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Mr John Trowbridge
Natural Disaster Insurance Review
C/- The Treasury
Langton Crescent
PARKES ACT 2600

Dear Mr Trowbridge

RE: Flood Insurance

Following my letter dated 27th January 2011, to Mr Bill Shorten – MP, I am grateful for the opportunity to express my concerns and offer input and solutions to your Review Committee.

I have two investment properties in Queensland which were not affected by the floods in January. However it has raised some issues for me, which I detail as follows. I request they are included in your Inquiry and form part of your reforms and recommendations.

DEFINITION OF FLOOD

There are too many inconsistencies and these provide loopholes for Insurance Companies to avoid paying claims.

I believe “water inundation from any source” should be the standard terminology. This does not disadvantage Insurance Companies because their premiums will still be based on property location, history of previous floods and inherent risk. To my knowledge, damage from a variety of fire situations are payable to those insured.

My research indicated that insurance policies cover “bushfire” as standard but more often than not, exclude “floods”. In my opinion for Insurance Companies to cover bushfire and for some sources of water inundation and not all, it is both discriminatory and ridiculous.

For your interest, last August 2010, I received two quotes for “Landlord Protection Insurance” from a well known company for my investment properties (one near Brisbane, the other near the Gold Coast). Of course this only covers contents, not building. These policies included cover for flood and the premium was \$250 each. However, immediately after the floods, these same policies became \$374.64 and \$455.40, despite no changes or claims. To me this suggests disreputable and dodgy practises on the part of the insurer, taking advantage of circumstances. Premiums rise

to cover losses but I have never known them to be reduced when Insurance Companies make a profit.

If Insurance Companies are not prepared to offer comprehensive policies for people's homes and investments, at a fair, reasonable and affordable price then they should be in a different business. Any Insurance Company of good repute has the business acumen and substantial financial resources and reserves to not be compromised during occasional catastrophes. Remember, in the overall scheme, these are not everyday events and although it seems there are a lot of victims, really the claims are limited and spread over a large number of Insurance Companies.

BODY CORPORATE INSURANCE

This issue relates to everyone who owns property in a Strata complex. As huge numbers of our population now live in high rise buildings and other complexes, it is essential you investigate this area extensively and in an all encompassing manner, without limits.

My properties are under the Governance of two different Body Corporates. Both advised me that: "it is not standard practise for Body Corporate Insurance to cover buildings against flood, due to the cost". When I directly contacted the Managers of my Body Corporates, I literally hit a brick wall. Neither did I get anywhere with either of the Committees. (I am a Committee Member for one of them). Both refused my request to obtain quotes which cover against flood, citing it is too expensive with huge excess fees. Besides which they stated: "it is probably not much of a risk"! Off the record, one Manager advised it would cost \$173,000.00 per year to include flood insurance. This in turn is passed on in Body Corporate fees making this style of living or investment, unviable for most ordinary people.

This is unconscionable! I live by myself and have a loan of half a million dollars serviced by a very minimal income (it is my superannuation and personal endeavours to avoid relying on a pension). To achieve this goal, I have a frugal lifestyle and take caution to protect and care for my assets prudently. I am greatly disturbed that I find myself in a significant situation where **I have no choices**, yet my future could be destroyed by the decisions of strangers with no vested interest in my welfare. Many people living in community complexes are elderly on a pension, or retirees (self funded or receiving pension payments). They do not have the capacity to start again financially if affected by disaster.

The Body Corporate has the exclusive responsibility to effectively and responsibly manage individual dwellings probably averaging three hundred thousand dollars upwards. Those I've spoken to, and I am sure, most owners under a Body Corporate Management, are not aware their properties are not covered for floods.

I actually wonder if this was challenged in our courts, whether Body Corporates might find themselves liable for negligence, dereliction of duty etc, for failing to provide adequate service and comprehensive building insurance as would be expected by any reasonable owner. Furthermore, it greatly distresses me that in light of the irresponsible action of Body Corporate Managers in general and Insurance Companies, **I am unable to obtain building insurance individually**. This needs to be rectified immediately!

I appreciate that people have the right to assume risk and refuse to take out insurance cover. However, **I have been denied the opportunity to fully protect my property.** A tragedy like the Queensland and Victorian floods could well bankrupt ordinary owners on average or less, incomes.

