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Mr John Trowbridge
The Chairman
National Disaster Insurance Review Panel
Canberra ACT, 2600

Dear Mr Trowbridge

SUBMISSION: THE NATIONAL DISASTER INSURANCE REVIEW

1. INTRODUCTION.

This submission has been prepared by Mr Andrew Hayes of Unit 10, 304 - 308 Lake Street, Cairns Far North Queensland and is submitted to the National Disaster Insurance Review Panel, which is conducting an independent review into disaster insurance in Australia and related issues affecting other classes of insurance.

This submission mainly relates to the explosive increases in premium costs of residential strata title insurance for unit and apartment owners in Far North Queensland (FNQ). It will cover the following:

- Background to Residential Strata Title Insurance and skyrocketing residential strata title insurance premiums in regional Queensland including Far North Queensland,
- Anti-Competitive Behaviour - Dramatic increases in premiums,
- Anti-Competitive Behaviour - Lack of choice and range of policy classes of insurance,
- Lack of Competition in the provision of Residential Strata Title Insurance,
- Residential Apartment/Unit market of FNQ and regional Queensland,
- Impact and
- Recommendations.

2. BACKGROUND.

Residential Strata Title Insurance is a class of insurance that applies to unit/apartment complexes. It generally covers building and common contents, as well as legal liability, fidelity guarantee, personal accident and office bearer's liability. The annual premium for a unit complex is issued to a Body/Owners Corporation and is subsequently proportioned to each individual unit holder for payment.

In recent years there have been excessive increases in premiums, and limited availability of cover in relation to residential strata title insurance for the FNQ region. In fact for the Park Avenue Apartments, located at 304-308 Lake Street Cairns North, the residential strata title insurance premium is expected to increase by 350% for the year 2011-2012.

Specifically with regards to the FNQ market, the lack of competition by the insurance industry as well as its anti-competitive behaviour in providing residential strata title insurance has resulted in **PRICE GOUGING** with spiraling increases in premiums for this class of insurance in this region. This situation is having a severe impact on unit owners, residents, businesses and the community.

This unfair and unsustainable situation in FNQ has become untenable for many unit owners in this sector of the housing market. It has become such a major issue in this region that it is impacting on the affordability of units and apartments in the region, rental levels, unit valuations and prices, current and future investment in this type of accommodation and ultimately jobs in building and constructing new units and apartments.

In short given the extremely difficult economic conditions of FNQ, this market **SIMPLY CAN NOT ABSORB** the soaring increases in premiums – *for the unit sector this situation is detrimental to the affordability of home ownership for units and apartments, rental prices and current and future investment in unit housing stock.*

3. ANTI-COMPETITIVE BEHAVIOUR - DRAMATIC INCREASES IN PREMIUMS.

My wife and I own a 3 bedroom unit located at 304 to 308 Lake Street, Cairns North which is a 3 story complex consisting of 18 units. In recent years we have experienced dramatic increases in premiums

for residential strata title insurance for this complex. This situation and trend is clearly demonstrated by the following table:

Year	Insurance Premium Amount \$	Increase Amount \$	Percentage increase %
2005/2006	\$5433.74		
2006/2007	\$5541.00	\$107.26	1.97%
2007/2008	\$6753.34	\$1212.34	21.87%
2008/2009	\$8515.61	\$1762.27	26.09%
2009/2010	\$8864.16	\$348.55	4.09%
2010/2011	\$14,947.58	\$8,566.58	68.63%
*2011/2012	\$52,316.53	\$37,368.95	350%

NB: Above amounts GST inclusive

*NB: * Advice given about the expected premium for 2011/2012*

NB: No flood cover

For this complex, in 2008/2009 the insurance premium increased from an amount of \$6753.34 to \$8525.61. This equates to a **26.09 % INCREASE**. While there was some relief in 2009/2010 with a 4.09% increase in premium, for 2010/2011 however, the insurance premium for the unit complex increased from an amount of \$8864.16 to \$14,947.58. This equates to a **68 % INCREASE**.

