensland is, and other parts of Northern Australia are, in a complete mess with regards to insurance premiums and something needs to be done – we've been saying this for years.

**I will look at any suggested recommendation.**

## Definitions

### Strata

I have used STRATA to mean any property which has a common area, including Retirement Villas, shared commercial premises, duplexes, holiday lets, residential, gated communities etc which do not actually fall under the term of STRATA.

Tourist complexes and holiday lets do not fall under residential, even though people live in them on a permanent basis. We need to make sure any recommendations apply to all types of property.

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
- Separate buildings on the same title
- A combination – such as retirement villas and houses

University Residential Halls may also have to be considered.

### Body Corporate Managers

Body Corporate Management companies also means any company which manages properties, such as Retirement Villas, which have common property. It is also to apply to Developer's Management companies or Hotel Chain Management companies etc.

### Insurance Classes

- ***Outline options to reduce the cost of home, contents and strata insurance that stems from cyclone risk in these regions, including a mutual cyclone insurer and a cyclone reinsurance pool as well as other options that are put forward during consultation;***

The Terms mention home and contents insurance and strata insurance.

Home insurance can be difficult to define: normal house and contents; rural insurance covers the home; landlord's insurance covers the property as well as extras. Are we to include these and are we to leave out commercial/industrial insurance or small business insurance which also cover the buildings and property, or are we to consider whether the solution can be applied to all types of insurance where a property is lived in, and other types of property insurance as well?

I believe the use of the term “home insurance” should be regarded firstly as “house insurance” but secondly as “property insurance”.

This project should include any residential property which can be legally lived in. This includes:

- Strata
- Residential model
- Accommodation model
- Rental accommodation
- Rural
- Student Halls

## Background and Future Considerations

### Climate Change

All analysis of natural disaster risk management and mitigation strategy takes into account the impact of different climate change scenarios as determined by the latest IPCC findings.

Insurers and reinsurers have already begun adjusting their risk assessments for natural perils, as noted in the Lloyd’s of London report *Catastrophe Modelling and Climate Change (May 2014)*. It can be found on-line.

### CSIRO

According to Marian, Information Officer, CSIRO Enquiries – *letter to third party*

The two most current publications on Australian climate and projected changes are; the [State of the Climate report 2014](#) and the Climate Change in Australia [Technical](#) and [Regional](#) Reports.

The Climate Change in Australia Technical Report states:

“Based on global and regional studies, tropical cyclones are projected to become less frequent with a greater proportion of high intensity storms (stronger winds and greater rainfall) (medium confidence). A greater proportion of storms may reach south of latitude 25 degrees South (low confidence; Section 7.3.2).”

More information on projected changes in tropical cyclones can be found on page 49 and 129 of the Technical Report.

### BOM

#### *MK has noted:*

Much of the coastline is sparsely populated or remote so the chances of a severe Tropical Cyclone hitting a specific area are quite low which is reflected in the statistics tabled below.

Recent Tropical Cyclone activity includes;

- The most recent was Tropical Cyclone Yasi in 2011 which was reportedly the most severe tropical cyclone since **1918** and crossed the coast as a category 5 cyclone to the south of



Cairns at Mission beach. The most serious damage from Yasi occurred to the south of Cairns particularly around Mission Beach and Cardwell.

- In 2006 Tropical Cyclone Larry, a category 3 cyclone, crossed the coast at Innisfail causing significant damage in the Innisfail region.
- In 2006 Tropical Cyclone Monica, a category 3 cyclone, crossed the coast in a remote part of Cape York.
- In 2005 Tropical Cyclone Ingrid, a category 4 cyclone crossed the coast south of Lockhart River.
- In 2000 Tropical Cyclone Steve, a category 2 cyclone crossed the coast to the north of Cairns.

Other historical information from the Bureau of Meteorology lists the following as “Historical impacts along the east coast”;

- 1890 a severe Tropical Cyclone crossed the coast near Cardwell.
- 1893 a severe Tropical Cyclone crossed the coast near Yeppoon.
- 1898 Brisbane was affected by a severe Tropical Cyclone.
- 1918 a severe Tropical Cyclone crossed the coast near Mackay.
- 1918 a severe Tropical Cyclone crossed the coast near Innisfail.
- 1927 a severe Tropical Cyclone crossed the coast near Cairns.
- 1934 a severe Tropical Cyclone crossed the coast near Cape Tribulation.
- 1949 a severe Tropical Cyclone crossed the coast near Gladstone and Rockhampton.
- 1954 a severe Tropical Cyclone crossed the coast near Coolangatta.
- 1967 a severe Tropical Cyclone crossed the coast near Gladstone and Bundaberg.
- 1970 a small Tropical Cyclone crossed the coast at the Whitsunday Group.
- 1971 a severe Tropical Cyclone crossed the coast to the north of Townsville.
- 1974 a weak Tropical Cyclone crossed the coast near Maryborough.

The greatest damage a tropical Cyclone can cause is severe flooding caused by a storm surge but this only occurs where a severe Tropical Cyclone crosses the coast and the severity of the storm surge is dependent on the tide at the time of crossing. i.e a severe Tropical Cyclone that crosses the coast at the time of a king tide will result in a large storm surge however a crossing several hours either side of the king tide, particularly on a falling tide, will result in a much lesser storm surge.

A comment in relation to potential global warming impacts is to expect less Tropical Cyclones in total however those that do occur are likely to be more severe. However, as we are looking at such a large coast line, and possibly less events, it cannot be argued that the risk to north Queensland Cairns will increase.

Page 55 of the Interim Report agrees.

### *Climate Analysis Section*

National Climate Centre - Bureau of Meteorology – *letter to third party*

For the period 1981 to 2007, no statistically significant trends in the total numbers of cyclones, or in the proportion of the most intense cyclones, have been found in the Australian region, South Indian Ocean or South Pacific Ocean (Kuleshov et al. 2010). However, observations of tropical cyclone numbers from 1981–82 to 2012–13 in the Australian region show a decreasing trend that is significant at the 93–98% confidence level when variability associated with ENSO is accounted for (Dowdy, 2014).

An additional study used a wide variety of historical sources to construct a record of severe tropical cyclones making landfall between Port Douglas (Queensland) and Ballina in northern NSW, over the period 1872–73 to 2009–10 (Callaghan and Power 2011). This record showed a great deal of year-to-year and decade-to-decade variability as well as a 62% decline in the number of such landfalls over this period (significant at the 90% level).

According to the JCU cyclone watch group the number of cyclones in North Qld is reducing, yet our premiums still 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*

## Proposed Solution

Any proposed solution must have mitigation targets, mitigation infrastructure funding through levies and/or mitigation projects funded through private capital e.g. the insurance companies themselves.

Any proposed solution should bear in mind other natural disasters and maybe required to be expanded in the future.

Any proposed solution should take into account the types of property to be covered, and the types of policies currently available.

Any proposed solution should work with existing insurance companies rather than in competition to them.

## Planning Regulations

The recent experience from Cyclone Yasi showed many new buildings did demonstrate the economic productivity gains that have been made from the new building regulations that were the result of the devastation of Cyclone Tracey in Darwin, in 1974. It must be noted that, both in Townsville and Magnetic Island, many "Queenslander" houses managed to easily withstand even Cyclone Yasi, with a little help also from appropriate siting and protection by local geomorphology.

In the case of Queensland the stated purpose of planning since 1997 and reconfirmed in the Sustainable Planning Act 2009 is to "foster economic prosperity, protect the environment and ensure the social wellbeing of people and communities". In the same Act (2009) there seems to be a legal requirement to apply the cautionary principle. It seems the rest of Australia it is standard practice (and I'm not an expert in this) for engineers and planners to apply the 1 in 100 year flood rule.

Suncorp and other companies often quote that pre 1982 houses are more susceptible to damage. However, I hope they also note that in **Townsville** it was in 1976 the requirement for properties to be structurally designed to resist wind loads came into being.

## Disaster Losses

Actuaries Institute (Natural Disaster Funding Public Inquiry) state that although losses due to cyclones from 1999 – 2013 have resulted in insured losses of \$2.929B, losses due to other kinds of natural disasters have resulted in losses of \$8.735B.

This is not reflected in the premiums of the areas affected.

**Table 1: Most costly weather-related disaster events in Australia 1999 to 2014**

<b>Date</b>	<b>Event</b>	<b>Economic Loss \$ millions</b>	<b>Insured Loss \$ millions</b>	<b>Insured %</b>	<b>Uninsured %</b>
Apr 1999	Sydney Hailstorm	2,120	1,700	80%	20%
<b>Mar 2006</b>	<b>Tropical Cyclone Larry</b>	<b>1,500</b>	<b>540</b>	<b>36%</b>	<b>64%</b>
Jun 2007	Hunter Valley & Newcastle Storm/Floods	2,145	1,480	69%	31%
Feb 2009	Victorian Bushfires "Black Saturday"	1,444	1,070	74%	26%
Mar 2010	Melbourne Hailstorm	1,293	1,044	81%	19%
Mar 2010	Perth Hailstorm	1,351	1,053	78%	22%
Jan 2011	Floods QLD & NSW	6,000	2,388	40%	60%
<b>Feb 2011</b>	<b>Tropical Cyclone Yasi</b>	<b>2,000</b>	<b>1,412</b>	<b>71%</b>	<b>29%</b>
<b>Jan 2013</b>	<b>Floods and storms Qld (following TC Oswald)</b>	<b>1,650</b>	<b>977</b>	<b>59%</b>	<b>41%</b>

## Interim Report Comments

### Lester Riley

Azure Sea Resort, Airlie Beach, QLD 4802

My comments relate specifically to Strata Buildings which have been **WRONGLY TARGETED** by desperate Insurance Companies.

