RESPONSE TO THE TREASURY CONVERSATION PAPER ON THE CYCLONE AND CYCLONE RELATED FLOOD REINSURANCE POOL

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This submission includes longer comments from:

Consumer A – [redacted]

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Consumer C – [redacted]

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Clarification questions

"On 4 May 2021, the current Australian Government announced it intends to establish a reinsurance pool covering the risk of property damage caused by cyclones and cyclone-related flood damage."

1. We presume the pool is to be set up with the insurance companies to cover losses from an event up to a stipulated amount and then the pool takes over

"Northern Australia is more exposed to extreme weather events than other areas of Australia."

According to the ICA bushfires and hail storms in areas not in Northern Australia have consituted the top natural disasters between 1967 and 2019.

2. Should we be considering from the start a natural disaster reinsurance pool?

This is definitely outside the scope of this project but should be considered.

"These include the destructive Tropical Cyclone Yasi in 2011, which was one of the most powerful storms to hit the region on record, and the devistating floods in Townsville and surrounding areas of north Queensland in Febraruy 2019."

Please note: TC Yasi and the Townsville floods do not rate in the top 15 natural disasters 1967-2019, according to the ICA.

https://disasters.org.au/news/2020/2/26/australias-largest-disasters (which seems to have been recently removed from the ICA website)

The graph shows(ed):

1. 1999 Sydney Hail
2. **1974 TC Tracey**
3. 1989 Newcastle Earthquake
4. 1974 Brisbane Floods
5. 2011 Queensland Floods
6. 1985 Brisbane Hail
7. 2019 Bushfires
8. 2007 East Coast Low
9. 1967 Black Tuesday
10. **2017 TC Debbie**
11. 1983 Ash Wednesday
12. 2009 Black Saturday
13. 1990 Sydney Hail
14. 2010 Melbourne Hail
15. 1967 SEQ Hail

"The ACCC found the average combined home and contents insurance premium in 2018-2019 was about $2,500 in northern Australia"

This does not include strata properties.

"significant cost component of premiums for policies with high cyclone and related flood damage risk"

Believed to be as much as 45% of premium cost.

3. Splitting reinsurance sources:

The implication is the reinsurance pool will be available for insurance companies for certain types of policies but not all. This means insurance companies have access to the Government reinsurance pool for some of their business but not others for the same event. The outcome of this means insurance companies will have to get 2 sets of reinsurance as Insurers would need to remove these risks from their private reinsurance contracts BUT only for some types of policies. Is this feasible?

Objectives

1. No consumer should be worse off by the introduction of the reinsurance pool
2. Premiums to become affordable

   How do you define affordability? What's affordable for some is not affordable for others:

   - If someone has to massively change their life due to the rises in insurance premiums
   - If people go bankrupt, have fire sales and lose their homes
   - If people are mentally and physically stressed due to the rises in insurance premiums
   - If investors leave the market because of premiums
   - If businesses suffer, or close, due to insurance premiums

   they aren't affordable.

   These excessive increases in insurance premiums have had a devastating effect on areas already affected by the downturn in the resources sector, COVID and subsequent drop in tourism, and caused mental, physical health and financial difficulties. They've led to Mortgagee in possession sales, a major reduction in property values, and bankruptcy.

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

3. All costs of a premium, including reinsurance, to be shown on an invoice – transparency
4. As many properties as feasible covered by the pool
5. Minimise red tape

Discussion

Risk coverage

Should cover northern Australia in total including the Indian Ocean Territories where insurance of any description is impossible to get.

Insurance policies to be covered

Household, strata and small business.

Strata can be set up under different models: residential; accommodation. All types and sizes of strata should be included.

Reinsurance pricing and product design

The conversation paper says "reinsurance premium per property based on an individual property's risk profile resulting in higher risk properties receiving higher discounts".

Please note: not all the properties paying exorbadent premiums are high risk, in fact most of them aren't. It's a case of lack of options and competition – see comments by Consumer D.

It will be incredabily complicated to compute the discounts which will apply for which properties. This is entirely out of the skills and systems the ARPC currently have.

Funding arrangement

It should be optional for insurers to take part in this reinsurance pool.

Some insurance companies such as SURE Insurance are already able to write affordable policies without the need for a Government reinsurance pool.

As with the existing Terrorism Catastrophe Reinsurance Pool insurance companies should be able to choose to reinsure the risks specified by entering into a reinsurance agreement and paying premiums to the ARPC.

