



Reinsurance Pool for Cyclones and Related Flood Damage - Consultation Paper

Port Douglas Apartments Committee Submission

15 June 2021

Port Douglas Apartments (PDA) Committee

63 Macrossan Street

Port Douglas, Queensland 4877

Contact: Louise Hargreaves – PDA Committee Chair

Email: [REDACTED]

Re: Reinsurance pool for cyclones and related flood damage

I am writing on behalf of the Port Douglas Apartments (PDA) Committee. PDA, situated on the main street of Port Douglas, is a small complex of 18 self-contained, one-bedroom apartments offering short stay accommodation for visitors to Far North Queensland (FNQ). PDA unit owners are all small Mum and Dad investors (average-income earning Australians) or retirees.

The PDA Committee congratulates the Coalition Government on the proposed introduction of a reinsurance pool which will bring much needed relief to insurance premiums in Northern Queensland.

Thank you for the opportunity to comment on the *Reinsurance Pool for Cyclones and Related Flood Damage Consultation Paper*. The PDA Committee will respond to the following questions.

Question 1 - How should 'cyclone' be defined for the purposes of defining the reinsurance pool's coverage?

The inconsistent use of definitions by insurers compromises the consumer's ability to make effective comparisons between policies. The term cyclone should be defined as a standard term under the *Insurance Contracts Regulations 2017* – 'flood' is currently the only term defined in the Regulations which cannot be varied by insurers.

For the purposes of defining the reinsurance pool's coverage, the PDA Committee recommends a cyclone should be defined as:

a weather event declared a cyclone by the bureau of Meteorology

Question 2 should storm surge be covered by the pool and included in a definition of 'cyclone-related flooding'?

Storm surge should be covered by the reinsurance pool and included in a definition of 'cyclone related flooding' as flooding in many low-lying areas is caused by incoming water from the ocean preventing flood waters from dissipating.

Question 19 - To what extent do insurers price in discounts into insurance premiums for mitigation action undertaken by or affecting policyholders?

The ACCC Northern Australia Insurance Inquiry Final Report noted that northern Queensland residents questioned whether mitigation work carried out on a property was recognised by insurers. Property owners also commented that the main barrier to mitigation was often the large upfront capital investment required with no guaranteed return from reduced premiums over the long term. It was also found that a number of insurers do not currently have measures in place which allow them to take private mitigation activity into account.

The PDA Committee has not been offered any discounts on strata insurance even though the complex is built to cyclone standards thereby reducing the risk of sustaining costly structural damage in a cyclone.

Question 20 - How might mitigation be encouraged by the reinsurance pool's design?

The current North Queensland Strata Title Inspection Program (NQSTIP) run by James Cook University, provides property owners with a five-point 'resilience to cyclones' rating. For example,

the owners of buildings with resilience scores less than 2.5 are provided with mitigation options and advised to undertake action where possible. At the other end of the scale, buildings with a resilience score of greater than 3.5 are rated highly resilient to storms with no mitigation action required. The NQSTIP is a robust, science-based program that could provide the reinsurance pool with a standardised resilience baseline for individual buildings to establish a discount structure.

A portion of the North Queensland Strata Title Resilience Pilot Program funding, announced in the 2020-21 Budget, could be used to establish a resilience rating for buildings on which to base reinsurance pool discounts.

Question 22.2 - Which policy options could be introduced alongside the pool?

GST and Stamp Duty

The Howard Government introduced the Goods and Services Tax (GST) in 1998. Initially, the Federal Government proposed that with the introduction of GST (a broad-based consumption tax) we would see the abolition of a range of indirect taxes including stamp duty. However, only a vague timetable was agreed to, and the removal of stamp duty was never enacted.

Today, the concurrent operation of GST and stamp duty means that under a strata insurance contract in Queensland, these taxes make up approximately 20 per cent of the base premium. Over the past five years, the Port Douglas Apartments residential strata property insurance premiums have nearly doubled rising from \$21,542 in 2017 to \$42,045 in 2021. Stamp duty over the same period has risen over 124% .

An additional issue with insurance contracts being subject to both GST and stamp duty is that stamp duty is calculated on the base premium plus GST. This effectively means there is a tax on a tax (the imposition of stamp duty by reference to the GST).

In considering what policy options could be introduced alongside the reinsurance pool, the PDA Committee urges the Government to encourage action by states and territories to abolish stamp duty as a measure to address insurance affordability and double taxation issues inherent in the current system.

Insured Value

Queensland bodies corporates are legally required to hold insurance under the *Body Corporate and Community Management Act (BCCM Act)*; however, the Act prescribes building insurance at replacement value. In most instances the replacement valuation is considerably higher than the market value of a complex, which leads to over-insurance of buildings and artificially inflated premiums.

Responses to recent PDA Committee representations to the State government recommending the body corporate legislation be amended to provide a body corporate with discretion to decide to insure particular buildings in the community titles scheme for market value, rather than for full replacement value, indicate that the State Government has no current plans to amend the Body Corporate and Community Management Act 1997 (BCCM).

Governance arrangements for community titles schemes involve an element of collective decision-making. Strata insurance holders should be able to tailor insurance to their specific complex attributes, particularly buildings that are compliant with current building codes which can withstand the majority of extreme weather events.

The PDA Committee recommends the Federal Government encourage the Queensland State Government to reform the BCCM Act to allow alternative market value insurance arrangements for bodies corporate where an independent third party has evaluated and confirmed a buildings resilience to insurable events to enable a fair balance between the interests of insurers and the insureds.

Kind Regards

Louise Hargreaves

A handwritten signature in black ink, appearing to read 'Louise Hargreaves', with a long horizontal flourish extending to the right.

Chair, Port Douglas Apartments Committee

Port Douglas
Apartments