I refer to the Taskforce Report Summary and specifically Part 1, "Cause of change in premiums". Clearly this paragraph was written by an Insurance Company with a total bias.

I am an Owner in a Strata Property and also a Body Corporate Committee Member in Airlie Beach. Therefore, I have witnessed the wholesale increases in premiums in 2011 following Yasi and I can hardly contain my disgust at this paragraph.

The wholesale increase in premiums depicted by your paragraph was simply a knee jerk reaction to their problem with a simple solution of "who can we target without creating a big problem - Strata Owners in cyclone areas".

This year we already had a Bankruptcy Case finalised as a direct result of Insurance Premium increases.

As far as changing the way they assess and price risk goes:-

1. No analysis of damage to Strata Building was carried out - there was simply no major damage to any Strata Buildings in mainland N. QLD.
2. Questions were asked about showing any SINGLE LARGE SCALE DAMAGE TO A STRATA BUILDING. No answers have forthcoming up to this date.
3. No inspections of Strata Properties were carried out in N.QLD either prior or subsequent to raising Premiums by factors of 2x to 8x 2010 levels

There still, to my knowledge, has not been any liability analysis of Strata Buildings in N.QLD and yet premiums are still retained at unmanageable levels.

How can the premiums be justified in these circumstances?

The Part 1 Paragraph referred to here is a total whitewash or excuse for actions taken in 2011 which have still not been reversed. Unless some action is forthcoming on this subject then the whole Task force work is a white elephant and invalid in my view.

### Rowan Dicks

My major problem with all this is the discrepancy between what we as consumers know and have experienced, and what is being reported as the facts.

I know in Airlie Beach 30 complexes were looked at in 2011 and of those complexes every single one of them had experienced major increases in insurance premiums, from 190-520% between 2010-2011 and 2011-2012. I found the old data:

Year	2010/2011	2011/2012
Highest Premium	\$88,000	\$180,000
Lowest Premium	\$7,951	\$18,000

The highest percentage increase was 520% (5.2 times), and this property is not on an island.

In a letter to the then Shadow Minister for Small Business, The Hon Bruce Billson MP on 20<sup>th</sup> October 2011 The Hon Warren Entsch MP reported increases of up to 800%.

The AGA report on strata premiums shows on page 4 an increase on average of 3 times the 2007 premiums. However, for the period when all this began in the Whitsundays it shows just an average increase from 175% to 305%. This would imply other areas examined in this report do not reflect what was happening in the Whitsundays.

We know Cairns, Mackay and Townsville were also affected, so I can only suppose Marlborough data has brought the averages down significantly.

So I'm having a little problem with the chart in the interim report page 9, showing an average 65% increase in 2011-2012 and not seeming to agree with the AGA strata report. I realise the strata report

shows a compounding affect, but even I can work out the interim report figures for 2009-2010 and 2010-2011 should mean a significant rise followed by a smaller rise followed by the huge increase in 2011-2012, and the AGA report doesn't show that.

One chart must be wrong.

Then, I know in the 2011-2012 period there was only one insurer for strata property in the Whitsundays, SUU, and this is confirmed by the Brokers in the Interim report on page 13 "brokers report that there was a period where there was only one insurer in the north Queensland market". I found the old data again:

Between us we tried but were refused insurance from:

- ACE
- AMP
- AXIS
- CGU
- CHU
- Chubb
- JUA
- Millenium
- QBE
- QUS
- Vero
- Westfarmers/Lumleys
- Zurich

So where does the data used in the AGA strata report come from for that period, if there was only one provider and that was SUU in the Whitsundays who were responsible for the increases here?

In the Whitsundays, Townsville and Cairns we know what has happened and is continuing to happen but we are at a loss to explain how your facts and those of the AGA don't show it.

Do you really believe people like Margaret would have taken on a campaign like this, for this number of years, on our behalf just to make trouble? Our knowledge of the facts differs from yours.

## **Margaret Shaw**

I understand "Northern Australia" was deliberately not defined but I would like to suggest it be considered as north of the Tropic of Capricorn.

The AGA reports include Marlborough which is south of the Tropic of Capricorn and is, therefore, affecting the figures making them look better than they are. I realise The AGA's tentative conclusion, based on available data, is that the average premium rate didn't increase significantly in 2013-14 but that it did increase. It will be interesting to see the figures if you ever get them out of the insurance companies.

I believe any recommendation should "mesh with" the existing insurance companies (page 2).

I think education is required so people insure their houses for replacement value, and not sale value i.e. so they don't automatically include the land value. I believe a number of people do include the land in their insurance valuation.

Since the majority of the increases experienced by myself were without notice or claims and overnight, not spread over a period of years, the reasons for the premium increases given by the insurance companies aren't really logical:

1. The insurance industry has reassessed the potential losses due to cyclones in northern Australia

Crompton and McAnaney (2008; on behalf of numerous Australian insurers) conveyed that increased risk has only been reported for small events (nation-wide); the authors stated that moderate events had actually declined between 1967-2006 and that there was no significant trend in severe weather events (including tropical cyclones) within the same timeframe. The authors reiterated that the recent past (2006 and prior) had "been relatively benign in terms of weather-related loss activity". So we're at no more risk than we were 20 years ago.

This also tends to mean the period prior to 2006 was a profitable time for insurance companies.

The period when they started to lose money caused them to do a rethink and without taking into account their many profitable years they over-reacted causing a crisis situation. They are now making huge profits at a time when people are doing it hard. At what point do the insurance companies decide their profits are enough and bring premiums back down?

The major increases in strata insurance was put down to the claims due to cyclone Yasi but in his strata report the AGA stated "In FY2011, reinsurance recoveries flowed following Cyclone Yasi because the claims cost for Cyclone Yasi exceeded the reinsurance attachment point(s). This meant that in FY2011, the losses made by the insurers were not as bad as they would have been without any reinsurance. In that year, the reinsurance protection acted to dampen the impact of the catastrophe on the insurers' bottom lines."

The AGA reports also note that insurers typically pay more out on storm-related claims than on any other natural peril (AGA 2012). We have always thought this but premiums have not reflected the risk, or claims.

2. The insurance companies were losing more than they received in premiums

Since the insurance companies are stating they have been making losses from North Qld during the last decade (\$1.40 in claims for every \$1.00 in premiums), it seems prior to this time they had been making profits for the previous decade. This makes the massive premium increases hard to justify in an industry which should expect a swings and roundabout situation.

3. Increased cost of reinsurance

According to the front page of Weekend Australian Business Review 10/1/2015 reinsurance costs are failing for business insurance due to investors flooding into the lucrative market. Why this should only apply to business insurance is beyond me.

However, it seems clear reinsurance costs are coming down, insurance premiums are not.

Basically, the companies are not there to offer insurance to all types of properties as most have limitations (except SUU), there is no competition, some insurers are over exposed, and I don't see it getting better.

As regards to affordability, I don't know what is affordable, but I do know what is not. As far as I am concerned even if a property can get a quote for insurance until the owner can afford to pay it we have market failure. The report also notes home insurance is not available on the West Island of the Cocos (Keeling) Islands, or for strata complexes on Christmas Island, this is also market failure.

I have a slight problem with the 12 insurance companies offering direct home and contents insurance in Queensland: Suncorp; AAMI; APIA; Allianz; Comminure; NRMA; OnePath; ANZ; QBE; RACQ; Westpac; Youi.

- Suncorp; AAMI; APIA are all Suncorp Group
- QBE also own Elders which is offering rural insurance but missing from the list
- OnePath is ANZ
- Youi sponsored the TV program House Rules but wouldn't offer insurance to the house in Townsville which took part. Youi is very selective

We should apply the recommendation to the whole of Australia no matter where a cyclone hits so there shouldn't be any problems with the Constitutional Act. Cyclones are already moving south.

Sub-optimal property development (page 23): "insurance premiums should provide an incentive for development in areas with lower risk of natural perils" – the current Federal Government wants to open up the north of Australia. Most of the north of Australia is subject to cyclones so how are they going to do it if there is no incentive?

Page 43 – CGU doing building risk assessments has generated an average annual reduction for strata unit owners of \$150. Get real!!! I'm paying \$2,500, Mackay are up to \$4,000-\$5,000 per unit, Cairns and Townsville are outrageous, and you're quoting a reduction of \$150 as if it's a good thing. AND if CGU are saying this is about a 10% reduction then they are assessing the wrong complexes.

My complex would pay for a risk assessment inspection if we could be assured someone would take notice of it.