Again, I emphasise, we need to ensure all properties under Strata Schemes are fully covered for comprehensive cover against flood and all sources of water. It is imperative that it is legislated for this to occur - either by making The Body Corporate accountable, at an affordable cost through Insurance Companies, (otherwise they will pass on these costs via Body Corporate Fees), or preferably by a Government initiative which is compulsory, for the common good of everyone. It is not satisfactory if responsible owners are insured for floods, but they are negatively impacted by irresponsible owners who are negligent in failing to insure their communal properties against flood, or other disasters.

PROPOSED SOLUTIONS

Despite my very limited knowledge regarding insurance, I put forward alternative solutions:

To avoid lengthy, time consuming and costly reviews and investigations on Insurance Companies by the Government, which would then require constant monitoring to maintain and ensure standards are met and not diminished with the passage of time, I suggest that the Government introduce a “Comprehensive National Insurance Scheme” to cover both home owners and investors. It would need to include buildings, contents and landlord protection and automatically cover against floods, bushfires plus other events that are generally accepted presently (or not), by Insurance Companies. If managed effectively, I envisage it could be a financial asset for the Government.

The Policies need to be comprehensive and also offered at realistic and fair premiums. Other inclusions could be available if requested (eg fusion). Additionally, it could be optional to all property owners but it is imperative that it is **mandatory for all Body Corporates** – perhaps a similar ethos to Comprehensive Car Insurance.

New Zealand has an excellent system in place and I request that you consider it in detail as part of your solution strategies. It is called the Earth Quake Commission and all insurance companies are obligated to add a levy to all their insurance policies and pay that to the EQC. In the event of a natural disaster such as an earthquake, natural landslip, volcanic eruption, hydrothermal activity, tsunami, a storm or flood, the EQC will pay for the damage to residential property and personal effects. The link is: <http://www.eqc.govt.nz/>

In Australia, the tax levy is beneficial for those affected recently. It is my understanding that these payouts are limited in amount, which is not very satisfactory. As an investor, I also feel severely discriminated against, under the system applied to the January floods in Queensland. Apparently, had I been affected, I was not entitled to any Government financial support. What about victims of floods in the future on larger or lesser scales? It is unfair and discriminatory they will not receive this additional financial support. This is another reason I feel it is imperative to introduce a national scheme which provides protection to everyone against all circumstances -

water inundation from all sources – floods; cyclones; overflow of storm management systems specifically engineered and in place by Councils to prevent flooding problems; broken pipes etc; bushfires, earthquakes and other damages, without loopholes and exclusions – at reasonable cost and without exorbitant “excess” fees.

The recent catastrophes highlight how Insurance Companies are manipulative and unreliable. We now have the opportunity to research good and positive options and to implement measures to provide peace of mind and assurance to protect the general public against the outrageous fees, excesses and extortion by Insurance Companies, taking advantage of tragic circumstances. It seems to me that our Federal Government now needs to be accountable and provide an alternative system of Insurance which does not leave those of us who are responsible with our finances and assets, at ongoing risk.

It is mandatory that the recommendations embrace all circumstances and people, including investors:

The strategies must ensure that no-one is disadvantaged financially (including investors who are often making huge personal sacrifices to save the Government the cost of pension payments). All individuals must be protected from becoming destitute or bankrupt. I believe insurance protection is the responsibility of all adults, not just those who choose to be insured. It is these insured people who are often most disadvantaged because they are then not entitled to additional financial help.

Finally, the issue of buildings under the jurisdiction of Body Corporate Management: it must be compulsory that they are covered against all possible catastrophes, including flood, at a fair and reasonable cost.

IN SUMMARY, radical changes need to be decided upon and implemented without undue time delay. As a country, Australia is very blessed and generous to other less fortunate countries. I applaud that our Governments are willing and quick to offer expertise when other nations are in crisis. Conversely we should be prepared to apply policies (amended to suit our particular needs) from places like New Zealand, for us to benefit from their advanced schemes. We have a responsibility to our own citizens. We need to discern effective solutions to protect all Australians from financial loss due to natural or other disasters. If this is not achieved, then the inherent costs to our society, such as reliance on social security and the emotional costs to families and individuals, are immeasurable. This, when it occurs en masse, then negatively impacts on the financial security of our country, over long periods – probably the life times of those involved. In my opinion, I doubt it is unlikely that the majority of people affected by disasters of any kind fully recover financially, whether or not they are insured, under our current system.

I request that your Review will specifically consider and address the issues I have raised. I am available for further discussion if necessary. Additionally, I would be very interested in receiving a copy of your final recommendations.

Yours faithfully
Susan Tod