Surprisingly for the 2010-2011 period, this was the cheapest premium offered by the insurance companies providing this class of insurance in this region. A comparison of the premiums offered by the insurance companies is as follows:

Company	Quotation provided: Insurance premium amount for 2010-2011
Zurich Australian Insurance Ltd	\$14,947.58
CGU Insurance via SUU	\$17,462.61
Allianz Australia Insurance Ltd	\$20,142.68

However in 2011/2012 we have been warned to expect a substantial increase in the residential strata insurance premium and am anticipating an **INCREASE OF UP TO 350%** from last year's premium. This

is an increase from an annual amount of \$14,947.58 to \$52,316.53. This translates to an annual payment of \$2,906.47 by each individual unit owner within this complex which is up from \$830.42 per unit per annum.

Other Insurers will follow suit by increasing their premiums substantially in the Strata market which will apply to the FNQ region and for those unit complexes that are offered renewal in 2011.

Furthermore for some owners with units in complexes in the Cairns region they have already experienced explosive increases in premiums in 2011. For example for a particular unit complex in Cairns, the unit owners have had a **427% INCREASE** in their insurance premium for 2011.

4. ANTI-COMPETITIVE BEHAVIOUR – LACK OF CHOICE AND RANGE OF POLICY CLASSES OF INSURANCE.

The monopolistic conditions in this region with few insurance firms are driving up premiums to unreasonable and unaffordable levels, but it is also leading to a very limited range and choice of insurances products and classes.

In FNQ in the unit/apartment housing market, it is extremely difficult if not impossible to obtain an insurance policy which covers floods. This class of insurance is simply not offered by the few insurance companies that offer insurance for the unit/apartment complexes. As a result flooding is not covered for most of the unit/apartment complexes in this region and this is of a major concern particularly given the recent weather conditions and flooding that has occurred in Queensland.

We also simply can't get flood cover.

5. LACK OF COMPETITION IN THE PROVISION OF RESIDENTIAL STRATA TITLE INSURANCE.

In recent years the FNQ insurance market has dramatically changed especially with regards to Body Corporate insurance. Strata owners in FNQ have suffered from a number of Insurers exiting from the region in a short period of time. As a consequence there are now only a few insurance companies offering this class of insurance to this region resulting in market concentration and a lack of competition.

To demonstrate and highlight the dramatic changes in the current attitude of the major insurers to Residential Body Corporate Insurance in FNQ provided below is a summary of these changes in this market:

- Suncorp Metway Insurance.

This insurer has withdrawn from the Australian Insurance market for Residential Bodies Corporate i.e. Residential Strata Title Insurance.

- Ace Insurance Company Limited.

This company has withdrawn nationally from the Residential Body Corporate insurance market.

- Zurich Australian Insurance Company Limited.

This company has increased all its rates for Residential Body Corporate policies by 25% in September 2009 and another 35% in March 2010 and has also withdrawn all policy discounts , ranging up to 15%, in March 2010.

Zurich has again increased rates by a further 35% in September 2010. Zurich also do not underwrite any business with a sum insured or asset value over \$20,000,000 and currently has a new business moratorium for 60 days.

- Allianz Australia Insurance Company.

This company will no longer underwrite any risk in FNQ with a value over \$6,000,000. Any risk under this value has a 70% loading to normal rates.

- QBE Insurance Ltd via CHU Underwriting Agencies.

The company is reluctant to provide quotations for any risk in the Far North Queensland region.

- AMP General Insurance.

This company will not underwrite risks higher than \$5,000,000 and only with minimal holiday accommodation.

- CGU Insurance Ltd via Strata Unit Underwriters.

This insurer has applied Named Cyclone Excesses and increased all premiums and whilst they are willing to underwrite risks in North Queensland it is at non negotiable rates . They remain the most competitive of all "A" Rated insurers.

- RACQ insurance.

This company will only provide quotations for non holiday complexes to a maximum value of \$5,000,000.