## Mutual

Cyclone damage in Australia costs an average of \$632M annually.

If a Mutual is to be set up to cover cyclone insurance only, then we are creating difficulties as there will need to be duplicate processing and handling of policy information and claims. I think the only way a Mutual could work would be if it was to cover all insurance. However, that would put it into competition with any existing insurance company.

## Focus Question 1 – Advantages and Disadvantages

1. What are the advantages and disadvantages of a cyclone mutual insurer, supported by the Government, with the objective of lowering consumer premiums for home, contents and strata title insurance for people experiencing affordability problems due to cyclone risk? What form of Government support would likely be required?

### Advantages

- Reduced premiums
- All risks covered by one or other of the policies
- Could bring some companies back to the market

## Disadvantages

- New product
- New procedures for existing insurance companies
- Integration with existing insurance companies
- 2 policies
- Those insurance companies already in the market share their premiums, so may leave the market
- May require different options for different companies depending on what additional cover is offered
- Complicated
- 2 claims offices
- Will require additional guarantee so implementing a combined solution rather than just a Mutual

## Government Support

Will be required for:

- Set up
- Additional guarantee

## Focus Question 2 – Define Cyclone

2. How can a cyclone policy be sufficiently defined to fit neatly with a consumer's 'non-cyclone' policy purchased from a private insurer so there are no gaps in coverage?

Once a cyclone is named (and you can't have a non named cyclone) then an event is established.

To be included in any cyclone specific policy:

- Structure damage including rooves
- Doors and windows
- Garages
- Water ingress
- Garden sheds
- Fencing
- Solar panels
- Flooding
- Storm surge – there is already a definition of the difference between storm surge and flooding
- Alternative accommodation (?)

To be excluded:

- Blue sky flooding
- Death and injury
- Business interruption
- Normal fire, theft coverage (looting etc.)



### Focus Question 3 – Policy Pricing

3. How should a cyclone mutual insurer price its policies?

This is outside my expertise.

### Focus Question 4 - Eligibility

4. Should insurance from a mutual be open to all or should eligibility be limited, such as to consumers on lower incomes or consumers who take mitigation action?

Eligibility should be open to all.

I believe in keeping things as simple as possible and introducing another layer of definitions is just complicating things. However, consumers who take mitigation action, and can prove it, should be eligible for an even more reduced premium. This would encourage people to undertake their own simple mitigation such as removing shade sails, and taking in (or tying down) outdoor furniture – we put our outdoor sets in the pool when a cyclone is due.

### Focus Question 5 – Claims Requirement

5. What would be required for private insurers to be an agent for a cyclone mutual insurer and sell its policies and manage claims against those policies?

I actually believe this option is too complicated, too difficult to implement and too costly as it will also require (in my opinion) additional backing such as a reinsurance pool. Why implement two solutions when one will do?

- Clear understanding of what is covered by which policy so there are no gaps
- An integrated claims system
- A combined invoice
- Combined policy information
- A premium split agreement
- An understanding of who pays for the additional staff required for a disaster
- Training for insurance sales people so they can offer the correct advice
- Branding

### Focus Question 6 - Structure

6. What would be a suitable organisational and governance structure for a mutual insurer — a discretionary fund or an APRA regulated entity?

APRA – Australian Prudential Regulation Authority.

I prefer the APRA, actually I prefer anything except the ICA who have proved themselves unable to regulate themselves or their members.

## Focus Question 7 - Cap

7. What are the advantages and disadvantages of putting a cap on the payout from the cyclone policy offered by a mutual?

### Advantages

- Maximum risk to the Mutual is established early
- Maximum risk to the Government is established

### Disadvantages

- Insurance companies don't know the limit of their risk
- Top up insurance required or the claim returns to the insurance company for settlement

## Focus Question 8 – Support Reduction

8. When and how could the Government reduce support for a cyclone mutual insurer?

I believe any option implemented will need Government support for 10-15 years. Less if we're lucky and no really major cyclones hit in this time.

However, as mitigation projects are undertaken, the risk should lower, and the need for Government backing will reduce. So the "when" depends on the mitigation projects.

## Reinsurance Pool

It should only apply to existing properties and would not be applicable to new developments. New developments should take in any new mitigation requirements. In this way the current crisis is not compounded, or complicated, by allowing the market to increase exposure.

A problem with this is the cost of any additional mitigation requirements on top of the cost already being experienced in order to be built to cyclone standard. If a Developer decides the cost does not justify the work then that should have to be declared when the property is purchased and the buyer needs to be aware they are not covered by the Reinsurance Pool.

There are successful examples of temporary pools including: the Australian Reinsurance Pool Corporation established in 2003; and the Community Care Underwriting agency established in 2004 when there was a public liability insurance crisis.

## Focus Question 9 – Advantage and Disadvantages

9. What are the advantages and disadvantages of a cyclone reinsurance pool, supported by the Government, with the objective of lowering consumer premiums for home, contents and strata title insurance for people experiencing affordability problems due to cyclone risk? What form of Government support would likely be required?

There are three ways in which a reinsurance pool could operate:

- a) The pool could pay out the first \$? of a claim

Due to the probability of a cyclone crossing the coast every year, I would expect this option to be unrealistic.

- It would require the reinsurance pool to need extra temporary staff to process claims on an almost annual basis.
  - It would almost certainly be required within the next five years
  - Government monies would be required almost immediately
- b) The pool could pay out after an agreed threshold had been reached requiring the insurers to retain the first portion of any loss

Using this option insurance companies would know the limits of their losses before the scheme would be required to step in.

- It is more unlikely, depending on the threshold stipulated, that Government monies would be required immediately
  - Extra staff would not be required until a major cyclone hit
  - It allows some time for assets to be built up
- c) The pool could pay out after an agreed threshold had been reached up to a set amount, and then the insurance companies take the claim back on, or use top-up insurance

Using this option insurance companies would know the probable limits of their losses being the maximum before the scheme would be required to step in, and the possible after the scheme had completed its payout.

- It is more unlikely, depending on the threshold stipulated, that Government monies would be required immediately
- Extra staff would not be required until a major cyclone hit
- It allows some time for assets to be built up
- Government losses are clearly defined

## Advantages

- There is already precedence for this idea – the ARPC
- Insurance companies are already used to working with this type of entity
- There is expertise available for how this may work since it has already happened and is working for another scheme
- Reduced reinsurance costs for all insurance companies contributing to the scheme
- Lower premiums due to the reduced reinsurance costs being passed on
- Development and refinement of mitigation procedures which can be undertaken
- Development and refinement of a database of buildings, their structure and location
- Identification and management of gaps as they are found
- Continuous updating of the field of risk and cyclones moving south
- Ensuring compliance with State and Federal legislation
- Ability to expand in the future for additional types of disasters, if required.
- Government benefits from commission paid for guarantee
- Government is repaid any loan monies required at set up
- Spread of risk via retrocession with multiple reinsurers
- Insurance companies are aware of maximum loss limits
- We have the ability to estimate losses from a cyclone event
- Most claims are well below \$100,000 - even for Yasi, so Government intervention may not be required

If the reinsurance pool dealt with cyclones and not specifically to an area of Australia, there should be no constitutional issues.

Acting as a reinsurer will alleviate where affordable insurance cover is not available via the current market and minimising the distorting effects of the government participating in a market currently provided by the private sector

**If we didn't limit our thinking on this then, in the future, we could consider expanding the Cyclone Reinsurance Pool into a Disaster Reinsurance Pool which would result in parity for insurance premiums across Australia and remove our peaks and troughs of claims.** This option allows cyclone costs (or even all natural disasters) to government budgets to be evened out, which allows for better planning, budgeting and funding of mitigation costs.

The profits from the reinsurance pool could be invested in infrastructure mitigation projects, and possibly used for premium loans - this would reduce the pain being experienced by those having to take out premium loans, which can be substantial.

### Disadvantages

- Initial Government support required for set up
- Government guarantee required in later years
- Regular reviews are required for financial situation – annual
- Regular reviews are required of recommended mitigation procedures – annual for first 3 years and 5 yearly after that
- Regular reviews are required for problems with “gaps” as they occur – annual for first 3 years and 5 yearly after that
- Maintenance of database of buildings, their structures and locations - annual

### Government Support

Government support is required to supply a level of insurance cover available to fund a probable maximum loss. The biggest loss in the last decade is from Cyclone Yasi of \$1.4B. HOWEVER, this is not all due to home and contents, and strata claims – see below.

As I understand it, the current Terrorism Reinsurance Pool has been operating since 2003, has \$600M in assets, it pays for a \$2.9B retrocession program and has a Federal guarantee of \$10B. *Had Wayne Swan not taken \$400M out of the pool it would have had net assets of \$1B.*

So far this pool has not been required but has paid a commission to the Federal Government every year for the guarantee, and its assets are slowly building up again. By 30<sup>th</sup> June 2014 the ARPC had paid the Government \$325M in dividends. The ARPC will continue to pay the Government a total of \$450M in fees and dividends over the next 4 years.