The ARPC have already stated previously that in order to maintain their relationship with stakeholders of the existing terrorism reinsurance pool any contributions to a new reinsurance pool should remain voluntary.

Government Guarantee

A Government guarantee of $10 billion is suffient.

Administration vehicle

The Australian Reinsurance Pool Corporation (ARPC) is considered the correct vehicle for this project, so long as it gets the support and staff required.

Questions

How should "cyclone and related flooding" be defined?

From a consumer point of view, definitions should be as simplistic as they can be, allowing them to be easily understood.

Definition of a cyclone – Question 1.1

A cyclone is a general term for a weather system in which winds rotate inwardly to an area of low atmospheric pressure, so taking the BOM's technical definition as a start, a cyclone (for the purposes of the reinsurance pool) should be accepted as such once it is formally named.

Definition of cyclone related flooding – Question 1.2

Take the standard definition of a flood:

Australian regulations include a standard definition of flood, which was introduced in June 2012.

It applies to home and contents, small business and domestic strata-title policies.

The standard definition of flood in Australia is:

The covering of normally dry land by water that has escaped or been released from the normal confines of:

- any lake, or any river, creek or other natural watercourse, whether or not altered or modified; or
- any reservoir, canal, or dam.

Definition of cyclone-related flood:

The covering of normally dry land by water that has escaped or been released from the normal confines of:

- any lake, or any river, creek or other natural watercourse, whether or not altered or modified; or
- any reservoir, canal, or dam.

due to the presence of a named cyclone in the vicinity, or in the vicinity of the catchment area, causing the escape of water.

If:

The covering of normally dry land by water that has escaped or been released from the normal confines of:

- any lake, or any river, creek or other natural watercourse, whether or not altered or modified; or
- any reservoir, canal, or dam.

has been filled (or raised in level) due to a cyclone which has since been downgraded to a tropical storm, then any further event which causes an overflow should not be a cyclone-related flood as the cyclone was not responsible for the final overflow.

Storm surge – Question 2

Storm surge is the unusual rise in seawater level during any kind of storm or low-pressure weather system, measured as the height of the water above the normal predicted astronomical tide, excluding waves.

If a named cyclone is responsible for the storm surge (as storm surges can be caused by other natural events) then this should be included in the definition of cyclone-related flooding.

Standardisation of concepts in contracts – Question 3

As with the definition of flood, all definitions of cyclone and cyclone-related flooding should be standard throughout the industry. This has already been suggested by the ACCC.

Which insurance policies should be eligible for cover?

Define the scope.

Household property policies – Question 4

There're problems using simplistic terms in the definitions.

Please ensure any recommendations apply to as many types of property as possible, or feasible, taking cost into consideration.

We think the scope of this reinsurance pool should include any residential property which can be legally lived in, owner occupied or not, which cannot be moved. This includes:

- Strata
  - Residential model
  - Accommodation model
- Houses
- Rental accommodation
- Rural
- Residential care homes

There are mobile homes in caravan parks which can be lived in but we think these shouldn't be included in the scope, neither should live-on boats. We also think university halls should not be included.

Note: A residential care home in Townsville has gone from $44,000 approx for insurance to $666,890 approx for insurance over a matter of years. They are currently losing $4 per day per person, see 'Senate Select Committee on the effectiveness of the Australian Government's Northern Australia agenda' held in Townsville March 2021 . This cannot continue.

Note: The Qld Presbyterian Church is now in receivership including their residential aged care homes (2021).

Strata

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

- Gated communities
- Residential strata
- Tourist complexes
- Retirement homes
- Duplexes
- Holiday homes and lets

to name just a few.

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

- Separate houses with common land
- Single storey
- Multi-storey
- Mixed use, with units above shops or restaurants
- High rises
- Properties which only have a common driveway
- Separate buildings on the same title
- A combination – such as retirement villas and houses

Residential Model

This includes properties which were designed as residential buildings, whether owner occupied or rental.

Accommodation Model

This includes tourist and holiday lets, as many are a mixture of owner occupied and short-term letting.

Rental Properties

This includes stand-alone houses, strata, holiday lets, retirement care homes, gated communities etc.

Rural

Rural includes buildings and residential property.
This is a difficult one as rural insurance also covers Farm, Crop and Livestock. This needs to be debated.

