



Community Housing
INDUSTRY ASSOCIATION

June 2021

CHIA Submission

Reinsurance pool for cyclones and related
flood damage



Community Housing Industry Association - CHIA

Submission: Reinsurance pool for cyclones and related flood damage

Introduction

CHIA is the peak body representing not for profit community housing organisations (CHOs) across Australia. Our 150+ members manage a \$40 billion-plus portfolio of more than 100,000 homes, housing people on low and moderate incomes who find it hard to access affordable and appropriate tenancies in the private market.

The Community Housing Industry Association (CHIA) welcomes the opportunity to make a submission to the consultation paper which seeks comments on ‘key design features of a reinsurance pool for cyclones and related flood damage, which would aim to improve the accessibility and affordability of insurance in cyclone-prone areas.’ Our members in the parts of Northern Australia prone to cyclones have experienced rising insurance related costs both in the form of higher premiums and increased excess thresholds. The pool could make a significant difference to their capacity to meet the housing needs of low income households.

CHIA is not in a position to answer most of the questions in the consultation document, these being for the most part targeted at insurance experts. Our short submission therefore focuses on the two issues that we raised in a preliminary meeting with members of the task force and other Treasury representatives on 1 June 2021. These are as follows:

- To press for ‘not for profit’ housing charitable organisations (community housing organisations - CHOs) to be specifically recognised as being covered by the reinsurance pool. We appreciate the intention is not to exclude any specific sector from potential inclusion in the pool. However, an eligibility definition based on the operating circumstances of typical (trading) small businesses risks excluding, albeit unintentionally, our member organisations, which operate under quite different conditions and, are providing services to vulnerable households.
- To request that social and affordable rental properties are considered within the definition of ‘business premise’. CHOs are usually responsible for the management and maintenance of these homes including arranging and paying for building insurance. Essentially, they deliver their services into these properties and are responsible for arranging and paying for the building insurance. In jurisdictions, for example Western Australia where government generally retains insurance responsibility for properties managed by CHOs, it is possible that future outsourcing arrangements to CHOs may see transfer of this responsibility to the CHOs. CHOs in all jurisdictions would of course be responsible for insurance of their offices and any homes they own.

In the submission we outline the role of the community housing sector and its role in meeting housing need. We then outline the sector’s business model and its operating context as the reason for requesting specific recognition of our industry’s needs in the reinsurance pool design.

Originally our intention was to include specific information about the sector in Northern Australia and its insurance costs. Regrettably the submission deadline has coincided with end of financial year preparations and we have acquired only partial information from Queensland. This has been used for illustrative purposes.

The Community Housing Industry and its Role

The community housing industry provides housing for people on very low and low incomes, disadvantaged in accessing affordable and appropriate tenancies in the private market. Our members provide housing for Aboriginal people, people with disabilities, the formerly homeless and households where the main income earner is in low waged employment such as aged care. The types of accommodation provided by CHOs include crisis, transitional and long-term housing but it is the latter that is predominant. Most of the long-term housing the sector provides is commonly referred to as social housing targeted at the neediest Australian households.

Community Housing Organisations commonly operate under two business models: renting out properties that they own, and managing rental housing on behalf of state and territory government landlords under headleases that require the CHOs to provide tenancy and asset management services. CHOs do not receive service payments for managing these homes. Where service payments are received it is for the provision of specialist support to individual tenants and not tenancy or asset management costs. CHOs are generally required to arrange and pay for insurance cover for the homes they manage - i.e. they pay no fee for inclusion in a state or territory government policy.

For two reasons, the insurance costs CHOs incur are likely to be a significantly larger proportion of business costs than for a typical small business. First the CHO must insure multiple residential properties in addition to its nominated business address, compared to the typical small business whose building insurance is likely to be restricted to one office premise. Second,

Because social housing rents are set as a proportion of a household's income, (between 25% and 30%) CHOs have no capacity to recoup excessive insurance costs by increasing rents, unlike private landlords. The amount received in rent by a CHO is typically well below the market equivalent rent and is insufficient to meet all management and maintenance costs.