6. IMPACT.

The anti-competitive behaviour by insurance companies (dramatic increases in premiums) and a lack of competition in the provision of Residential Strata Title Insurance is causing significant impacts in this region some of which include:-

- A worrying concentration of market share in the provision of Residential Strata Title Insurance in FNQ which has had a dramatic impact of the price and availability of cover for this class of insurance.
- Unit and apartment owners, residents and tenants and investors have been affected by escalating insurance premiums and, in some cases, have been unable to find cover or are now deciding not to renew their cover for this class of insurance.
- This situation is now impacting on the owners, renters and investors of the 23,772 units/apartments that currently exist in FNQ and a further 14,228 units/apartments which is the additional stock that is expected to be built in the future.
- It is reasonable to deduce that this situation is also impacting on unit and apartment owners and this sector of the housing market in other regional areas of Queensland including North Queensland (Townsville region) and Central Queensland (Mackay region).
- To further highlight to you the severity of this situation please find attached a copy of recent article that featured in the Cairns Post on Wednesday 26 January 2011.

7. RESIDENTIAL APARTMENT/UNIT MARKET OF FNQ AND REGIONAL QUEENSLAND.

In terms of the residential apartment/unit market of FNQ (Cairns region) and regional Queensland the following information is provided:

- Number of existing units/apartments - 23,772.
 - Population - Number of people who live in an existing unit/apartment – 71,316 people.
 - Potential units/apartments - additional stock to be built in the future – 14,228.
 - Population – additional number of people who will live in a unit/apartment to be built in the future – 42,684 people.
 - Future number of units/apartments - total number of units/apartments as provided for under the local planning scheme – 38,000.
 - Future total number of people living in units/apartments – 114,000 people.
-

North Queensland (Townsville region):-

- Number of existing units/apartments – 26,339 (approx).
- Total population 181,743 people – people in units-79,018 people (approx).

Central Queensland (Mackay region):-

- Number of existing units/apartments – 20,516 (approx).
- Total population 141,567 people – people in units- 61,550 people (approx).

It is worth noting – British Prime Minister, Sir Winston Churchill threatened to nationalize the UK Insurance Industry to force it to change and to provide more affordable, cost effective and suitable insurance.

8. RECOMMENDATIONS.

Given the above circumstances and the catastrophic insurance premium increases in this region which is occurring with immediate effect in 2011, I strongly appeal to you to consider the following recommendations:

1. Immediately suspend and place an embargo of all premium increases for Residential Strata Title Insurance coverage in 2011 by all insurance companies offering this insurance class in FNQ and in regional Australia.
2. Urgently investigate the provision of Residential Strata Title Insurance in this region and regional Australia more broadly including legislation such as the Body Corporate Act which requires this type of insurance coverage for unit and apartment complexes.
3. Consider developing an entirely new insurance model which reflects insurance needs and risks but also takes into consideration all of the new building and design codes and planning and development schemes which are responding to risks especially natural disasters in regional Queensland. The current market driven insurance model is problematic which is clearly demonstrated by insurance companies having little interest in providing affordable insurance to consumers and property owners in regional Queensland.
4. Investigate and assess the possible development and establishment of an insurance company that can cater for the needs of regional Australia and this region in particular (– where the established and larger insurance companies have vacated the market). Such a model could be

based on and be similar to the business model used for community banks and building societies etc...

5. Investigate and assess the possible development and establishment of other insurance models such as the Natural Disaster Insurance model used in in New Zealand which could be designed to cover a range of classes of insurance such as Residential Strata Title Insurance.
6. Undertake a review of the provisions of the *Competition and Consumer Act 2010*, to determine uncompetitive conduct of insurance companies and any protection available to apartment and unit owners.
7. Consider the tax deductibility status of this insurance premium which would allow unit and apartment owners to deduct the cost of this insurance premium from their tax.

As mentioned this is a very serious issue which is having a significant impact on this region.

I look forward to your favourable consideration of the issues raised and recommendations outlined in this submission.

I am available to discuss the contents of this document with you at a mutually convenient time.

Yours faithfully.

