Queensland Government Submission

Northern Australia Insurance Premiums Taskforce
September 2015

Queensland Government

Introduction

The Queensland Government welcomes the Interim Report and the Commonwealth's willingness to explore options to reduce high insurance premiums in Northern Queensland and manage risk through the Commonwealth Balance Sheet. The Queensland Government regards the Interim Report as a useful step in exploring the issues and working toward the best policy response to address high insurance premiums in Northern Queensland.

The issue of high insurance premiums in North Queensland is a critical policy issue for the Queensland Government and the people of North Queensland. The significant premium increases since 2008 have placed considerable cost pressures on householders in the North. Where insurance becomes unaffordable, there are follow-on consequences for the economy including possible stagnation of investment and labour immobility.

To echo the Interim Report's findings, the Queensland Government's Commissioner for Body Corporate and Community Management received advice that many community titles schemes in North Queensland are continuing to experience difficulty in obtaining and affording building insurance. This supports the evidence contained in the Interim Report that this is a very real problem in Northern Queensland.

Providing adequate insurance cover for cyclone risks which is affordable for residents would help reduce the cost of living and provide a sense of financial security to households.

The Queensland Government also welcomes the exploration of a potential mitigation program for householders to make improvements to their property, or to subsidise structural assessment, that would reduce risk (resulting in a commensurate drop in insurance premiums).

The Report indicates that significant further research, analysis and consultation are required to assess the feasibility of the two options (mutual fund and a reinsurance pool). The Queensland Government is not yet in a position to express a preference for either option as the risks and impact on premiums is not clear at this time.

The Queensland Government will continue to engage with the Commonwealth and other jurisdictions on specific details of the policy options being considered through the Northern Australian Insurance Premiums Taskforce.

Impact of high insurance premiums

Household incomes in North Queensland tend to be lower than in other parts of Australia. Higher insurance premiums are therefore likely to have caused hardship amongst some households in this region. Insurance comprises a relatively larger proportion of household expenditure than many other parts of the country. Large increases in insurance premiums can therefore reduce household expenditure in other areas or potentially result in underinsurance.

Providing adequate insurance cover for cyclone risks which is affordable for residents would help reduce the cost of living and may help provide a sense of financial security to households. In turn, this may potentially generate a number of favourable economic impacts through increased confidence in the community. However, in considering any potential benefits of reduced premiums, careful consideration would need to also be given to any potential offsetting economic and fiscal impacts resulting from the policy.

Insurance Regulation is a Commonwealth Government Responsibility

The Commonwealth Government has responsibility for regulating the general insurance industry. As such, the Commonwealth is best placed to determine the policy response that can reduce insurance premiums in Northern Australia while considering the broader implications of this intervention.

State Government Role

The Queensland Government has a role in disaster recovery, building resilience to natural disasters and disaster mitigation.

The Queensland Government Department of Infrastructure, Local Government and Planning, provides grants under the Community Resilience Fund ($40 million for the year 2015-16) and the Local Government Grants and Subsidies Program ($23.6 million for 2015-16) and it is anticipated that the mitigation measures that are undertaken through these programs are likely to contribute to premium reductions. As an example of the benefits of Government-funded mitigation measures, following commencement of construction of the levee in Roma in 2013, Suncorp began writing new home and contents insurance policies and estimated premiums could reduce by up to 80 per cent upon completion of the levee.

The Queensland Government also provides insurance companies free access to flood information to ensure premiums are calculated on the most up-to-date, accurate spatial data available.

Body corporates and 'strata title'

The Queensland Government has responsibility for legislation relating to body corporates and their conduct. The *Body Corporate and Community Management Act 1997* (BCCM) provides for the establishment and management of community titles schemes in Queensland. When a community titles scheme is established, a body corporate is created for the scheme. The members of the body corporate for a community titles scheme are the owners of all lots included in the scheme. A body corporate must elect a committee at each annual general meeting, which is responsible for the day-to-day running of the scheme. The committee is made up of lot owners or certain representatives of lot owners.

A body corporate can engage a body corporate manager to perform some or all of the powers of the executive members of the committee (the chairperson, secretary or treasurer). It is important to note that there is no legal obligation for a body corporate to engage a body corporate manager. In particular, bodies corporate for smaller schemes may choose not to engage a professional body corporate manager.

The BCCM legislation requires the body corporate for a community tiles scheme to insure the common property, body corporate assets and certain buildings for full replacement value. The policy intention of this requirement is to protect the interests of unit owners by ensuring particular buildings forming part of the community titles scheme can be reinstated following damage caused by a range of prescribed events.

The interim report notes that the term 'strata title' will have to be defined because strata buildings can be a mixture of residential and commercial uses (page 22). In this regard, it is noted that community titles schemes may be used for commercial, residential or accommodation (e.g. holiday unit) purposes, or a combination of these purposes.

Terminology

A number of parts of the report somewhat misstate the role of the body corporate manager. The interim report refers to body corporate managers being required to obtain insurance (page 16), and to grants being provided to body corporate managers under a Strata Title Inspection Scheme (page 43). It is considered that in the final report, these references to body corporate managers should instead be references to bodies corporate. It should be noted that a significant number of schemes do not appoint body corporate managers. Generally speaking, body corporate managers only act on instructions of the body corporate (often through the committee), and only when validly appointed.