The Northern Australia Context

There are circa 552 CHOs across Australia, and they differ substantially in size and scale. The largest 38 providers manage 82.5% of homes, and while the average size of these larger community housing portfolios is 2,357 dwellings there are many far smaller organisations.

There is no single published source of information about the geographical breakdown of community housing that allows us to provide a definitive answer to how much community housing there is in Northern Australia. Our best estimates suggests that the total will be circa 3,500 – 4,000 units, though not all may be in cyclone prone areas. On top of this there will be additional homes provided by Indigenous Community Housing Organisations (ICHOs) to vulnerable households that are not registered; particularly in Western Australia and Northern Territory. Some registered ICHOs in Queensland are Aboriginal Shire Councils which raises the question of whether local government will be covered by the proposed reinsurance pool.

With the exception of two large CHOs that manage homes in the Kimberly region, the CHOs operating in Northern Australia are smaller than average, with property portfolios of fewer than 300 homes and often considerably less. Unlike larger CHOs they are unable to achieve economies of scale nor pool costs over a large portfolio spanning low and high risk areas. Most tenants rely on welfare benefits as their main source of income and rental revenues are particularly low. We estimate that in Northern Australia the proportion of homes managed (but not owned) by CHOs is likely to exceed 90% of total portfolios.

Most CHOs operating in Northern Australia are not involved in developing or purchasing new homes. One of the few exceptions notes that they are conscious of mitigating climate risk noting that 'due diligence prior to development or property purchase would include the review flood maps, building quality, site and location and keeping abreast of building regulations and codes'.

CHOs have reported that insurance is a significant expense across both the leased and owned portfolio. Anecdotally two CHOs from far north Queensland have reported that insurance premiums have risen astronomically in recent years. One reports the insurance premium for 27 properties is now \$160,000 per annum. Of equal concern to some CHOs have been rises in insurance excess thresholds. One CHO in NT reports the named cyclone deductible increase from \$10,000 in 2017/18 to \$20,000 in 2019/20. The same CHO also noted they had seen increases to their industrial special risks policy of 8%, 6% and 9% respectively since 2017/18. During this time they have not made a claim for cyclone/flood damage.

While insurance premiums can increase for various reasons, the incidence of extreme weather events is cited as the one risk that has significantly increased. A number of CHOs are concerned not just about the affordability of cover but also its availability.

Queensland Shelter, the state housing and homelessness peak has carried out research into its members insurance costs; originally in 2017 and updated in 2020. The survey it conducted was not restricted to Northern Australia and was also looked at factors beyond the impact of climate risk. It found that the total cost of insurance of the survey respondents was \$1.436 million in 2018/19. The highest premium paid by a respondent was \$225,700 for 469 properties. Total premiums for this group of respondents had risen by around 15% in three years. There were, however, wide variations in the premium increases but the research did not fully account for the reasons for this variation.

In 2017, Q Shelter found that CHOs located in disaster prone areas reported higher insurance premiums of between \$1,000 and \$2,500 per dwelling per year. Insurance premiums increased following a natural disaster regardless of whether actual claims were made.

CHIA understands Q Shelter intends to make a separate submission and provide further detail from its report. As noted, earlier CHIA will forward further information on insurance costs as supplied.

Conclusion

CHIA is not requesting special treatment for CHOs but, for certainty, an explicit recognition that they are covered by the reinsurance pool. This should also make clear whether ICHOs that are Aboriginal Shire Councils are included, as we understand Councils are by the terrorism reinsurance pool.

The small business definitions cited in the consultation document will risk excluding some CHOs. Most CHOs will have turnovers well in excess of \$1M. We do expect that most in Northern Australia would be captured by the definition the Australian Small Business and Family Enterprise Ombudsman recommended : a business with less than \$10 million in turnover or fewer than 100 employees. However, for the avoidance of doubt, we propose that the re-insurance pool legislation specifically include Community Housing Organisations in its coverage.

Given the substantial insurance costs associated with the portfolios managed and that the properties are where we deliver the service, we argue the rental homes should be included in the term business premise. CHOs are unable to offset costs by raising rents and already operate on thin margins.

Further Information

CHIA would be pleased to supply further information or clarify elements in the submission. We can also facilitate contact with our members.

Please contact [REDACTED]