There are currently 57 participants in the retrocession program. In the 2014 calendar year a retrocession program of \$2.9B was placed. The retrocession expense was \$81.7M before retrocession commission revenue and \$74.1M after.

A Cyclone Reinsurance Pool would not require this much.

Total premium revenue was \$129.7M and the net premium revenue after the expense of retrocession was \$48M, the average price is currently 3.5% of eligible policy premiums. Premium revenue is the amount charged to insurers excluding taxes collected on behalf of third parties, and it's weighted depending on location. E.g. Sydney CBD may pay 12% and Noosa 2%, given the likelihood of a terrorist attack in those areas.

The ARPC had a weighted average interest rate in 2014 of 3.56%.

### **Cyclone Larry Claims -**

According to the AGA, Peter Martin, Home and Contents report page 4, Cyclone Larry in 2005-2006 resulted in gross claims of \$100M for house and contents (strata claims were minor). This report included five selective insurance companies only, namely: Allianz, IAG Group, QBE, RACQI and Suncorp. I am not aware as to whether Suncorp was the Suncorp Group or just Suncorp themselves. This does make a difference, but the report does include the two biggest insurers namely IAG and Suncorp.

According to The Final Report of the Operation Recovery Task Force for Cyclone Larry (Cosgrove April 2007) "We know that of insured buildings there were almost 19,000 building claims lodged with insurers. This includes homes, commercial buildings, outdoor sheds and the like. When we include claims, for contents destroyed and damaged, over 27,000 domestic insurance claims have been recorded to date, with an estimated total exceeding \$369 million." These losses were experienced by 25 insurers.

Since then the number of strata complexes has increased but our exercise does not include commercial insurance etc.

### **Cyclone Yasi Claims -**

According to the AGA, Peter Martin, Home and Contents report, Cyclone Yasi in 2010-2011 resulted in gross claims of \$108M for house and contents, for the insurance companies selected.

According to the JCU report completed for Suncorp (Hendersen re-released July 2015) the total domestic insurance claims for cyclone Yasi were \$252M.

I am trying to find out what part of this was strata property.

### **Normal Cyclone Claims -**

According to the AGA, Peter Martin, Home and Contents report the \$60M gross claim was due to Mackay floods, leaving the normal claims due to cyclones at \$20M or less for home and contents, for those companies spoken to. For strata, I cannot yet find the figures.

#### *Suggestion 1.*

One of the main drivers for the ARPC strategic plan is to establish long term objectives to enhance value for money. Is it possible that the Terrorism Reinsurance Pool could "invest" in the Cyclone Reinsurance Pool at a higher return?

If the ARPC could pay for the retrocession payment, then the ACRPC (Australian Cyclone Reinsurance Pool Corporation) could pay them back with interest.

This would mean only a Government guarantee would be required for any excess, with the expectation that it wouldn't be required.

#### *Suggestion 2.*

I'm sure when the ARPC was started in 2003 it had to be Government financed in addition to the Government guarantee. I suspect the initial finance might have been the \$400M recently removed from the pool.

Any ACRPC would need enough initial money in the bank to pay for retrocession. I don't know what this cost is likely to be, so I cannot give an opinion on how much would be needed and for how many years until assets are built up and the pool can be self sufficient.

*Suggestion 3.*

The Federal Government introduced a temporary flood levy on Australians' taxable income to fund the NDRRA to help affected communities and provide additional funding to rebuild essential infrastructure. Something similar may be necessary.

The temporary flood levy introduced post the 2011 floods, was largely required to cover the reconstruction of roads.

*Suggestion 4.*

Insurance companies are declaring massive profits, and have done so since they "redefined" the way they calculate their premiums.

**"Companies who insure risk should be companies who share risk."**

**An adaption of the Australian Reinsurance Pool**

There is precedence for this idea.

In 2014 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, by Federal/State Governments.)*

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 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 all natural disasters would be covered and have very little effect. Eventually the money invested in it by the Government and by the insurance companies could gradually be paid back as mitigation lowers claims cost – with interest.

The insurance companies would not lose the money, it would merely be invested in the pool until the pool was self sufficient and could pay back any money and interest.

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. Maybe we would get into a situation where Australian insurance companies wouldn't need international underwriters.

- People who cannot afford their insurance (mandatory or not) would benefit
- Insurance companies would benefit by removal of the peaks and troughs
- Insurance companies would eventually get interest on their investments and benefit from the mitigation projects.
- 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 or reduced would benefit from grants
- **STABILISATION!!**

### Focus Question 10 – Fit and Definition

10. How should a cyclone reinsurance pool be designed to best fit with insurance companies' existing arrangements, including reinsurance arrangements? For example, how could cyclone and cyclone damage be defined so as provide certainty about what is covered by the reinsurance pool?

Existing insurance companies already work with the ARPC so procedures are already in place.

Definition of damage due to cyclone:

- Structure damage including rooves
- Doors and windows
- Garages
- Water ingress
- Garden sheds
- Solar panels
- Flooding
- Storm surge – there is already a definition of the difference between storm surge and flooding
- Alternative accommodation (?)

To be excluded:

- Blue sky flooding
- Death and injury
- Business interruption
- External objects not permanently fixed to the property, such as shade sails

### Focus Question 11 - Price

11. How should the price insurers pay for reinsurance from a reinsurance pool be calculated?

Very naive calculation but if the most major cyclone to hit NQ in the last decade cost us \$1.2B and mitigation projects are already underway so the losses from any future cyclone should reduce as they are completed.

Cyclone damage in Australia costs an average of \$632M annually but this includes the major cyclones of Larry and Yasi and covers all insurance and not just residential property and contents. Cyclone Yasi, the biggest yet, had domestic claims of \$252M according to the JCU report completed for Suncorp (Hendersen re-released July 2015).

I have no experience in this field, the insurance companies themselves probably have a better idea.

## Focus Question 12 – Payout Limitations

12. What are the advantages and disadvantages of limiting payouts available under a reinsurance pool arrangement?

Taking the option I prefer of the insurer taking the first portion of any claim, then the assets of the pool being used, then retrocession, and finally the Government guarantee, **should** this not be enough then the insurance companies take over again.

### Advantages

- Likely maximum risk is established early for the insurance companies
- Maximum risk is established for the Government
- Pooling of risk is efficient when capacity is limited and prices are high

### Disadvantages

- Insurance companies do not know the limit of their risk should there be a massive disaster, but this is the same for every country and disaster

## Focus Question 13 – Support Reduction

13. When and how could the Government reduce support to the market through a cyclone reinsurance pool?

- As risk is transferred to the reinsurance market there is a reduced reliance on the Federal guarantee
- As assets increase the initial money used for set up can be repaid with interest
- The premium and investment income can be used to fund the operation
- As mitigation projects are completed then risk should also be reduced

## Focus Question 14 - Mitigation

14. How could a cyclone reinsurance pool scheme be structured to provide an incentive to policy holders to mitigate the risk of cyclone damage?

I don't think the cyclone reinsurance pool can be structured to provide an incentive to policy holders, it would be too far removed and not clearly understood by the consumers.



However, I do think the insurance companies themselves can provide a structure to persuade consumers to undertake mitigation **so long** as any mitigation and/or report is guaranteed to be taken notice of.

## Focus Question 15 - Alternatives

15. Are there any other approaches that could lower premiums in areas where affordability is a concern due to cyclone risk?

### Risk Rating - Parity

#### *Extend JCU Mitigation Reports To Produce A True Risk Rating Score*

If proper risk assessment is undertaken and mitigation reports produced with a given risk rating for each possible disaster claim and the property is given a **final risk rating** based on set parameters, based on their structure and 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 by a company NO MATTER its location, which becomes irrelevant.

Simplified 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 (no hail storms in the tropics). 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 by an insurance company NO MATTER where it is. Then they could take into account the pool, lift, playground etc. and add to the base premium accordingly.

#### **Parity for all buildings with the same risk rating.**

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,

The report was ignored for the next year's quote, their premium quote from Vero went up again to \$56,880. They are now insured with QBE at \$52,635. So the unit owners have gone from \$770 per unit to over \$4,000 per unit.

### *Extend Reinsurance Pool To Cover All Natural Disasters*

Australia has always had natural disasters: flood; earthquakes; cyclones; bushfires; storms; hail storms; possibility of tsunamis. You name it, we get it.

I realise the option of the Cyclone Reinsurance Pool is only looking at cyclones and this has problems within itself:

- Other areas of Australia say "what about us?"
- A major event could take place, such as an earthquake in Brisbane or Sydney, and Australia (and the insurance companies) would not be prepared
- The expected cyclone area will change if the BOM and CSIRO are correct
- The effect of climate change has not been fully considered

Let's start with a Cyclone Reinsurance Pool with the idea of expanding it as we can to cover other natural disasters.

Let Australia get into a position where all insurance companies, no matter where they operate, contribute an equal percentage per policy into a Natural Disaster Reinsurance Pool.

- All areas of Australia covered for all types of disaster
- Equality for all Australians paying for insurance
- Equality for all insurance companies
- Climate change would not make a difference to contributions
- No peaks and troughs
- Ability to continue development in any area of Australia

And if the next subject is taken in account then we could have parity in premiums for all.