Andrew Hayes

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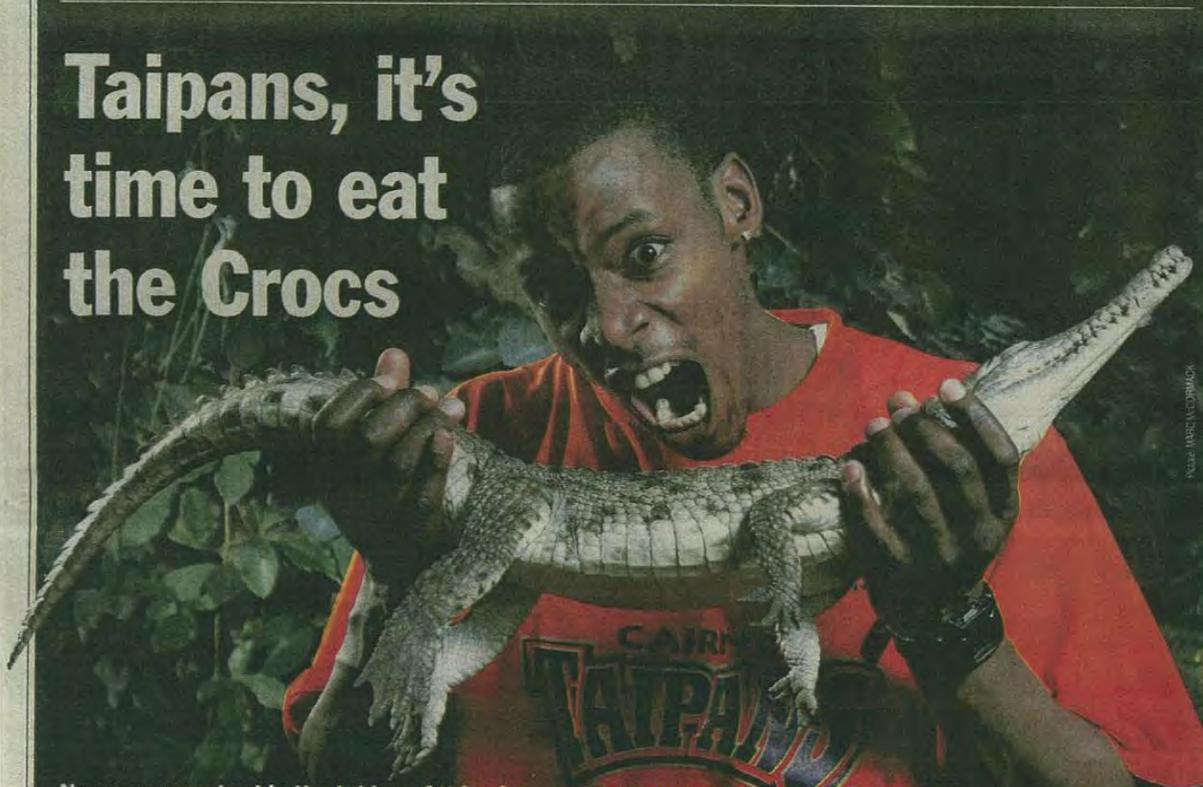
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Taipans, it's time to eat the Crocs



Picture: JAMES WOODRICK

No crocs were hurt in the taking of this picture – that's being left for The Swamp in Townsville tomorrow. Key Taipans player Ron Dorsey was in a hungry mood ahead of the crunch basketball showdown where a Cairns victory would secure a historic first appearance in a grand final series. **REPORTS P14-15, SPORT**

THE BIG \$TING

Insurance pain hits Far North

PROPERTY owners and investors in the Far North are facing insurance cost rises of thousands of dollars as the full impact of cyclone Yasi and natural disasters hits home. High vacancies, insurance premium increases of up to 300 per cent, and a lack of competition in the body corporate insurance market could make

Kelly Burns and Nick Dalton
editorial@tcp.news1hd.com.au
investing in the city undesirable, one property manager warns. Homeowners also were bracing for insurance price rises of 10 per cent and more as worldwide natural disasters shake up the industry.