Insurance types in scope

- Home and contents
- Landlord’s insurance
- Building
- Contents
- Strata insurance – all models
- Small business
- Rural insurance – to be debated

Property types not in scope

These types of property should not be ignored but they are not included in the scope as we see it.

- Commercial
- Industrial
- Vacant land
- Live-on boats

Can the property component of business insurance be separated - Question 5

I understand the answer is yes.

Can residential and small business components be separated - Question 6

I understand the answer is yes.

Are there difficulties including mixed-use strata - Question 7

One apparent difficulty could occur when part (or all) of the mixed-use business is not considered as small business.

Since insurers are able to separately price components of a mixed-use strata this should not prove too much of a problem.

I suggest if the large businesses make up 50% or more of the business present, then the policy be split.

Define “small business” - Question 8

The definition under the General Code of Practice: a manufacturing business with fewer than 100 employees or a non-manufacturing business with fewer than 20 employees and a turnover of less than $10 million, is appropriate.

Are there difficulties including small buisness - Question 9

Small businesses who rent their premises may be left out if they rent from a large business, even though they are responsible for payment of the property insurance.

Any small business paying property insurance, whether they own the property or not, should be included as applicable for the reinsurance pool.

Measuring cyclone and related flood damage – Question 10

This question is directed to insurance companies.

Using a tiered risk rating system – Question 11

I can't answer this fully.

I can see a problem though - The design of the reinsurance pool must avoid the situation where only high risk properties receive the benefit of the pool and those of lesser risk receive very little.

Consumers should have a right to know how their property has been assessed, and a dispute resolution system should be in place. Consumers need access to natural disaster information including flood maps but the information needs to be easily understood.

Retention by insurers – Question 12

The retention point needs to be high enough to ensure the Government guarantee is only called upon for an event which has been called a natural disaster.

Since $1 billion is already the aggregate retention across insurers in private catastrophe reinsurance contracts, we would suggest a retention point of $1 billion. Since there would be no limit to the payment under these contracts this should act to reduce the presure on insurers to limit the number of policies they offer in northern Australia.

The claims management process – Question 13

This question is directed to insurance companies.

However, claims management should not be affected too much as the insurers will claim from the Government reinsurance pool in a similar way to how they claim from their reinsurers now.

Insurer participation – Question 14

I am in accordance with the ARPC who have stated in the past that participation in a resinsurance pool should be voluntary.

There are a number of insurers in the maket in northern Australia who are already able and compedent enough to be able to quote, what they consider as being, affordable and competitive insurance. If it is proven in the future those premiums are not competitive, as other insurance companies return to the market, then there is little doubt the current insurers in the market will reconsider their options.

In addition, the current terrorist reinsurance pool is a voluntary scheme whereby insurers have the option to purchase reinsurance from ARPC or elsewhere. The ARPC have an excellent relationship with current stakeholders and recommend any new pool be voluntary.

Therefore, how much risk the insurers need to cede to the pool and the threshold of risk for insurers to cede policies to the pool are irrelevant.

Transition into the reinsurance pool – Question 15

This question is directed to the insurance companies.

However, I think allowing insurers to keep their current arrangement until they expire is probably best and easiest for the insurers. If they want to have the advantage of cheaper reinsurance sooner, then they can make that decision on their own account. There is no need for a fixed date to be set.

Regular review of the reinsurance pool – Question 16

The key goals of any review should include:

- The savings to the insurers
- How much of the savings are being passed onto their clients
- The actual percentage reduction in premiums
- Is the reinsurance pool resulting in insurance companies returning to the market
- Is there an increase in the type of products being offered by insurance companies
- Is there a reduction in the number of properties being under insured or without insurance
- Is the market working

An initial review of 12 months is recommended, and annually after that for the first 5 years.

Reinsurance pool lifespan – Question 17

It is implied the Federal Government has suggested a review in 10 years. However, I do not recommend a planned exit date.

Looking at the top 15 disasters in Australia in respect to insurance, according to the ICA, its likely this pool will be expanded to include other disasters, so there's no point is setting an exit date.

The Climate Council has stated:

- Many extreme weather events will become worse through this century
- More frequent and hotter hot days are expected as the century proceeds
- Extreme rain events are projected to become more intense
- Time in drought is projected to increase in southern
- Extreme sea-level events are very likely to increase

Natural disasters are always going to be there.

Price monitoring – Question 18.1

There isn't a general insurance watchdog at the moment.