### **Reinsurance penalties**

We have been told by SUU the main reason why the premiums have increased so dramatically in north Queensland is that reinsurance penalties have been applied to this area due to cyclone risk 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. We need to look at spreading the reinsurance penalties equally over the whole of Australia and not just the areas currently penalised.

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.

Advantages:

- There would be a much better balance of premium increases with no particular area being penalised.

- Australia would have the ability to continue development in emerging areas which fall within the 'penalty zone' (e.g. North Western Australia).

## New type of insurance policy

We need insurance companies to be encouraged to consider different and new type of policies for the future, particularly for strata buildings.

1. 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.

2. 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.

3. 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.

Advantages:

- Spread the risk between companies
- Lower insurance premiums

## Repair Quotes

If claims were less then premiums would be less.

Claims are defined as how much an insurance company has to pay out in total to property owners. If you can reduce that amount then premiums should follow.

This is very simple.....

The best and most efficient quote for repair work should be accepted by insurance companies if at all feasible. Preferred suppliers should not automatically get the job if they live more than 100ks from the work. This would reduce "claims" by at least travel costs and accommodation.

- 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

According to State legislation, Body Corporate committees have to get at least 2 quotes for insurance. I would like to see Insurance companies getting 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.

Advantages:

- Insurance companies would stop wasting money on claims
- Reduction in outlay for insurance companies, hence higher returns
- Efficient repairs as the local companies know the situation
- Increase in share price as the waste of shareholders money is lowered
- Money available for insurance companies to contribute to mitigation costs

Example:

Insurance companies have been complaining they are spending out more on claims 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 my 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."*

## Mitigation

Not all risks can be mitigated, for example, North Queensland is a high cyclonic area, as is North WA, and therefore there are limits to the risk reduction that can be achieved.

We need direct investment in mitigation infrastructure projects. This could be funded by local councils (especially if it's their fault a property is in danger due to ignoring their own town planning rules) and

State and Federal Governments via levy collection. The insurance companies themselves could help, as Suncorp has already offered.

The current arrangements for funding natural disaster mitigation, resilience and recovery are not effective. The lack of mitigation is resulting in increased levels of vulnerability and exposure to the risk associated with extreme weather events and their impacts. There are more and more people choosing either not to insure or to underinsure due to cost. This ends up needing increased government post-disaster funding. Figures after 2012 for uninsured and under insured properties are required for the final report.

“Post-disaster funding results in stress on uninsured individuals, negative media coverage for insurance companies, Councils and Governments, and unexpected pressure on budgets through the Natural Disaster Relief and Recovery Arrangements (NDRRA).”

I believe in mitigation so long as it gets recognised by insurance companies through a reduction in premiums. If we deal with mitigation today it will provide a sustainable way to reduce risk and insurance premiums.

According to the Actuaries Institute, the *Building our Nation's Resilience to Natural Disasters* White paper outlined how a program of resilience expenditure of around \$250 million a year to 2050 would ultimately generate budget savings of more than \$12 billion and Australian Government expenditure on disaster response could reduce by more than 50%.

## Focus Question 16 - Encouragement

16. What can be done to encourage greater efforts to mitigate the risk of damage from cyclones? Are there impediments to insurance premiums being responsive to mitigation action by property owners?

### Encouragement

#### *No claims bonus*

If a property hasn't made a claim then premiums should not increase over an agreed and monitored percentage.

The fact a property has not made a claim doesn't seem to have influenced increases in premium.

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.

#### Advantages:

- Owners would think twice before claiming if they knew it would affect their next insurance premium
- Prevent owners abusing the system
- Reduce the outlay of insurance companies

#### 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%.

In addition, 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.'*

## Impediments

Mitigation must be optional and standard.

There is no guarantee any mitigation undertaken will be recognised by the insurance companies.

If insurance companies set their own mitigation rules, as with Suncorp:

- No two companies will agree on what they should be, so if you change insurance companies then you may have to do more mitigation
- The expense has to be met to do everything until reductions are applied

## Focus Question 17 - Assessment

17. What are the advantages and disadvantages of establishing an independent assessment process to determine the vulnerability of a house to cyclone damage and to verify what mitigation work has been undertaken? How could such a process be established?

This must be **optional** not mandatory, otherwise it could cause all sorts of problems.

## Advantages

- Risk is assessed rather than assumed
- Any report belongs to the owner of the property and can be sent to any insurance company for assessment
- Assessment can be proved and verified
- Mitigation can be discussed and planned
- Very "hands on"
- Not coloured by the opinions of insurance companies who often can't agree

## Disadvantages

- Cost of the report
- Property owners may not be able to afford the mitigation measures
- Insurance companies may take little or no notice of the reports, as has already happened
- Property owners may not be allowed to undertake the mitigation measures (such as listed buildings)

## Establishment

- Expand the project with JCU and David Henderson

## Focus Question 18 – Rating and Building Information

18. What are the advantages and disadvantages of (a) establishing a rating system for building vulnerability to cyclone damage that could be publicly disclosed at the time of sale, and (b) establishing a centralised database on building information that could be accessed by insurers?

- a) I am really against this as it smacks of the sustainability declarations and I think it will cause more problems than it fixes.

I am in favour of a rating system, see Risk Rating – Parity.

### Advantages of a rating system

- Potential buyers know their potential problems

### Disadvantages of a rating system

- Bureaucracy
- More rules for the REIA to take into account
- Consultancy with REIA required before any attempts to implement, not just legislate as with sustainability declarations, which proved to be a complete waste of time

- b) I thought this work was already being undertaken

I am presuming you mean a database of buildings, location and structure, not building codes.

### Advantages of a database

- IF it is thorough then it would be useful. However, being from an IT background I can see all sorts of problems with the set up and maintenance

### Disadvantages of a database

- No compulsion for insurers to access it
- A database is only as good as the Stakeholders who define it, the Business Analyst who designs it, the Programmer who creates it, and the Data Input – RIRO (rubbish in, rubbish out)
- User acceptance testing
- Continuing updating required
- Expensive to establish and maintain
- Inaccuracy correction

## Focus Question 19 – Small Claim Reductions

19. What are the advantages and disadvantages of using increased excesses or policy exclusions to reduce the number of small claims following a cyclone?

According to the JCU report (Henderson re-released July 2015) “There are also significant gains to be made in reducing small claims (less than 10% of the sum insured value). These claims accounted for 29% of total Cyclone Yasi claims costs, but many were preventable. Poor cyclone preparation, including failing to remove or secure items in outdoor areas (such as outdoor furniture, sheds, shade sails etc) is making a significant impact on insurance losses. Better preparation by homeowners would not only prevent damage to these outdoor items, but also stop them from contributing to damaging other structures.”

29% of \$252M is \$73.08M.

Add a no claims bonus to this and you would reduce the number of unnecessary claims and also the number of fraudulent claims.

### Advantages

Increased excesses

- Reduction in exposure for the insurance companies

Policy exclusions

I think the exclusions should apply to any insurance policy in a cyclone area. If people don't prepare properly then they shouldn't be covered for lack of preparation.

I believe policy exclusions should include:

- Outdoor furniture
- Shade sails
- Play equipment
- Pot plants
- Animal shelters – dog kennels, chicken coops etc.

Then you would get:

- Reduction in exposure for the insurance companies
- More likelihood that mitigation will be undertaken

### Disadvantages

Increased excesses

- Expense to the owner when something does happen

Policy exclusions

- None

If policy exclusions are to be considered, we might have to consider an “opt in” and “opt out” option, unlike mandatory flood coverage for people who have no option to opt out because of the way the insurance company has set it up.



## Additional Thoughts

### Regulatory Entity

It is clear to me the Insurance Council of Australia is not capable of regulating or indeed dealing with its own members. Does it even consult with them?

I truly believe that if the ICA had recognised in 2011 that a crisis was occurring (only one company offering insurance for strata in north Queensland) and had sat down with its members to discuss what the then State and Federal Governments could do to help the situation, or had even worked out a solution for themselves and put it forward for consideration, then we wouldn't be in this situation now.

They didn't. In fact the ICA still refuse to admit there is a problem, or that there ever has been a problem.