Property Ladder Realty director Linda Tuck gave the example of one Cairns apartment block of 89 units where body corporate insurance premiums were \$12,882 last year. This year, the renewal with Zurich was \$46,730 and two cheaper options of \$24,792 with CGU or \$25,784 with AMP. **→ Continued Page 8**

Hit hard by insurance sting

► From Page 1

"This will make investing in Cairns undesirable and could lead to a further drop in property values. We have already seen drops of between 10 to 40 per cent on some properties," Ms Tuck said.

REIQ chairman Cairns Rick Szepeluk said steep rises were likely to put pressure on rental prices on the thousands of units and apartments in the Far North.

"I think hikes in body corporate fees and insurance will mean landlords will try to get the money back from somewhere and it will have to be from the rental pool," Mr Szepeluk said.

Springfield body corporate chairman Don Cunningham said the insurance on their 12 units at Springfield Crescent, Manooora, went from \$3500 last year to \$15,000.

"The same insurance company put it up astronomically and we hadn't even put in a claim," he said.

"We managed to find another insurance company who is charging us \$5500 this year."

Mr Cunningham, a retired insurance broker, said there were not many insurance companies covering strata titles.

Natural disasters blamed for rises

He said it should not be a concern in the Far North because most, if not all, of the body corporate buildings since about 1981 were built to cyclone rating standards.

"The re-insurance companies overseas are charging more in a cyclone area and because of the losses they have incurred (from natural disasters overseas) they've put the rates up."

Mr Cunningham said Suncorp was a popular body corporate insurer because its rates were very competitive.

"But they suffered losses because their rates were too cheap," he said.

KIB director Janet Koch said the body corporate price rises were in line with reality.

"They've had a good run but now they've got to pay like everyone else who has a property or house," she said.

Body corporate rates were previously less than household insurance but premiums

had gone up between 85 and 300 per cent since a major insurer withdrew from the market.

Before, rates were too low to be profitable but now it also reflected rises by re-insurance companies reeling from disasters in Japan, Christchurch, Queensland's floods and cyclone Yasi.

Mrs Koch said prices would be higher in Cairns.

"Insurance is for the unexpected, if you live in an area that expects cyclones then you have to pay. It's reality," she said.

Industry analysts predicted household insurance would rise in the wake of Queensland's disasters and last month Suncorp confirmed premiums were set to rise by 10 per cent.

Insurance Council Australia general manager Paul Giles said price rises were a matter for insurers.

"Insurers base their premiums on risk," he said.



Going up, up and up: Body corporate insurance premiums have gone up by 300 per cent in some cases. Experts say homeowners would also pay more for insurance after worldwide natural disasters.

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OPINION WEEKEND

our say

Saturday, April 16, 2011



Insurance hike to put brake on investors

A MASSIVE 300 per cent rise in insurance premiums for body corporate buildings couldn't come at a worse time for the Far North.

At a time when investment in Cairns is an absolute necessity, it appears the insurance giants are doing everything in their power to prevent the city from putting its economic crisis in the past.

The premium for an apartment block of 39 units was \$12,882 last year, while this year, the renewal is a whopping \$48,740.

This comes at a time when the Cairns Regional Council has decided to discount costly infrastructure charges for shovel-ready projects in an effort to revive the languishing construction industry.

Adding to this, of course, is the enormous financial drain the summer of disasters has left the region, which has gone far beyond the wind and flood damage normally associated with a typical wet season.

It was only yesterday Deputy Prime Minister Wayne Swan estimated cyclone Yasi and state-wide flooding would cost Australia \$7 billion, hitting the economy much harder than originally anticipated.

This cost could well continue to rise, as the full extent of the damage is yet to be determined.

It is depressing to think the hikes in body corporate fees and insurance are, as the REIQ has forewarned, likely to be reflected in rents.

This will, of course, keep investors well away from Cairns.

The Far North's unemployment rate still places 15,300 people across the region without jobs.