It's been proved over the years that the industry is not capable of monitoring itself. Options are: a new department for general insurance; APRA or the ACCC. Public sector monitoring is preferred.

Disclosure reforms – Question 18.2 and Question 18.3

Nearly every inquiry and taskforce has recommended disclosure reforms, some of them have duplicated the recommendations from prior inquiries. These reforms are very slow in being implemented.

Things that should be disclosed to consumers on their invoices:

- Breakdown of premium calculation – everything including reinsurance costs
- The difference between paying annually to paying monthly – although there really shouldn't be one but for some insurance companies there are
- All inclusions and their costs
- All exclusions and whether they can be added
- What is a mandatory inclusion and what is an optional inclusion
- Mitigation discounts offered
- Sum insured and any excess for named events
- Specific features

- Commissions being paid and to whom
- Any administration costs

Mitigation discounts - Question 19

Only SURE Insurance, RACQ and Suncorp Strata Direct (not AAI) in North Qld give discounts for specific mitigation projects. If there are others then I don't know of them.

I'm told some companies can make manual adjustments to a premium but what the discounts are and for what mitigation isn't obvious.

Systems need to change. What is the point of undertaking mitigation without any premium reduction being the result.

Should there be an explicit mitigation mandate - Question 20

Question 20.1

Yes.

I also support providing grants for mitigation projects to be undertaken.

Question 20.2

Yes.

It could offer discounts to insurance companies which can prove they are encouraging mitigation projects by offering recognition of those projects and offering discounts.

The insurers should also be able to prove they are providing discounts for mitigation projects which are being taken up by their clients.

Question 21.1

With the development already underway and the project to 'Open the North" I see no reason for there to be a time-based cut-off to exempt new builds from the benefits of the pool.

Question 21.2

In theory all new builds should satisfy the current cyclone building standards.

In discussions with the Cyclone Testing Centre I've found the current standards are there to prevent loss of life and not to prevent building damage.

Until this is changed new builds must be included for cyclone coverage but maybe not for cyclone-flood related damage as they shouldn't be built in a possible flood prone area.

How to encourage further action - Question 22

An amalgamation of consumer ideas.

Question 22.1

It would be good if we could find some way to reduce what is actually included in a premium so taxes, duty and commission are reduced.

Question 22.2

1. Allow Mutual Societies to cover properties

Mutuals are not defined as insurance companies. This means strata properties cannot set up a Mutual in order to self insure.

2. Remove stamp duty from insurance products as it has been established as an inefficient tax

   ACCC recommendation 1

3. Remove the tax on a tax, where GST is added after the stamp duty has been applied

   GST is charged after statutory charges have been added, resulting in a tax on a tax!! I thought this was illegal.

4. In accordance with the ACCC recommendation calculate stamp duty of the amount being insured and not the premium

   ACCC recommendation 2, an alternative to point 1

5. Change State and Territory legislation so strata complexes can insure the risk and not the full replacement valuation

   Currently all strata properties have to be insured for full replacement value including: clearing the land; Engineer's fees; rebuilding from scratch; all costs etc. etc. etc. As a result, strata buildings have to be valued for replacement costs every 5 years.

   If a Building Consultant or Engineer conducts a proper risk assessment on a property (the JCU risk assessment product can be used here) then they can determine just how much damage the expert thinks would occur during various categories of cyclone and cyclone-flood - then insure for the maximum amount of damage envisaged.

   Any extras such as business interruption, office bearer's coverage, loss of income, etc. etc. can be added after this.

   So, a complex that went through TC Debbie, for instance, which came out with $200,000 in claims after a direct hit could be considered as having a potential maximum building damage bill of $300,000 in a cat 5 cyclone. Double this, add risk due to other events and insure for building damage of $7M instead of full replacement value of $13.5M.

   AND if the assessor is proved to be wrong, then they carry their own professional liability insurance.

6. Change the State and Territory legislation so strata complexes can choose to either insure for full replacement valuation or for full market valuation

7. Flood mitigation

   Northern Australia needs dams, and the ICA has always pushed mitigation as the only solution to high premiums.

   Building dams may alleviate some of the damage caused by floods after cyclones.

8. Recognition of mitigation projects

   With the exception of Suncorp (not the AAI), SURE Insurance and RACQ no other insurance company I am aware of takes any notice what-so-ever of any mitigation which has taken place, or has the systems to do so.