#### **Insurance is not a luxury, it is a necessity.**

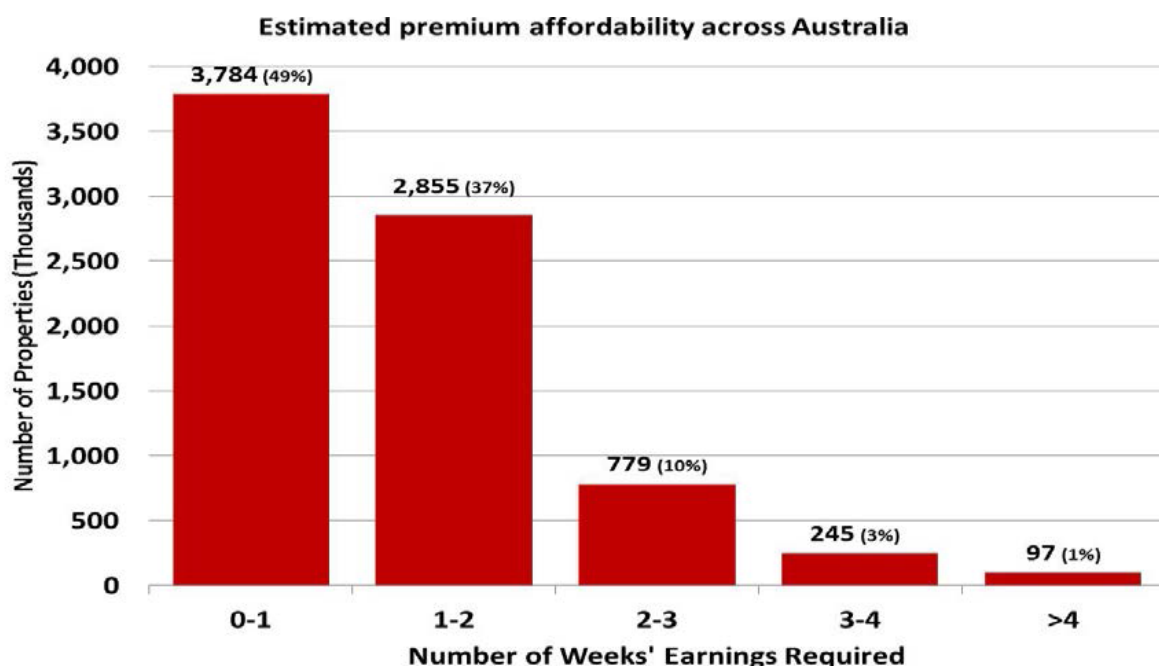
So as with fuel prices, energy prices, etc the insurance industry needs a watchdog, a watchdog that not only barks but bites.

This should be a priority for the Federal Government to cover the whole of Australia.

### Affordability

The Institute of Actuaries note in response to the Productivity Commissions issues paper on Natural Disaster Funding Arrangements (covers the whole of Australia):

*"Insurance is becoming unaffordable for some parts of the community, especially those living in areas at high risk of natural perils such as flood and cyclone and to a lesser extent bushfire. The following chart shows that the cost of building insurance premiums for 320,000 households (or 4% of total households in Australia) is estimated to exceed three weeks of average earnings."*



*These figures are from 2013, I do not believe they are improving.*

Australian Bureau of Statistics

6302.0 - Average Weekly Earnings, Australia, Nov 2014

Table 1: Average Weekly Earnings, Key Figures, Australia, November 2014

	November 2014 \$	Nov 2013 to Nov 2014 % change
Trend(a)		
Full-time adult average weekly ordinary time earnings	1 476.30	2.7
Full-time adult average weekly total earnings	1 539.40	2.7
All employees average weekly total earnings	1 128.90	1.3
Original		
Full-time adult average weekly ordinary time earnings	1 477.00	2.8
Full-time adult average weekly total earnings	1 542.40	2.8
All employees average weekly total earnings	1 128.70	1.3

I don't know how to define what is affordable but I know what isn't.

## Postcode Use

I am told the major players in the insurance market do not use postcodes to determine risk – IAG and Suncorp. However, others do.

Homestead is 80Km (approx) west of Charters Towers. It has the same postcode as Palm Island, so is the 'capital' of Qld 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 are 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.”*

## **Taxes and Stamp Duty**

I had a meeting with the then State Treasurer, Tim Nicholls, to explain the situation in North Qld just two weeks before he raised the stamp duty on insurance. I called it “a callous act by a moronic personality”. This is one of the reasons I refused to nominate for State Government, I would not be able to toe the line.

However, I think the stamp duty should be calculated on the amount before GST is added, and GST also calculated on the same amount. We currently have a tax on a tax!!

## **Policy contestability and disclosure**

There should be reforms to:

- a. Require insurers to simply explain in plain English why there has been a significant change or non-renewal
- b. Give the FSO some powers, in 2011 Michael told me there was nothing the Ombudsman could do, and when I approached them in writing all I got back was.....

----- Original Message -----

**From:** [Robynh Phan](#)

**To:** '[s0531@bigpond.com](mailto:s0531@bigpond.com)'

**Sent:** Wednesday, October 31, 2012 12:06 PM

Dear Margaret

I refer to your email addressed to [info@fos.org.au](mailto:info@fos.org.au)

### **The Role of the Financial Ombudsman Service**

The Financial Ombudsman Service is a dispute resolution service offered as a free alternative to the courts for consumers with a claim for loss arising from the acts or omissions of a financial services provider. The Ombudsman does not provide general financial or legal advice.

### **Lodging a Dispute**

If you have a dispute that you have been unable to resolve with a financial services provider, you can **lodge a dispute through our website** ([www.fos.org.au/disputes](http://www.fos.org.au/disputes)). If you would like to speak to a member of our staff about lodging your dispute, please contact us on 1300 78 08 08.

Registration Team  
Financial Ombudsman Service Limited  
Local Call: 1300 78 08 08 | F: 03 9613 6399

Waste of time. I tried to explain that to Bob Katter too but he still gave them a try, and got the same response.

- c. Disclose the individual components, including known commissions

## **Insurance Limitations**

### **Brooklyn Underwriters**

“As to our limitations:

- 1) We can consider all properties with a sum insured up to \$15m. 2 lots and above. The original \$5m threshold was removed after one month once we had adequate internal resources.
- 2) Generally speaking, we are cautious with properties within 500m to coast for 2 main reasons.
  - a. Storm surge, and
  - b. Wind driven damage(The most recent modelling available on a CAT5 cyclone impacting Townsville on a high-tide is an eye-opener! Also see publicly available information on impact of Hurricane Sandy on NY State a couple of years ago. High tide again.)

Above being said, we have insured many coastal and island properties if we are comfortable with their exposure profile – higher ground or wind protected etc.

- 3) We generally steer clear of older buildings or those with total timber construction. Again, ample evidence available on the performance of these structures in a strong cyclone.
- 4) We are able to write business in FNQ, Western Australia and Northern Territory.
- 5) We are able to write both residential and commercial strata operations.

Hope the above is of some assistance in clarifying our position.”

## **Suncorp Group**

Suncorp Group includes:

- AAMI
- Vero
- GIO
- APIA
- Australian Alliance
- AMP General Insurance (operating under a name licence to AMP Group now owned by AXA)
- Resilium

According to Archers Body Corporate Managers for strata in the Whitsundays: AAMI doesn't deal with strata; Vero is single storey up to \$5M; GIO is not offering it; APIA doesn't deal with strata; AMP is not offering it; Resilium is up to \$5M.

## QUS

Is not currently offering strata insurance to north Queensland.

## CHU

This is the strata side of QBE and is not currently offering strata insurance in North Queensland. However,

“CHU have been providing input for the taskforce through QBE Insurance Australia, QBE is our security provider.

Far North Queensland is indeed an area that we are interested in seeing addressed with a viable and sustainable solution.

Through the engagement with QBE, we have presented a number of options which we understand have been consolidated and presented as part of the QBE contribution to the review.

I appreciate your recognising CHU as a stakeholder in this review and for making contact with me personally.

Regards  
Bobby”

Bobby is ex Zurich Insurance.

## Removal of conflict of interest situations

There are two problems here which I have raised directly with the State Government.:

1. Payments direct from insurance companies as if the Body Corporate Manager is a broker
2. Payments from Brokers for the BCM placing their business with them

Legislation is required to prevent Body Corporate Management companies receiving commissions direct from insurance companies and/or brokers, or any third party.

### 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 Body Corporate Management company if they place their business with them.

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.

**The current agreement between BCS (Body Corporate Services), BCB (Brisbane Brokers) and CHU (strata side of QBE) is not only immoral but indecent!!**

I understand BCS put all their business through BCB in return for 15% of premium (75% of the commission paid to BCB). BCB charges 20% of premium for placing business with CHU. Any middle to large complex will be paying \$1000s more than necessary.

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
- Are the Body Corporate management companies going to place insurance direct with another insurance company which doesn't pay them a commission (Vero)? I don't think so

### **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.*

### Effect:

This would:

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

### 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 @ 20% or OAMPS @ 25%).

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

\$60,000	base premium	
\$12,000	commission	BCB gets \$3,000 and the BCM gets \$9,000
\$100	broker administration fee	
TOTAL	\$72,100 ++	

Let's say that instead of 20% in commission a broker can now afford to charge 10% in commission because they no longer have to share it – this is already 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 ++	

## Cost Of Recovery

In the words of Bernadette George, Social Planner MUP BA (Soc Sc) MPIA Fellow PIA:

Turning, then, to the question of equitable apportionment of cost recovery:

Given it is the States which have the Constitutional power to make decisions about land...and, therefore, that the land use planning (and development assessment) system is a State responsibility, therein lies the accountability mechanism for ensuring all new development and infrastructure design and construction is only allowed in appropriate locations and designed to best practice standards.

I believe if a building has suffered major damage due to flooding or storm surge which could have been prevented if the Town Planning Act current at the time of building approval had been followed,

then the Council in question should pick up the bill. There are definite cases where Council have knowingly allowed, and approved, building to occur on inappropriate land.