The rising cost of living will do nothing to keep those without jobs here - an effect that will be felt immediately and could have long-lasting, devastating consequences.

And another thing...

THE Cairns Taipans, for the first time in their 12-year history, have the NBL grand final within their grasp. The hopes and dreams of an entire region are riding on the sky-high shoulders of their local basketballers. Win or lose, the Taipans will return to Cairns as heroes and it is important they be recognised for the remarkable work they have done just to get this far. Go, Taipans, go!



zanetti's say

HOT TOPIC ONLINE...

Will council's fee discount help builders?

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The council's fee discount is definitely a step in the right direction; a little less red tape from other government departments would also help. Bill, Cairns.

If the council approves this it will be the first proactive thing that they have done for the construction industry, business and for Cairns. Though Val and her council are so anti-business, preferring to spend \$10 million of non-generating waste of money for bike paths, so it will be a miracle if this is approved. M. M., Cairns.

You are dreaming if you think this will reduce the cost of land, as stated in the article. This will increase the profits of the individuals running these companies. It's not a bad thing, just better to stick with facts. Will, Port Douglas.

I actually don't think it is as bad for construction as everyone thinks. I am halfway through a build and the prices for all trades are still extremely high. No deals,

no better pricing. That is not what usually happens with an industry in trouble. Jamie, Edmonton.

Reprieve from the developers was a breath of fresh air, if short-lived. Let the circus begin once again. Eric, Cairns.

They didn't let the Smithfield redevelopment go through which would have been \$500 million, they wouldn't help out with a race track (and driver training area), what have they done? A ukelele festival. These are some of the most retarded councillors in Australia. It won't happen, it's too cutting edge proactive, and less money coming in means less money for Val to give herself and all the others a pay rise. M. Casey, Freshwater.

The question must be asked, if the council can so easily do without \$4 million, why are they charging it in the first place? The ratepayers will end up paying for this somehow. I'm pretty sure about that. Snow White, Brinsmead.

Anyone who thinks constant construction is good for Cairns is either a builder or an idiot. Cairns will only be for the short term. Australia is experiencing the biggest property bubble in the world and when it pops it'll be a hard slog for a lot of people. Look at Dataline two weeks ago: China's GDP is being fuelled primarily through a construction frenzy, whole cities are vacant (watch the report if you don't believe me). But I mean it's not like it'll hurt our economy when that crashes either... cough. John, Cairns.

Jamie, costs to the builder to do your build have not reduced so why should your cost reduce? This is what people don't understand. Costs for raw materials, bricks, bolts, paint, pipes, etc., have not reduced. A contractor can only go so low before they lose money. Jack, Cairns.

Jack, yes, nails, wood, etc., are the same price. There is not a chance the boys building are even close to losing money. The labour bill is massive on my home so massive and I could use some work. I can

get the same work in Sydney done cheaper. Jamie, Edmonton.

I encourage everyone to watch a doco called "Collapse"; it will blow your mind. Allisdoomed, Cairns.

Jamie, how do you know they are not close to losing. Do you know what their costs are? How? Are you just assuming? Everyone thinks the builder is millionaire because he drives a Landcruiser. Labour is the single biggest cost for a contractor, when there is a lack of workers, wages rise, when there is a glut of workers (and no work) wages do not reduce, they stay the same. So all costs remain the same, yet contractors are expected to drop their pants just so you can get a bargain? Feel free to get your mates from Sydney (though I seriously doubt you have factored in all the real costs for a Sydney mob to do it) to do the job, but I will give you a tip: pay peanuts you get monkeys. Builders that have been in Cairns for decades have because they are good and they are reasonable. Jack, Cairns.

YOUR VIEW

DO YOU HAVE ANY PLAYING TIPS FOR THE TAIPANS THIS WEEKEND?

4pm, CBD, Cairns



CHRIS TUITE
REDLYNCH VALLEY
Don't get too psyched out by the hometown advantage that Townsville has.



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Today's Bible thought:

Can a woman forget her own baby and not love the child she bore? Even if a mother should forget her child, I will never forget you. Isaiah 49:15