No broker or member of the insurance company ever sets foot on the premises before insurance is quoted.

Risk is assumed and not assessed.

9. Capping of commissions

   The problem stems from the fact that on actual insurance invoices, the monies paid to third parties and the total premium breakdowns are not currently shown as separate entities so can be misleading.

   Commissions to management companies to be capped by law to 5-20% of base premium up to a maximum amount of $5,000. This covers making a phone call and up to 30 hours a year working on any claims (Based on $150 per hour + GST). **Even then this is excessive**

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

   Broker commission capped at a maximum of $10,000, and brokers to be encouraged to switch to set fees instead of using percentages

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

10. Financial Ombudsman Services

    There is a limit as to how big a claim the FOS can deal with, remove the limit.

11. Renewal notice for strata insurance

    Insurance companies currently give 4 weeks notice for an insurance renewal to the body corporate management company. It can take a significant amount of time for that notice to get to the Body Corporate Committee.

    Legislation should be changed so that any quote is presented to the Committee 4 weeks before the insurance is due.

12. Variable payment periods

    All insurance policies should be allowed to be paid monthly with no interest being applicable.

13. Risk assessment

    We now have proper risk assessment for strata properties curtesy of the Federal Government and JCU but still not for houses. Proper risk assessment is needed because:

    a) No Broker actually sets foot in the properties for which they are providing insurance quotes

    b) No member of the Insurance companies actually set foot in the properties for which they are providing insurance

    c) Properties which cannot flood are forced to cover for flood insurance

    d) Properties recently built to Council approved cyclone standard get the same rates applied to them as properties built 20-30 years ago

Properties in North Queensland have to be built to cyclone standards. This costs more, so we're better built than those in the south east yet we have higher premiums.

Insurance Companies should have to explain why they are not taking into account the risk assessment reports when determining premiums.

14. No claims bonus

If a property hasn't made a claim, then premiums should not increase. This would stop people claiming for small items and over claiming.

15. New types of insurance policy

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

This is going to be difficult and may turn out to be impossible, it's just a suggestion.

a) What about 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 can't be an option not to insure but owners should be able to insure with which-ever company they wish which spreads the risk between companies and should lower prices.

b) From investigation it seems that Mining companies can get different types of insurance for different types of property 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.

16. Declaration of sister companies

The Broker BCB in Brisbane is a sister company of CHU insurance.

There is no legal requirement for this to be declared anywhere and it is unknown how much of the business through BCB is written my CHU.

17. Rules on percentage increases

There are rules for rent increases but not for premium increases.

It is against State and Territory legislation for rents to be increased above a certain amount in a rental term.

Insurance comes predominately under Federal legislation.

Is it possible to prevent an item of necessity, such as insurance, to be increase above a certain amount in an insurance period?

The fact that insurance companies can increase their premiums by any amount at any time for no reason is indecent. The general insurance market is totally unregulated.

18. Repair Quotes and wasting money

They have been a number of reports that Insurance companies have wasted money when it comes to claims, they need to accept the best and most efficient quote for repair work.

19. Compulsory cover

If we knew how a premium was made up and what the costs of various components were then owners would be much more inclined to take action to reduce the possibility of a claim in order to reduce a particular section of the premium.

We need the component of a premium clearly shown and to be able to opt out of various covers not needed.

There should be a standard policy with extras which can be added on, including flood.

The Queensland Government made it mandatory for flood cover to be offered by insurers, the legislation did not make it mandatory for consumers to take it. However, a number of companies include flood cover whether it is required or not and do not make it optional.

20. Political Donations

Donations by developers have been stopped.

On 7th December 2016 it was reported by Ashlynne McGhee, political reporter for the ABC News, that the most generous industries for donations to political parties over a 17-year period were:

- The property industry — $64,099,161
- Financial and insurance industries — $37,078,539
- Pharmaceutical/health — $12,625,078

21. Councils

There are some local Councils who forget to take into account cyclones and floods in some of their decisions on what to build and where.

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

There is an argument that if an owner or developer has built on a known flood plane without proper drains etc. or in a cyclone area without adhering to the building rules but the property is then passed by a Council then the owner/developer/Council should take responsibility for any damage.

How might the ARPC's terrorism reinsurance pool functions interact with its new functions?

This is best answered by the ARPC.

Major Considerations.

- The existing reinsurance pool does not work at individual property level

  Really concerned the ARPC will not be able to update their systems to do this. It will be a large change to any computer system.