I suggest no future developments are allowed in areas of unacceptable risk and building standards are updated to reflect best practice and extended to reflect property damage where appropriate. This does not prevent development in a known flood or storm surge area, just make sure the ground floor is for car parking, with accommodation starting above flood level, or that buildings are raised.

## Government Subsidy

With regards to the Government subsidising premiums above a certain amount, I don't like the idea but it has to be considered as it has been suggested.

I'm applying this to all policies as it is not possible to work out how many of the properties are in Northern Australia.

The Actuaries Institute state 4% of the population is 320,000 households.

The Australian Bureau of Statistics state "Full-time adult average weekly ordinary time earnings \$1,477", so 2 weeks is \$2,954.

If the Government agreed to pay the excess premiums above two week's average Australian earnings, and provided grants for those properties to undertake mitigation it would affect 1.12M households or 14% of the population.

According to the Actuaries Institute (Actuaries Institute's response to the Productivity Commission's Issues Paper on *Natural Disaster Funding Arrangements* released for consultation in May 2014).

10% are paying 2-3 weeks average salary - on average \$3,692.50 - 800,000 households  
3% are paying 3-4 weeks average salary - on average \$5,169.50 - 240,000 households  
1% is paying more than 4 weeks average salary (up to an unknown figure) - guesstimate only - as the maximum lowest quote I have come across for a unit is \$13,000, and for a heritage listed B&B is \$15,000, I've taken \$15,000 as the top mark minus \$5,908 (4 weeks) as the bottom mark,  
\_ on average \$10,454 - 80,000 households

This equates to subsidies of:

\$3692.50 - \$2,954 = \$738.50	x 800,000	= \$590,800,000
\$5169.50 - \$2,954 = \$2,215.50	x 240,000	= \$531,720,000
\$10,454.00 - \$2,954 = \$7,500.00	x 80,000	= \$600,000,000

This is without the costs of mitigation and is not practical.

Even if we looked at subsidising above 3 weeks average salary (or \$4,431) you would be looking at:

\$5169.50 - \$4,431 = \$738.50	x 240,000	= \$177,240,000
\$10,454.00 - \$4,431 = \$6,023.00	x 80,000	= \$481,840,000

This is still not practical.

## Easily understood invoices and capping of commissions

Insurance invoices do not show the entities being paid, not the amounts being paid to them. I have raised this with the Qld State Government.

This is a Federal and State issue as the two main entities involved come under different legislation: 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.**

We need 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, particularly with strata insurance.

- 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 EITHER by the insurance company itself or by the broker
- Variable percentages are also confusing
- Brokers fees often aren't shown as a separate entity
- In the case of Retirement Villas, and similar cases, owners do not get the choice to try and arrange their own insurances, neither do they get any say in the broker used or the companies approached
- There is little or no transparency

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

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 (the Body Corporate Committee).

Up to 20% of base premium in commission is charged by management companies for making a phone call to a broker. By anyone's measurement this is excessive, especially when the premium is >\$25,000 which for most complexes is the current situation – an additional \$5,000 on a base of \$25,000, an additional \$10,000 on a base premium of \$50,000.

For brokers who put in more work and actually have to try and find a company who will insure a property, as with an ISR (Industry Special Risk) policy, up to 25% (OAMPS) and sometimes more is charged, which is also an excessive commission. However, in actual cases I have found, brokers actually end up with less money than they pay to the body corporate management company even though they do more of the work. This is because they pay up to 20% of the base premium to the management company, leaving themselves with only 5%, or less. Brokers agree to this because they get all the business of a particular management company.

### **Suggestion/Solution:**

- a) Put both entities under the same legislation – probably not possible
- b) Legislation is required to make invoices clearer with every entity, and payment to them, in full on the actual invoice where possible –
  - Insurance companies know how much they are paying a broker
  - Insurance companies know how much they are paying direct to a Body Corporate Management company

- Insurance companies do not know how much of the commission paid to a broker is then being paid to a Body Corporate Manager, so this cannot appear on any invoice generated by an insurance company. However, it should be on a front cover page issued by the Body Corporate Management company, with the policy document to the Committee
- 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. We really need a maximum amount payable!!
- A variable percentage of an unknown premium is not good enough
- 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 are against this 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 for non commercial or industrial properties. 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) Ensure the broker commission is on the actual invoice, not just declared to the Body Corporate management company
- g) Broker commission should be capped at a maximum of \$10,000 for non commercial or industrial properties, and brokers should be encouraged to switch to set fees instead of using percentages
- h) When a Real Estate Agent takes on a property for sale or lease there is a form which declares the amount of commission to be paid to the agent. We need something similar stating the commission due to be paid to the Body Corporate management company, what Broker is to be used, and the commission payable to the Broker, even if these are in percentages. The form needs to be signed by the Treasurer of the Committee as they are going to have to find the money. Then one can negotiate before agreeing.

#### **Effect:**

- 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
- 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
- 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
- Capping management commissions removes the obscene amount of commission currently being charged to complexes with premiums over \$25,000, for very little work
- Capping Body Corporate Management commission allows owners to know the maximum they will have to pay out
- Broker commissions are clearly defined

- Capping broker commission also allows owners to know the maximum they will have to pay out
- All commissions declared up front

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 Body Corporate Management companies, where allowed.

### Example:

A complex valued at >\$10M with a base premium of \$60,000 using their Body Corporate 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 direct 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 ++	

### Sensible time lapses

Four weeks notice to get quotes and comparisons is a sensible time lapse for insurance to be arranged.

### 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 declared is still less than 2 weeks between getting a quote and it being due to be paid.

In the past 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 easily set up an insurance premium loan.

With insufficient funds available Body Corporate 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.

Without a sensible time lapse Committees don't have the time to negotiate, apply for other quotes or make a considered decision.

### **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 and hand them to the Committees 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 in accordance with legislation.

### **Example:**

Shingley Beach Resort received their insurance renewal for more than \$100,000 from their Body Corporate Managers 36 hours from the due date. They had asked daily for an update without result, and the premium was >200% increase from the previous year so had not been budgeted for.

### **Flood cover**

Change to adjust the legislation which states insurance companies “must offer” flood insurance, and can make it mandatory to just “must offer”. I have raised this with the Qld State Government.

The *Insurance Contracts Amendment Act 2012* ([Cth](#)) was given royal assent on 15 April 2012. This amendment to the Act is the legislative response to the [Natural Disaster Insurance Review](#) which resulted from the Queensland floods of 2010-2011.

“Insurers can elect to offer consumers the ability to opt out of flood cover, or alternatively, to include flood cover in all home and contents policies of insurance.”

### **Outcome wanted:**

- Let people decide whether they need flood cover or not, as the flood maps used by insurance companies are not always up-to-date
- Insurance companies should advise a property owner to take flood cover but not insist they do
- Properties not being unnecessarily loaded at the instruction of the insurance company

### **Issue:**

- Insurance companies have overreacted to the floods and a lot 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 for flood even if they know their property well enough to know it is not required

### **Suggestion/solution:**

- Change the State legislation from "mandatory to offer flood cover and you can make it mandatory for it to be taken up" to "mandatory to offer flood cover" and allow people to opt out

### **Effects:**

- Properties would be able to have the level of cover required not determined by the insurance companies

### **Example**

My Landlord's insurance for 2 properties in Ayr has just been quoted by APIA (July 2015) at another 40% increase. It seems we are now in a flood zone (when the property moved location I have no idea). Our area in Ayr hasn't flooded since the Burdekin dam was built in the late 1980s.

APIA does not allow us to opt out of flood cover.

### **Variable payment periods**

For people with insurance premiums over a stated amount (I suggest \$10,000) monthly, quarterly and half yearly options should be offered with little or no interest applicable.

### **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 (given the current situation)
- Since premiums are now so high, insurance premium loans have to be taken out which incur additional set up costs and significant interest
- Companies which do accept payments over a prolonged period are charging ridiculous interest

### **Suggestion/solution:**

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

Other insurance products offer this option (APIA Landlord's insurance), 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 emergency 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 (Seastar where I live). 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 holiday let property 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 at the time 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.

### Compulsory cover – full replacement

Investigation is required into the State legislation which requires full replacement value (+++) compulsory cover for properties with common areas. According to the ICA nearly all States and Territories have mandatory insurance.

- Properties with common areas should be allowed to choose their level of cover, as with stand alone houses
- Properties should not be 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 2 years to rebuild and all costs, plus a percentage increase each year. Houses do not!
- 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 for catastrophe cover on top of replacement cost

## Suggestion/solution:

a) Since the compulsory strata level of coverage is not applied to stand alone houses, or industrial, or commercial properties, it would appear to be clear discrimination. The Australian Human Rights Act (article 26) states a person cannot be discriminated against based on property owned

- It is suggested legislation be changed to include all types of properties should have some kind of insurance (as with CTP) so that houses are 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 or between the two but not less than

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) 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 costs plus... what is the extra catastrophe loading for? What bigger catastrophe can you have than lose everything?