The term strata title is not used in Queensland. Instead, communally based arrangements established under the BCCM Act are referred to as community titles schemes.

Body corporate manager commissions.

The Queensland Government is aware that some stakeholders have suggested banning commissions being paid to body corporate managers when they purchase a policy for a community titles scheme could be a measure to reduce the cost of premiums.

While the Taskforce's considerations of these matters is welcomed, it is important to note that a body corporate for a community titles scheme is not compelled to use a body corporate manager to arrange insurance for the scheme (indeed, for schemes without a body corporate manager, the committee would normally arrange insurance).

The BCCM Act does not prevent body corporate managers from receiving commissions, but does include disclosure obligations designed to ensure bodies corporate are informed of commissions or other benefits received by their body corporate manager.

The regulations under the BCCM Act provide a body corporate manager must disclose to the body corporate (in writing) a commission, payment or other benefit the body corporate manager is entitled to receive under a contract for the supply of goods or services the body corporate is considering entering into, or proposes to enter into, with a goods or services provider. The body corporate manager must disclose the commission, payment or other benefit (including from an insurance company) before the body corporate makes its decision to enter into the contract, and it is an offence for a body corporate manager not to disclose this information. A maximum penalty of 20 penalty units applies to the offence.

Further, the regulations under the BCCM Act require the annual disclosure of insurance details at the annual general meeting (AGM) of the body corporate. Specifically, the notice of the AGM, or a note attached to the administrative fund budget proposed for adoption at the AGM, must include specified details about the insurance policy, including the amount and type of any financial or other benefit to be given by the insurer to the body corporate manager.

The taskforce might wish to evaluate the impact of body corporate manager commissions on insurance premiums for community titles schemes. As part of the taskforce's evaluation, it may be relevant to investigate whether:

- prohibiting body corporate managers from receiving commissions for organising insurance may result in increases in body corporate management fees, or in body corporate managers not offering to arrange insurance as part of their body corporate management agreements; and
- the use of a body corporate manager to organise insurance could possibly result in lower premiums for bodies corporate where the body corporate manager brings multiple clients to the insurer.

Consultation with stakeholders.

The Queensland Government appreciates that the work of the Taskforce is ongoing and that a range of stakeholders have been consulted. In the lead up to the final report the Taskforce might wish to consider meeting with peak bodies in Queensland for unit owners, body corporate managers, resident managers and the property sector. The following is a list of groups that could be consulted:

- Strata Community Australia (SCA)
- Australian Resident Accommodation Managers Association (ARAMA)
- Unit Owners Association of Queensland (UOAQ)
- Body Corporate Owners Network (BCON)
- Queensland Association of Body Corporates (QABC)
- Property Council of Australia (QLD Branch)
- Urban Development Institute of Australia
- Real Estate Institute of Queensland

Taxes and duties on insurance.

The Queensland Government accepts that the stamp duty levied on insurance premiums (9 per cent) is a contributing factor to overall affordability of insurance. The Goods and Services Tax at 10 per cent is also a significant component to the cost of insurance. Taken together they amount to 19 per cent of the total costs.

However, the Queensland Government would require support from the Commonwealth to reform insurance duty which contributed $833 million in revenue last financial year.

The Queensland Government recognises that the Commonwealth Government is looking at tax reform to address broader efficiency and equity issues with Australia's taxation system. The upcoming release of the White Paper on Taxation Reform is the best place to consider the reform of stamp duties and broader taxation policy.

Potential reduction in premiums to be explored in the final report.

Ideally the final report would explore a diverse range of policy options that have differing impacts. A sensitivity analysis could be provided by showing a range of options with varying levels of resultant premium reduction.

The final report would need to present a thorough analysis and modelling to demonstrate a reduction in premiums is likely and this could be achieved without any significant negative economic impacts. In particular, the report should consider the extent to which any reduction in premiums could potentially lead to inappropriate development in cyclone prone areas.

Role of a potential mitigation package.

The Queensland Government would welcome the provision of a mitigation package from the Commonwealth to help householders either directly undertake mitigation or to support the inspection of activities undertaken to reduce risk. This could be rolled out in conjunction with the preferred option and help to address insurance premiums in the longer term.

Noting that the most vulnerable homes are likely to be older homes and owned by lower income earners, it is likely these homeowners are less likely to have the means by which to mitigate risks. This is particularly true for cyclone risk, as mitigation often requires structural changes to the home, which are relatively costly. A potential mitigation package could be targeted toward lower income earners.

Importance of maintaining existing Natural Disaster Relief and Recovery Arrangements (NDRRA) funding.

The Queensland Government recognises that the potential cost to the Commonwealth from intervening in the insurance market to address cyclone risk could be significant, potentially up to $1.5 billion of exposure. The Queensland Government seeks assurance that the potential costs of a cyclone insurance scheme are not offset by reductions in other areas of disaster relief and recovery funding, for example reducing the Commonwealth's contribution under the National Disaster Relief and Recovery Arrangement (NDRRA). Furthermore, the Queensland Government has argued for increases to betterment and mitigation funding provide by the Commonwealth.

Additional information to be supplied in the final report

It would be desirable if the final report provided updated details of the rates of under insurance in northern Australia (period 2012-13 onward). While the interim report provided some year's figures, the full extent of under insurance may not yet be known.