- Does the existing ARPC have the skills and systems currently to work at individual property level?
- Are we asking the ARPC to act as an insurance company rather than a reinsurance company?
- Other reinsurance pools cover all types of policies for specific events, although date of construction is sometimes used. It is being suggested this pool cover specific types of properties for specific events. Has this been done before and how successful was it?
- Reduced reinsurance premium per property based on an individual property's risk profile resulting in higher risk properties receiving higher discounts, is extremely complicated from a consumer's point of view
- It will be incredabily complicated to compute the discounts which will apply for which properties.

  This is entirely out of the skills and systems the ARPC currently have.

- What additional skills and upgrades of systems will the ARPC require?
- Note: The Townsville floods would not be covered by this pool. This pool only covers cyclone-related floods

Additional comments from consumers:

Consumer B

I'm just a simple owner-occupier of a townhouse in a strata title scheme. I see the way our Body Corporate levies have increased since I bought into my townhouse in 2009. Costs are simply unrecognisable now. But, to address the specific issues, I have a problem in formulating a direct response to Treasury because I feel ill-equipped to answer many of the questions. I look back at the way cyclones – and their aftermath – have ravaged this part of the world; living in Cairns, I've missed the most severe impacts, even of Yasi, but many people further south of here, have faced disaster, personally as well as financially, whether or not there was adequate insurance available at the time.

Disasters related to cyclones do not discriminate between rental properties, small businesses or the rest of us. The impact is across the board, so I have to believe that the relief for us, in terms of insurance premiums and the benefit the policies provide must also be 'across the board'. Let us adopt the definition of cyclone as stated by the experts, the BoM. Let us include damage caused in the wake of a cyclone – damage that could be defined as being attributed to a cyclone on the basis that, if the cyclone had not happened, the specific flood and/or storm surge event would not have occurred. Surely this would be simple to adopt because the basis is in common sense which we all understand, though we might have to drag insurers, kicking and screaming, to the same understanding. Treasury must specifically consider the impact of severe weather events, as a form of natural terrorism, against our primary producers, all those who toil to grow and raise the food we take for granted. These are small businesses, but many of them need a larger workforce, on a temporary basis, for harvesting the products – that might mean the small business total workforce might fluctuate well above, as well as well below, a nominal target level of 100 employees, especially when harvesting occurs in cyclone season.

Yes, I believe we all have to do our part, through mitigation, where possible and a credible organisation such as JCU should be enlisted to certify to this activity, even if it is deemed to achieve little in terms of mitigation. Like most properties, I feel sure, this one isn't greatly elevated above the surrounding land and, overall, isn't very far above sea level – such things happen when living close to a coast. Of course, being so low to sea level, we do not see the levels of erosion that exists in places where the action of tides, storm tides and storm surges undermine the foundations of houses. This occurs in some of our beachside suburbs – mitigation activity has been happening in those places for many years, but I don't know if insurers take account of it in the pricing of their policies. If the reinsurance pool is setup strictly to target cyclone-related events, it might not improve affordability for people in those northern suburbs of Cairns but, as storm surge coverage is included in my contents insurance policy, I presume it to be standard in all such policies, so there might be no need for specifically-targeted premium relief to cater for claims that are not related to cyclone damage.

There will be an issue, however, for damage caused by a cyclone that does not directly impact the land – we have seen, in the most recent cyclone season, several cyclones that formed but did not cross the land. They still managed to cause massive damage due to strong winds and torrential rain, so these weather events cannot be excluded from cyclone reinsurance considerations.

Should there be an end date for this reinsurance pool? Yes, I think we can safely follow the UK example for that and think that it probably should end 25 years after the pool is legislated, but only after also considering the improvements in design and strength of structures, together with their ability to withstand cyclonic weather events, in the wake of the introduction of this pool. The only residual problem will be the consideration that Category 5 has no upper limit for wind speed, so there is still the potential for a cyclone that is even more vast and destructive that Yasi, which will devastate even the strongest, sturdiest structures.

Many of the questions can only be answered by insurers themselves but, because I don't think they can lie straight in bed, their responses need to be assessed independently, perhaps by people with appropriate letters after their names.