## Effects:

- 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 or higher than market value (to be determined by the Committee). This allows owners to either rebuild, or walk away and sell the land
- 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
- 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
- Properties would be able to have the level of cover required not legislated
- 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
- Policies would not be unfairly loaded
- Potential 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 sudden 364% increase in insurance premium.

We are built to special cyclone standards because we are (in the majority) holiday let and fall under the accommodation model, so we are less likely to have day-to-day damage than any other type of buildings. So, being insured for full replacement value plus time to rebuild is not logical.

Current replacement value (2014 valuation) :	\$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.

All owners get paid out plus we still have a share of land value.

## Self Insurance

A number of Bodies Corporate have given consideration to the option of self-insuring. However, the law states that you must have third party personal insurance, and the insurance companies will not disconnect the two insurances.

## Comments On The Situation

**MK**

**Cairns**

An issue you might like to raise is insurance companies advertising their products to the greater audience and then excluding potential customers in post codes they don't like. Could this practice be discriminatory and/or misleading advertising? If so it probably opens a whole new range of issues. However none of us like to have our evening TV interrupted by seeing a product advertised, in this case insurance, that we know we will not be allowed to purchase.

**Robina Mealey**

**postcode 4802 – Cannonvale**

I am a 72 year old pensioner and have owned my 14 year old duplex for the past 11 years. The duplex is built to standard Cyclone 5 category, and no claim has ever been made to our Insurance Company.

Our insurance has increased from \$600 in 2011 to \$3,000 in 2015.

**Joan Watson**

**postcode 4802 – Shute Harbour**

To Margaret Shaw Whom it May Concern.

I must report how concerned I am with the huge rise in my home insurance.



Only 7 years ago, on December 2008, I was paying **\$1,815**.

2009	\$1,936
2010	\$2,118
2011	\$2,873
2012	\$4,942
2013	\$5,613
2014	\$6,309 This was all with RACQ Insurance.

I objected to this excessive amount in 2014.

I reduced the Sum assured for my home from \$ 1,083,000 to \$ 895,000

My home insurance last year was reduced from \$6,309 to \$ 4,249. This is still too high for the minimal risk of damage by storms.

We have had one year of tropical storms, year 2010.

The previous cyclone was in 1970. 40 yrs between cyclones!

Cyclone YASI in 2011 did not affect either my home or reach my area at Shute Harbour.

I have been a resident of this home for 33yrs and keep it well maintained. My house was built to conform with Category 3 Cyclones.

No part of the house was damaged during the storms of 2010. We have had no cyclones in my area since 2010.

I am not living on land which can flood. I live on a hill. Surely, I am paying these ridiculously high premiums to help southern people who suffer from both flood and storms.

The house is made of steel reinforced cement brick and rendered.

I believe that the strength of a building should be canvassed before insurance is calculated.

I object to paying such high premiums while the insurance companies pay such high salaries to their Management and make huge profits.

Please add my voice to those in my area who are equally poorly treated.

**Suzette**                      **postcode 4802 – Woodwark**

The Interim Report Summary Part 1: ‘In short, over the last decade insurance companies have changed the way they assess and price risk. Firstly, after years of under-pricing, insurers revised upward their assessment of cyclone risk following losses from several events in a short time’.

Seems like the insurance industry admits they have been running their businesses badly by under-pricing. So this is the excuse now for over-pricing...not buying that are we?

FYI, here are two quotes I just got on line: Two materially similar homes, similar values and contents. Same excess of \$2,000.

#### **1. NSW Beachfront N Curl Curl premium \$1,550**

**Your quote: QTE 719 437 081** available until 09 September 2015

# Home Buildings and Contents Insurance \$1,549.89 annually or \$133.83 monthly

Save \$56.11 by paying annually

This price includes GST, Stamp Duty and government levies. It is an indicative price based on the information you have provided to date and may be subject to change.

**Your quote includes:**

- Cover: Standard
- Buildings sum insured: \$677,000
- Contents sum insured: \$60,000
- General contents: \$60,000
- Excesses:
- Buildings Basic \$2,000
- Contents Basic \$500

**2. NQ Woodwark premium \$5,364**

# Home Buildings and Contents Insurance \$5,364.14

The next one has been sent to the Suncorp Group for comment, and they have undertaken to look into it and supply an explanation.

**Selwyn Hawken** **postcode 4802 - Cannonvale**

Selwyn T HAWKEN 07 September 2015  
7 Palm Dr, Cannonvale, Q. 4802 Ph. 49466545 Email: selhawken@yahoo.com.au

SUNCORP Insurance has been my insurer of my home at 7 Palm Drive, Cannonvale  
and for my rental property at 5 Palm Drive, Cannonvale.

These are adjacent properties – one is my home, the other rental:  
Home property is insured building & contents. Rental property building only.  
2009 rental property insurance cost was approx. two-thirds home property.

Since then insurer has steadily increased rental insurance at greater rate.  
2015 rental property insurance soared past home property – no reason, no claims.

	2009	2010	2011	2012	2013	2014	2015
7 Palm Dr <b>Building &amp; Contents</b>	\$683	n/a	\$689	\$929	\$1188	\$1210	\$1359
5 Palm Dr <b>Building only</b>	\$473	\$587	\$681	\$871	*\$916	*\$1216	*\$1520

\*designated "Landlord Insurance" – previously "Investor Home & Contents".

**WHY?**

**Linda Tuck** **Cairns**

- The economy has stalled – unemployment is on the rise again
- The businesses are just hanging on and we unfortunately are seeing many long term businesses start to close up as they just can't hold on any longer

- The construction industry has essentially gone as there is no building on a large scale
- Unit prices are still 30 – 40% below what they were pre GFC
- These prices are well below what a developer would sell them for – so any new developments won't go ahead until this changes
- The “discretionary spend” in the wide community has gone as people are holding onto their money – mainly due to insurance increases

For the White Paper to have any chance of success, this issue needs to be resolved.

**Carrie Keir**                      **postcode 4815**

We just about need a loan to afford insurance on our house in North Queensland. We build our homes to a higher standard and are well prepared for most major weather events and it doesn't seem to count for anything. Something has to be done. Families are really struggling.

**M.K.**                                **postcode 4812**

I'm sick of greed from insurance companies - my policy went up \$1000 this year based on new flood coverage (we don't live in a flood zone) and had no opt out option. So our family is now having to seriously start choosing between school fees and the amount of home insurance. Another increase - and won't be likely to insure the property....which is self defeating for the insurance industry and destructive for the community.

**Lyndon Camm**                      **postcode 4817**

*I sent this one to Suncorp to see if they were listening.*

Suncorp put our insurance up from \$2.5k p year to \$6600 p year (2015). We no longer insure with suncorp, I took the cars and the CTP too. I hope they are listening.

**Robert Dobson**                      **postcode 4812**

I have just had to sell my unit in Townsville as I could no longer afford the insurance premiums at fire sale price, purchased property over nine years ago and lost a third of the value.

**Shane Bartholomew**                      **postcode 4815**

Having my premium going from \$850 to \$2900 per year in a single year is ridiculous and something needs to be done

**Heather Moseley**                      **postcode 4178**

I have a unit in Townsville that is basically a lemon, can't sell it as body Corp too high (due to insurance) and is valued at \$60000 less than I paid for it.

**Lawrence Pass**                      **postcode 4737**

I live in a place that could not possibly due to living on a hill yet I still have to pay flood insurance. Insurance should be based on individual circumstance.

**Paul Beale**                              **postcode 4850**

Insurance by definition means the premiums are collected from across the entire community (with perhaps a reasonable loading for high risk areas). The insurers are acting unconscionably by trying to get a full return of outlays in cyclonic areas. My RACQ premium has never justified my couple of claims over forty years. However, they charge all Queenslanders the same price so that all can access their services at an affordable rate. The government need to legislate the parameters by which insurers must charge premiums & recover outlays.

**Jenny Lindskog      postcode 4815**

My house insurance for my \$300 k house in Townsville is twice the price of my \$500k house in Brisbane. I can barely afford to live up here.

**Ramon Delacruz      postcode 4810**

This is a criminal situation while the Government stands by, what sort of country do we live in if we can't n be heard? Old people are being forced out of their homes as a result of this... DO SOMETHING GOVERNMENT THAT IS WHY YOU ARE BLOODY ELECTED.

**Adrian Barnett**

Due to the higher insurance premiums my apartment in Westcourt, Cairns has HALVED in value. With the High body corp fees I'm in a Catch22 situation as I can't afford that mega costs of owning the apartment but can't sell because the value is far less than the mortgage.

**Christina Kimber      postcode 4817**

My insurance is to dear for us on the Pension we will have to lower our cover and pray never to have to claim. We have worked hard all our lives to own our own home to find on retirement we cannot afford to insure it.

**Sue Wilson      postcode 4810**

I'm in a unit complex in Townsville. BC fees continue to rise due to constantly increasing insurance despite no claims. Just got my half yearly statement has risen another \$600. Cannot afford to pay, can't sell, no buyers, can't retire. These insurance companies are seriously affecting quality of life for us.