I think the thrust of the discussion paper attempts to place us, the victims and potential victims, front and centre in considering ways to provide meaningful from excessive insurance premiums. I can't stop thinking that a place like Brisbane sees more frequent weather-related disasters than we do and the cost is probably much higher to insurers, yet it is the premiums in **our** part of the state that rise higher. I don't know if any enquiry has ever even had the scope to consider this possibility, but I can only hope that this reinsurance pool will solve the problems that currently beset us in trying to afford a decent level of truly effective insurance coverage.

Thanks for taking the time to read this.

Consumer A

The tax invoice for the insurance premium doesn’t show the total individual costs associated with it.

Body Corporate Managers have to disclose the commission they are entitled to receive to the Body Corporate:

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

However, changes in 2021 have stipulated Body Corporate Managers must now declare the amount of commission they will receive prior to insurance being arranged.

Is this good enough?

Body Corporate Managers (BCM) do not hold a license issued from ASIC, brokers do. It is argued by Body Corporate Management companies that they don’t offer advice on insurance they merely get the quotes, but they still get up to 20% of the base premium in commission, not declared on the invoice.

Question 1.

Are all BCMs going to get quotes from all insurance companies who are willing to quote, or only those who are going to pay the BCM a commission?

It seems a possibility that the answer may be only those paying a commission, after that they’ll transfer the hunt to their preferred broker as they can get a percentage of the broker commission instead.

However, some products won’t pay commission to the BCMs or brokers so there have been refusals from BCMs to get a quote for the Suncorp Strata Direct product or SURE insurance for smaller complexes.

E.g. One complex in Townsville was told by their BCM that they didn't fit the criteria even though they were 6 units valued at $4M. It could have been because of the terms and conditions, then again it could be that this product does not pay commission to BCMs.

Question 2.

So, we’re in the situation where the BCM has run out of insurance companies to contact since they’re not quoting in North Queensland, do they contact a local broker or one who offers a set fee for arranging insurance?

NO, they make one single phone call to their preferred broker.

Preferred brokers are rarely local, they don’t know the area or the property, they’re large and expensive. Only large and expensive brokers can afford to make an agreement with a BCM where they give up part of their commission to the BCM in return for the BCM putting all their business through them.

In some cases it’s as much as 85%.

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

Question 3.

Will the preferred broker get quotes from everywhere?

Possibly not.

The relatively new JLT product is having difficulty in getting to the Body Corporate Committees because the entity arranging the insurance isn’t asking them to quote.

JLT are seen as a rival broker.

Question 4.
Do Committees know all the relationships? Does anyone?

No.

While BCMs have to declare their relationship with insurance companies and brokers, they do not have to declare any relationship between the broker and the insurance company.

The Brisbane broker BCB is a sister company of CHU, both were subsidiaries of QBE until February 2015 and have since been sold to Steadfast, but continue as sister companies.

I wonder how much of BCB's business is placed with CHU.

Question 5.
Do Committees actually know all the costs of their premiums?

No.

See BCB Financial Services Guide (FSG) for CommunitySure products page 4 and top of page 5 in their Remuneration and Other Benefits section.

Not only do BCB charge up to 20% in commission but another 10% in administration on top, and up to 87.5% of commission or 50% of fees go to any introducing third party (BCMs).

Conclusions
When it comes to strata insurance in particular there seems to be very little transparency.

The Federal NAIP Taskforce Report was released 4th March 2016 and it quoted*:*

"Regulating commissions to strata managers: Commissions paid to strata managers when they purchase insurance on behalf of an owners' corporation are generally calculated as a percentage of price, which means they may act as a disincentive to seek best value for money. In most states and territories, legislation already requires strata managers to act in the best interests of their clients and to disclose commissions. "

In my opinion BCMs do not always act in the best interest of their owners when it comes to insurance.

Dallas Booth CEO of the NIBA (also on the NAIP Advisory Panel) has stated a number of times, and has put in writing in his submission to the Queensland Property Law Review February 2016:

1. Owners do not always get the correct information and advice
2. The NIBA understands that very few body corporate managers in Qld would hold an Australian Financial Services Licence, issued by ASIC, to provide advice on financial products, including insurance policies
3. "If the body corporate manager is acting as an authorized representative of an insurance company or a party closely associated with insurance company, and earns third party commissions as a result of that relationship, it is highly likely the body corporate manager is acting in the interests of the insurance provider, and not in the interests of the body corporate"

I totally agree.

The things to do with this that have to be thought about:

1. How likely is it the preferred Broker concerned is going to get quotes from, or even be able to explain, products on the market from other specialists such as: JLT'S Bespoke ISR Policy; Suncorp strata direct; SURE insurance strata?
2. Some BCMs charge for claims handling when the property is not insured through their preferred broker. My Body Corporate Management Company will charge $195 per hour + GST for handling our claims because we used a different broker to theirs
3. Brokers are losing out on commission as they have to share it, and quite often they are not even retaining 50% of the payment for doing the major work
4. "Expensive" brokers are being used because they can afford to pay the management company for their business, so local brokers who know the properties and who charge set fees or smaller %s don't get the business because they can't afford to pay the BCM commission

Broker quotes:

"The CHU deal with BCB is also one that irks me and quite a lot of other brokers too as we are excluded from accessing their terms. I have already lost business to them without even having an opportunity to present our proposal which would have at least allowed the committee to make a fully informed decision."

"You may also be interested to know that there are now brokers who charge a 10% fee in addition to receiving a 20% commission. They pay the strata manager the 20% commission and keep the 10%. The client ends up paying for it in the long run. How this works in the customers favor I don't understand."

Consumer C:

If a company wants to offer a product in a State or Territory then a company must offer it to the whole of the State or Territory.

Everyone seems to be pulling out of the market (especially for strata insurance) in Northern Australia but still providing it in other parts of a State, so allowing those insurance companies remaining to have an almost monopoly situation, with little competition.

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

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

We need:

- Any company (insurance or otherwise) operating in a State or Territory to offer its complete range of services across that State or Territory
- Any company using the name of a State or Territory in its name to offer their complete range of services across that State or Territory, or change their name.

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

  How about they rename themselves Selective Queensland Underwriting Solutions?

Someone to look at preventing false advertising

We would then get increased competition as companies are forced to return to the market, or pull out entirely.

Consumer D

I can't answer the questions so I'll leave that to the experts in the subject but I wanted to have my say about 1 thing I've noticed from the discussion paper.

It says there will be higher discounts for high risk properties. This is all well and good but it isn't only the high risk properties who are paying horrendous amounts in premiums.

We lived in a unit in Airlie Beach for 15 years and we went through a number of cyclones without damage. Our insurance in one year prior to TC Debbie went up 324% overnight with no claims and no warning.

We were there through TC Debbie (Cat 4 according to the authorities) with winds up to 240K/hr. Since our complex had 25 apartments spread over 7 separate buildings with no connecting walls and no accommodation on the ground floor (garages) we had minimum damage. The total claim was $200,000 which included $25,000 excess. Of that $65,000 was gardens and tree removal and $25,000 was the water pumps which ran dry when the water was cut off, they have since been replaced with pumps that cut out automatically so it won't happen again.

The rest was external things such as outside electrics, the office getting water ingression (a retaining wall has now been built and any water coming down the hill has been diverted to a storm water drain), and guttering which was in the sinking fund to be replaced the same year. There was not 1 claim for contents throughout the whole complex. Dr David Henderson of the Cyclone Testing Centre said this was how buildings in the tropics should be built.

Since we couldn't see an end to the insurance crisis, this led my wife and I to sell our unit at $60,000 less than market value as no-one was interested due to the levies in 2018, move from an unit into a house and start again. We shouldn't have to do that at our age.

Now the units are paying, on average, $5000 per unit per year for insurance alone (3 bedrooms pay more than 2 bedrooms).

Due to the levies, the 3 bedroom units are now selling for $100,000 less than we sold for (2 in the last month).

That property cannot be considered as high risk.

Also, and I know this isn't anything to do with the reinsurance pool, complexes are doubling up on insurance and they don't even get the chance not to do it.

After TC Debbie, the Managers claimed their business loss from their business insurance. Landlords claimed their loss of income, as we were without water for 10 days and without power for 13 days, from their landlord's insurance. However, the body corporate insurance also included coverage for these things and the Committee had been told they couldn't get a policy without them. Where is the sense in this?

Anthony Shaw Idalia 4811.

Consumer E

Please let them know Landlord’s insurance must be covered under the reinsurance pool because insurance is pushing up rents from an entry level as landlords try to recoup their outgoings. This is causing rental affordability issues in an already tight rental market.

Consumer F

Large mixed-use strata, such as a mixture of residential and short-term let, MUST be included in the reinsurance pool because levies are so high now due to the insurance proportion, units are proving close to impossible to sell. Property prices have dropped substantially and this is also affecting the value of management rights.